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Research paper

Concentration and competition among NBFC-MFI'S in India

Vignesh.S [1] *, Dileep G. Menon [1], Remya Vivek Menon [1]

[1] Department of Management, Amrita Vishwa Vidyapeetham, Amritapuri, Kollam
**Corresponding author E-mail:*

Abstract

Non-banking financial companies have a prominent role in the development of Indian economy. A stable non-banking system is essential for growth and development of any economy. In India, the NBFC's started proliferating during the year 1956. Primary aspects that influence the Non-Banking Industry's progress are the competition that arises between them. This research aims at investigating the competition level of NBFC-MFI's (Micro Financial Institutions) in India by using an assessment methodology which focuses on analyzing the overall com-petitiveness of the NBFC-MFI's in India in accordance to the standards of market concentration ratio. Here the competition level of NBFC-MFI's in India is analyzed using Herfindahl-Hirschman Index. We also estimate the Concentration Ratio for the industry. The analysis is done for the NBFC-MFI's registered with RBI as on 2018 for the period from 2000-2017. The research results highlighted that the Non-Banking Financial Companies in India was characterized, during the year 2017, by an oligopoly competition with the dominant company with competitive edges or monopoly.

Keywords: *Competitiveness; Competitive Advantage; Herfindahl-Hirschman Index (HHI); Market Concentration Ratio; Non-Banking Financial Companies; Micro Financial Institutions; Indian Banking Sector*

1. Introduction

"Competitiveness is a complex concept which generally expresses the ability of individuals, companies, economies, regions to remain in the national or international market and obtain economic benefits in the context of a certain business environment".[1] Competition is one of the key factors in the enlargement of an economy of market is the competition among them. On the other hand, in contrast to the research done on the problems of competition that arise among the markets that are traditional on their services and goods, the problems of competition that arises among Non-banking financial companies in Indian economic literature are explained with minute details, especially the problems that follows insufficiently known aspects [2] in assessing the competition level and methods for studying competitiveness in the market. The competition in business has arisen in many different forms and different types of competitors and challenges are increasing in a quick succession. The key task for the senior decision makers in a competitive environment is the successful positioning of the organization, and deciding on the proper distribution of possessions and what a tolerable position of presentation would it be. So that, the skilled business and competition or competitive analysis are crucial in determining the efficiency or competency and the deliver value to its stakeholders in the organization [1]. In recent years, the Non-Banking financial industry has gone through numerous changes due to fiscal reforms, advancement in communication and monetary services and economic expansion. These reforms have made major shock on the effectiveness, marketplace formation, and presentation in the NBFC's-'MFI's industry. The harsh competitions with client's "willingness" to aid use of advanced and better services boast the NBFC's to build up their novelty and inventiveness and to preserve a viable gain. Therefore, the changes which have occurred in the Non-Banking Financial Companies that are of Indian origin in the current years has made possible and useful for analyzing the overall competitiveness of the Indian Non- Banking Financial companies, based on the ethical values of market concentration ratio[3].

2. Literature review

The rivalry can be accounted to the central part of the victory and collapse of the business. In recent years the competition has increased dramatically in all field and thus lead to increase in the number of competitors in the industry and therefore an organization can show that it can be competitive. [2] Cisma and Stan believes that "a competitive system lays its foundations on production systems that generate competitive advantages and specific structures and resources capable of generating distinctive competencies. Thus, in the study of competitiveness, it was equivalent to the competitive advantage when national competitiveness was taken into consideration, being synonymous with the term of competition when analysing the competitiveness of an enterprise at the national level". Subsequently, the compensation and the typical competencies of the fiscal factors which will determine the competitive success of the company, in spite of the size." So, at the level of hierarchy, it is mandatory to build as well as to keep up the additional differing scope of advantages which is competitive in nature.

The competitive advantage of a company indicates its "distinctive competencies that can be transformed, through supporting actions, into benefits for the consumers". [3] as well as they are subjected to "the ability of an organization to provide customers on the target markets with superior value as compared to that offered by the competitors, a value perceived as such by them".[4]. In other words, "an organization that works in an industry or in a market holds a competitive advantage when it makes or create economic values, and the competition is not fit for accomplishing a similar thing".

The aggressive gain consequences from several split actions which organization perform for the outline, manufacture, and advertising and guaranteed distribution and giving assistance for its products.

