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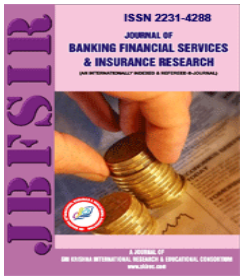

GROWTH AND PERFORMANCE OF NON-BANKING FINANCIAL INSTITUTE IN INDIA

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ABSTRACT

In the multi-tier financial system of India, NBFCs have turned out to be engines of growth and are integral part of the Indian financial system, enhancing competition and diversification in the financial sector, spreading risks specifically at times of financial distress and have been increasingly recognized as complementary of banking system at competitive prices. These institutions have been pioneering at retail asset backed lending, lending against securities, microfinance etc and have been extending credit to retail customers in under-served areas and to un-banked customers. In the annual policy of 2010-2011, the RBI has announced two new categories of NBFCs. The aim of this paper is to enrich the growth and regulation of NBFCs in India. It also highlights the components of assets and liabilities of these institutions. This is also an attempt to judge the financial and operational performance of these institutions. This paper will be useful for financial institutions, portfolio managers, wealth managers and other investors as well as regulators who wish to have better understanding of NBFCs.

KEYWORDS: *Financial Institutions, Reserve Bank of India, Non-Bank Financial Companies (NBFCs), NBFCs-D, NBFCs-ND-SI.*

INTRODUCTION

The financial system in India consists of a wide variety of NBFIs, such as Non-Bank Financial Companies (NBFCs), financial institutions and primary dealers. NBFIs form a diverse group not only in terms of size and nature of incorporation, but also in terms of their functioning. In addition to enhancing competition in the financial system, these institutions play a crucial role in broadening the access of financial services to the population at large.

With the growing importance assigned to the objectives of financial penetration and financial inclusion, NBFIs are being regarded as important financial intermediaries particularly for the small scale and retail sectors. Reflecting the imperative of the evolution of a vibrant, competitive and articulate financial system, the non-banking financial sector in India has recorded marked growth in the recent years, in terms of the number of Non-Banking Financial Companies (NBFCs), their deposits and so on. NBFCs are the largest component of NBFIs.

Keeping in view the growing importance of the NBFCs, the Banking Laws (Miscellaneous Provisions) Act, 1963 was introduced to regulate them. To enable the regulatory authorities to frame suitable policy measure, several committees have been appointed from time to time to conduct an in-depth study of these institutions and make suitable recommendations for their healthy growth, within a given regulatory framework. The committees that deserve specific mention in this regard are the: Bhabatosh Datta study group (1971). James Raj study Group (1975), Chakravarty Committee (1985), Vaghul Committee (1987), Narsimham Committee on Financial Systems(1991) and Shah Committee (1992). The Khanna Group, 1996, had suggested a supervisory framework for NBFCs. In pursuance of its recommendations, the RBI Act was amended in January 1997. As a further follow-up, the RBI Acceptance of Public Deposits Directions, the RBI NBFCs Prudential Norms Directions and RBI- NBFCs Auditors Report Directions were modified / issued in January 1998. The RBI Acceptance of Public Deposits Directions was modified in December 1998, as recommended by the Vasudev Task Force Group.

REGULATIORY AND SUPERVISORY INITIATIVES

The NBFCs segment of finance was less regulated over a period of time. On account of the CRB scam and the inability of some of the NBFCs to meet with the investors demand for return of the deposits the need was felt by the Reserve Bank of India to increase the regulations for the NBFCs. In the light of this background Reserve Bank of India came out with the guidelines on January 2, 1998. The salient features of this guideline are given below:

1) The acceptance of deposits has been prohibited for the NBFCs having net owned funds less than Rs.25 lakhs.

2) The extent of public deposit raising is linked to credit rating and for equipment leasing and hire purchase companies it can be raised to a higher tune.

3) Interest rate and rate of brokerage is also defined under the new system.

4) Income recognition norms for equipment leasing and Hire purchase finance companies were liberalized for NPA from overdue for six months to twelve months.

5) Capital adequacy raised 10% by 31/3/98 and 12% by 31/3/99.

6) Grant of loan by NBFCs against the security of its own shares is prohibited.

7) The liquid assets are required to be maintained @ 12.5% and 15% of public deposits from 1/4/98 and 1/4/99 respectively.

Modifications also came to these norms over a period of time. The provisioning norms for hire purchase and lease companies were changed. Accordingly, credit was to be given to the underlying assets provided as security. The risk weight for investment in bonds of all PSBs

and FD/CD/ bonds of PFI is reduced to 20% by monetary and credit policy for 1999-2000 the RBI has raised the minimum net owned funds limit for new NBFCs to Rs. 2 crores which are incorporated on or after 20/4/99. According to the guideline issued on 8/4/99 the company is to be classified as NBFCs if its financial assets account for more than 50% of its total assets i.e. net of intangible assets and the income from financial assets should be more than 50% of the total income. By June 1999 RBI had removed the ceiling on bank credit to all registered NBFCs which are engaged in the principle business of equipment leasing, hire purchase, loan and investment activities. From above brief summary regarding steps taken by RBI for managing NBFC it is apparent that RBI assigns the priority for proper management of NBFCs keeping in view the investor's protection. In the light of the above regulatory frame work one should like to examine various parameters of different groups of NBFCs.