Every individual action does include to the stance of comparative cost of the organization and will create a reason for partition. For the organization to have the capacity to keep up the ideal aggressive positions won, should maintain their aggressive advantage as far as it might be feasible, gracing them robust and vital quality. Thus the tactical aggressive gain is a superior state of aggressive gain that the organization can give its customers on the objective markets with esteem better choice than that presented by the competitors, on the longer period. [4]

3. Non-banking financial companies in India

Non-banking financial companies (NBFCs) are emerging as an alternative to mainstream banking. In the recent years, the Non-banking financial companies (NBFC's) have generated a big accomplishment narrative and their role to the economy has full-fledged upbeat in leap and limits from the increase of 9.4% in 2010 and to an increase of 15% by March 2016. In terms of financial assets, the Non-banking financial companies have noted a healthy increase and CAGR i.e., the compound annual growth rate of 19% over the past few years that accounts of total credit and is probably to get to almost 18% near to 2018-2019.[5]
As per current trauma faced by the public sector banks because of escalating of dire debts, and desire to provide (predominantly in the countryside) is just going to crack along these line by providing the Non-banking financial companies with a prospect to boost their incidence.
The accomplishment of NBFC's is obviously characterized because of their better product line, effective research, study threat managing capabilities to ensure and direct awful obligations, and enhanced perceptive of their buyer segments.
They have not only just indicated the accomplishment in their conventional bastions(traveller and profitable vehicle finance) yet additionally figure out how to fabricate considerable resources under AUM, administration in the shelter investment sector as well as the private loan which have been the common need for the retail banking sector. In the run ahead, the dormant credit request of rising nation will permit Non-banking financial companies to seal the crack, mainly where conventional banks are vigilant to provide. Additional improvement of macroeconomic condition, elevated credit dispersion, expanding utilization and upsetting digital trends will allow Non-banking financial companies recognition to nurture at a real and healthy growth rate of 7-10% throughout the subsequent five years. Obviously, NBFCs are setting down deep roots. [5]

4. Research methodology

The motive of the study is to recognize the type of competition, characterizing the evolution of the Indian NBFC's- MFI's market as per the standards of Herfindahl-Hirschman index i.e. HHI and the concentration rate i.e. CR. The companies selected for the research is NBFC's-MFI's which is registered with RBI as on January, 31st. The period of study considered is the past seventeen successive FYs from 2000-2017. The data are mainly collected from the annual reports of the respective companies and from RBI websites. The study intended at looking at the overall competition of the Indian Non-Banking Financial companies-MFI's which is bound to the outcome of analysing the concentration level of activity sector. The common competitiveness of market place estimation is determined by the concentration scale of that market which originates from the principle that the amount of companies available on a market carries out the competition spirit on the market and is proved to be right by the methods of concentration effects on the environment which is competitive in nature. Whereas, alternatively, concentration might as well be the usual outcome of the competition [6]. Hence, amid the market's concentration point and its power of competitiveness there could always be dependence between each other. In accumulation to these Herfindahl-Hirschman Index and the concentration ratio of the above-selected firms are also shown for the FYs 2000 - 2017 to evaluate the extent of concentration and competition prevailing in the NBFC-MFI's industry.

5. Discussion on measure herfindahl-hirschman index (HHI) and concentration ratio

In context of an industry reference, the industry's intensity or the corresponding sector is typically calculated by these two methods: HHI - Herfindahl-Hirschman Index and CR - Concentration Ratio.

5.1. The Herfindahl-hirschman index (HHI)

The HHI's computation can be approached by the use of formula.

$$HHI = \sum_{i=1}^{n} ms^2 \tag{1}$$

Where MS indicates the market share of the non-banking financial companies-MFI and n indicates the numeral of Non-banking financial companies in the marketplace.
This HHI index diverges between zero i.e. 0 (when there are a fairly huge amount of companies of identical market's power) and 10,000 (practically a monopoly, where a single firm is having the ultimate power).
As per the European Commission and the Department of Justice, the U.S. Federal Trade Commission, (U.S. Department of Justice and the Federal Trade Commission., 1997) there are definite levels for the HHI index within the acceptable limits that could help to keep a market in the following categories: weakly concentrated market, average concentrated market, highly concentrated market.
The advantages which are considered as the major of the Herfindahl-Hirschman Index (HHI) compared to the concentration ratio (CR) are [8]

- Herfindahl-Hirschman Index (HHI) here indicates together the market shares allocation for the companies that are primary in nature along with the market composition of all companies.
- Major value is given by HHI to the leading companies' market share. So, it recognizes the comparative significance of the large companies in exchanges that are aggressive in nature.