The RBI regulates different types of NBFCs under the provisions of Chapter III-B and Chapter III-C of the RBI Act, it was amended in 1997 incorporating (i) amendment of the existing Section (451.45 MA, and 58B), (ii) insertion of new Section (45 A/B/C, 45JA, 45MB/C, 45NB/C, 45QA/B and 4/58G) and (iii) substitution by new Section (45S).

SALIENT FEATURES OF CHAPTER III-B

The chapter contains provisions relating to Non-Banking Institutions (NBIS) receiving deposits, and Financial Institutions (FIs). According to Reserve Bank (Amendment act, 1997) 'A Non Banking Finance Company (NBFC)' means- a financial institution which is a company; a non banking institution which is a company and which has as its principal business the receiving of deposits under any scheme or arrangement or in other manner a lending in any manner; such other non banking institution or class of such institutions as the bank may with the previous approval of the central government specify.

The definition excludes financial institutions which carry on agricultural operations as their principle business. NBFCs consists mainly of finance companies which carry on functions like hire purchase finance, housing finance, investment, loan, equipment leasing or mutual benefit financial operations, but do not include insurance companies or stock exchange or stock broking companies.

DEPOSITS: The term deposit is defined in a board sense to include any receipt of money by way of deposit or loan or in any other form. However, certain receipts are excluded:

(I) Amount received from banks,

(II) Amount received from development finance corporations/State Financial Corporations or any other financial institution;

(III) Amount received in the ordinary course of business, by way of security deposit, dealership deposit, earnest money, advance against order for goods/properties/services;

(IV) Amount received from an individual/firm/association related to money lending;

(V) Amount received by way of subscription in respect of a chit.

(VI) Loans from mutual funds.

SALIENT FEATURES OF CHAPTER III-C

Subject to the provisions of chapter III-B, Non-Corporate are not permitted to accept deposits after April 1, 1997. However, individuals can accept deposits from: (i) relatives, (ii) any other individual, for his personal use but not for lending or business purposes. Non-corporate entities that hold deposits should repay it immediately after such deposit becomes due for repayment or within two years from the date of such commencement, whichever is earlier. They are prohibited from issuing, or causing to be used, any advertisement, in any form, for soliciting deposit.

REGISTRATION AND NET OWNED FUNDS (NOFs):- With effect from January 1997, in order to commence (new company)/carry on (existing company) the business of a Non-Banking Financial Institution (NBFI), an NBFC must obtain a certificate of registration from the RBI. Moreover, its minimum net owned funds (NOFs) must be Rs. 25 lakh or such other amount not exceeding Rs. 200 lakh, as specified by the RBI.(NOFs) mean (a) paid-up capital and free reserves, as per the latest balance sheet, minus the accumulated losses, if any, deferred revenue expenditure and other intangible assets and (b) (i) less investments in shares of subsidiaries/companies in the same group/all other NBFCs and (ii) the book value of debentures/bonds/outstanding loans and advances-including hire-purchase and lease finance made to, and deposits with, subsidiaries/companies in the same group-in excess of 10 per cent of (a) above,

While considering an application for registration, the RBI would consider that the NBFC fulfils the claims accrue:-

- The NBFC is/would be in a position to pay its present/future depositors in full, as and when their claims accrue.
- Its affairs are not being/likely to be conducted in manner detrimental to the interests of its present/future depositors.
- The general characteristics of the management/proposed management would not be prejudicial to the public interest/interest of the depositors.
- It has adequate capital structure and earning prospects.
- The public interest would be served by the grant of the certificate to commence/carry on business in India.
- The grant of the certificate would not be prejudicial to the operation/consolidation of the financial sector, consistent with the monetary stability and economic growth considering such other relevant factors specified by the RBI.
- Any other condition imposed by RBI while granting registration.

The Reserve Bank decided to describe principal business for the purpose of identification of an NBFC though in the case of NBFLs has not been defined in law. It was clarified on October 19, 2006 that the business of non-banking financial institution means a company engaged in the business of financial institution as contained in Section 45, I(a) of the RBI Act, 1934. Whereas through a Press Release of April 8, 1999, RBI stated that a company

will be treated as a NBFC if its financial assets are more than 50 per cent of its total assets (netted off by intangible assets) and income from financial assets is more than 50 per cent of the gross income. Both theses tests are required to be satisfied as the determinant factors for principal business Certificate of Registration of a company.