Table 1: Level of Market Concentration Ratio as Per Herfindahl-Hirschman Index Values

Concentration Degree	Significance Of Hhi	
	European Commission	Federal Trade Commission
Competitive Market (Low)	< 1000	< 1500
Moderatelyconcentratred (Average)	1000 - 2000	1500 - 2500
Highly Concentrated (High)	> 2000	> 2500

Source: Report of the Competition Council. Development of competition in key sectors in 2012

5.2. The concentration ratio

The summary of the chief "n" company's market shares on the marketplace is the concentration ratio and it can be calculated using the formula,

$$CRn = S1 + S2 + S3 + \ldots\ldots + Sn = \sum_{i=1}^{n} s_i \tag{2}$$

Where CR is the concentration ratio and the number of Non-banking financial companies on the marketplace is denoted by n, and the market share of Non-banking financial companies analysed in the market by Si. The concentration in the sector of movement is examined at the beginning from the level of initial 5 or 10 nationwide rank companies by the business form and the employee count. For the most part, if CR 4 or CR 8 have values less than 50 (indicates level of initial 4 in that order than 5 organizations from that very

same area have under 40% of the aggregate deals form or from the aggregate employees count), the sector is thought out as very competitive, on the grounds that there's a sufficiently rise in the count of organizations that contends, devoid of neither holding an essential share on marketplace.
By the contrary end, if Concentration Ratio (CR) 1 is more than 90, then it's a market which is monopoly in nature. In another elucidation, [9] it is assessed that the CR accommodates the values count between 0 and 100 wherein the value of [0] represents the presence available of a limitless number of firms of generally measure up to estimate and that of 100 is considered if the organizations incorporated into the count of the CR build up the whole marketplace. In other words, if n > 1 it is oligopoly and if n = 1then its monopoly.

6. Analysis and results

Here in this study, the competition analysis of the Non-banking financial company-MFI by designing an original assessment methodology has been conducted. The process intended at evaluating the overall competitiveness of the Non-banking financial company-MFI centred on the concentration ratio standards of the market and on the HHI, the principal objective set for this study was compiled of the NBFC's-MFI's present on the market in India on a period during 2000-2017. The companies which are selected for the research are NBFC's-MFI's which are registered under the regulation of RBI as on 2018.

Table 2: The Target Group within the NBFC's-MFI

Objective	Non-banking Financial companies-MFI's in India
Period	2000-2017
Target Group	NBFC's-MFI's registered with RBI
Data Collection method	Financial Situation and Annual reports of Non-banking Financial Companies and Prowess.
Period under Research	2017-18

In order to arrive at the aim of the study, we have equated and performed calculations on the concentration ratio (CR) for the initial four, five, correspondingly eight Non-banking financial companies-MFI.

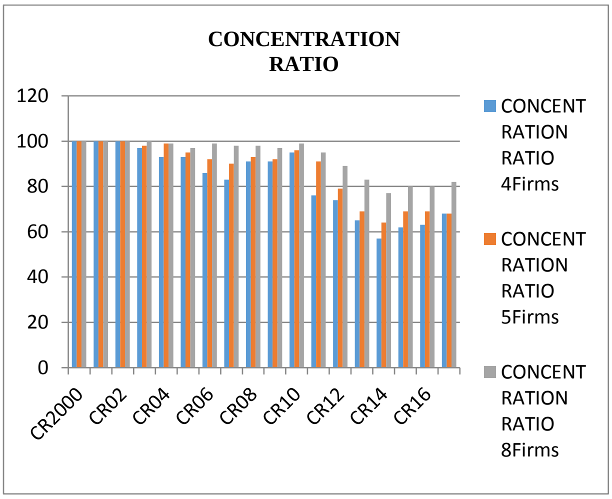

Fig. 1: Concentration Ratio of Non-Banking Financial Companies-MFI's on the Indian Non-Banking Industry.

The values of concentration ratio (CR) for the initial four, five, and correspondingly eight Non-Banking Financial Company for the period 2000-2017 the extent of market concentration was fairly increasing. This is explained by the intensification of certain the non-banking financial companies by increasing the market shares of the Non-Banking Financial company-MFI's. The increase of the extent of concentration of the Non-Banking Financial Companies depicts the rise of companies' "size, companies that gain from scale economies, thereby leading to lower average costs. So, the subsistence of lesser expenses may direct to the rise of the competitiveness among the non-banking financial company-MFI".
The success of the study's objective also indicates the computation of the Herfindahl-Hirschman (HHI) Index centered on each NBFC's-MFI's market share in 2013-2017. (Figure no: 2). Over the period analyzed (2013-2017), HHI remained comparatively stable. The value of Herfindahl-Hirschman index of 1744 during 2017 indicates an average-concentrated NBFC's, i.e., there are numerous changes concerning its formation. The Herfindahl-Hirschman (HHI) index has augmented for the reason that the amount of Non-Banking finance companies in attendance on the market has faced dip, in addition to the disproportion with respect to their size has amplified.

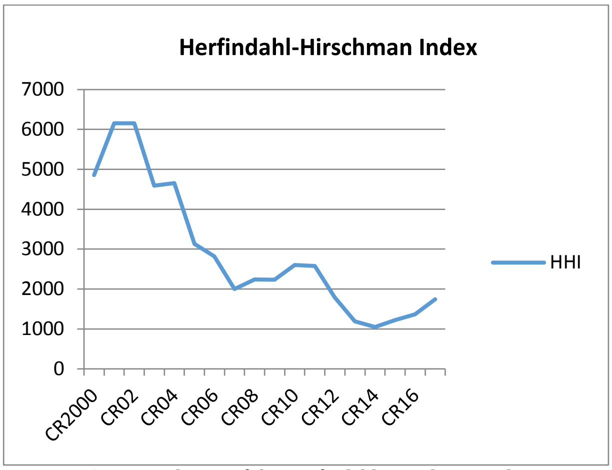

Fig. 2: Evolution of the Herfindahl-Hirschman Index.

The meddling amid the computing of the concentration level and a classical economic theory can be demonstrated as indicated by [10] in table 3.

Table 1: The Categorization of Sectors of Activity Considering the CR and HHI

Concentration Value	Competition Type
Cr = 0	Perfectly Competitive
0 < Cr < 50	Monopolistic Competition Or Effective Competition
50 < Cr < 80	Week Oligopoly Or Monopolistic Competition
Cr > 80	Strong Oligopoly Or Dominant Company With Competitive Edges
Cr = 100	Monopoly Or Dominant Company With Competitive Edges
Hhi < 1000	Monopolistic Competition Or Effective Competition
1000< Hhi < 2000	Monopolistic Competition Or Oligopoly
Hhi > 2000	Oligopoly, Dominant Company With Competitive Edges Or Monopoly

Source: Gwin approch [10]
If we look into to Gwinn approach [10], the importance of the concentration ratio of the first four, Non-banking Finance companies (CR>80) and (CR=100), along with the importance of the HHI index (1000 < HHI < 2000) and (HHI > 2000), it is visible that Non-banking finance company was characterized, in 2017, by strong oligopoly competition or dominant company with competitive edges, the importance of the concentration ratio of the first four Non-banking Finance companies (CR = 100 > 80), along with the value of the HHI index (1000 < HHI < 2000 and HHI >2000), it is visible that NBFC-MFI industry during 2017 shows oligopoly competition, with a dominant company having competitive edge. Whereas if we look at, (Figure 1 and Figure 2), we take into account the augmentation of the oligopoly nature that lead to determine the harm of the monopolistic nature of the Non-banking finance company-MFI's. The standards of the concentration ratio along with the result of the Herfindahl-Hirschman (HHI) index are secured with a high degree of the Non-banking finance company's competitiveness and them

just a deepening of the competitive environment on the Non-banking finance company.

7. Scope of research

The study can be used for understanding the concentration and competition among NBFC- MFI in Indian market scenario. For the study 45 companies registered under RBI have been considered. The scope can be widened and the study can be further built by counting in of all the Non-banking financial companies-MFI in India both registered and non-registered under RBI.

8. Conclusion

The results from the research obtained by the use of HHI and CR method is systematically stranded and have led to the fact that the Non-banking financial companies-MFI's in India during 2017 shows oligopoly competition or trend, with a dominant company having the competitive edge. The trend would be kept on increasing with the situation, leading to the economic crisis and every NBFC's-MFI's in India are getting highly subjective by its performance in the marketplace. The outcome of this study can be positive to both the researchers, thinking about the matter of the tactical investigation of the spirited setting in common in addition to those who are fascinated within the struggle in NBFC's-MFI. The ranges of the research point towards the limited lack of data, however from the above-mentioned approach based on which the Non-banking financial companies-MFI's in India detailed the outcome of their actions, which turns to be very difficult to understand and perform relative analyses.

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