OBJECTIVE OF THE STUDY

The functioning of different categories of NBFCs are not governed by the homogeneous factors. Therefore financial implication can differ for different group of companies. The financial performance of 10 leasing companies has been examined by Seem Saggar at disaggregate level and compared with other groups of NBFCs for a period of 1985-90. Moreover, a study by T.S. Hariha throws light on the performance of all NBFCs taken together in terms of cost of debt, operating margin, net profit margin, return on net worth, asset turn over ratio etc. The study by Seema Saggar does not reflect the overall performance of NBFCs as it is based on selected 10 companies. The study by Harihar reveals the aggregate performance of NBFCs which does not throw light on the financial performance of different groups of NBFCs. In the light of these limitations, the present study attempts to examine the financial performance of different groups of NBFCs separately. The present study attempts to examine in different groups of the NBFCs

- growth of NBFCs
- which is dominating component of assets and liabilities of NBFCs
- which is dominating component of the operating performance of NBFC in income as well as expenditure items.

GROWTH OF NBFCS IN INDIA

In India considerable growth has taken place in the Non-banking financial sector in last two decades. Over a period of time they are successful in rendering a wide range of services. Initially intended to cater to the needs of savers and investors, NBFCs later on developed into institutions that can provide services similar to banks. In India several factors have contributed to the growth of NBFCs. They provide tailor made services to their clients. Comprehensive regulations of the banking system and absence or relatively lower degree of regulation over NBFCs have been some of the main reasons for the growth momentum of the latter. It has been revealed by some research studies that economic development and growth of NBFCs are positively related. In this regard the World Development Report has observed that in the developing counties banks hold a major share of financial assets than they do in the industrially developed countries. As the demand for financial services grow, countries need to encourage the development NBFCs and securities market in order to broaden the range of services and stimulate competition and efficiency.

Since the 90s crisis the market has seen explosive growth, as per a Fitch Report [14] the compounded annual growth rate of NBFCs was 40% in comparison to the CAGR of banks being 22% only. The following table shows the number of NBFCs registered with the Reserve Bank of India:-

TABLE 1:NO. OF NBFCS REGISTERED WITH THE RBI

End June	Number of Registered NBFCs	Number of NBFCs-D	Number of NBFCs-ND-SI
2005	13261	507	---
2006	13014	428	149
2007	12968	401	173
2008	12809	364	189
2009	12740	336	234
2010	12630	311	267

Source: www.rbi.org.in

The total number of NBFCs registered with the Reserve Bank declined to 12,630 as at end-June 2010 from 12,740 at end-June 2009. There was also a decline in the number of deposit taking NBFCs (NBFCs-D) in 2009-10. This decline was mainly on account of cancellation of Certification of Registration of NBFCs, exit of NBFCs from deposit taking activities and conversion of deposit taking companies into non-deposit taking companies. Although, registered numbers of NBFCs-ND-SI presents an increasing trends.

CLASSIFICATION OF NBFCs

The NBFCs that are registered with RBI are basically divided into four categories depending upon its nature of business:

* Equipment leasing company;
* hire - purchase company;
* loan company; and
* investment company;

Since 2006, NBFCs were reclassified based on whether they were involved in the creation of productive assets. Under the new classification, the NBFCs creating productive assets were divided into three major categories, namely, asset finance companies, loan companies and investment companies.

ASSET FINANCE COMANY

AFC would be defined as any company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive / economic activity, such as automobiles; tractor; lathe machines; generator sets; earth moving and material

handling equipments etc. Financing of physical assets may be by way of loans; lease or hire purchase transactions.

LOAN COMPANY

Loan company mean any company which is a financial institution carrying on as it's principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

INVESTMENT COMPANY

Investment Company is a company which is a financial institution carrying on as it's principal business the acquisition of securities.

Considering the growing importance of infrastructural finance, a fourth category of NBFCs involved in infrastructural finance was introduced in February 2010 namely Infrastructure Finance Companies.

INFRASTRUCTURE FINANCE COMPANIES (IFCs) – NEED FOR SEPARATE CLASSIFICATION AND CRITERIA FOR IFCs

The need for a separate category of NBFCs financing infrastructure sector significantly arose. The capability of the NBFCs to contribute on account of the growing infrastructure needs of the country. Several Committees including the Deepak Parekh Committee was set up to look into the issue of infrastructure finance towards this growth has been well recognized. In view of the importance of infrastructure financing, it is felt that companies financing this sector should not face the same regulatory or funding constraints as companies financing consumer products or equity investments. Infrastructure financing requires large outlays, long gestation period and large exposures. The commitment required from each lender is high in terms of size of each loan and current prudential norms on credit concentration for NBFCs is likely to act as a constraint on companies participating in infrastructure financing. Hence, a separate class of NBFCs viz., IFCs was introduced with effect from February 12, 2010.

The criteria that would qualify an NBFC as IFC are the following:

1. Companies that deploy a minimum of 75 per cent of total assets in infrastructure loans, as defined in para 2 (viii) of Non-Banking financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

2. Net owned funds of `300 crore or above,

3. Minimum credit rating 'A' or equivalent; of CRISIL, FITCH, CARE, ICRA or equivalent rating by any other accrediting rating agencies.

4. CRAR of 15 percent (with a minimum Tier I capital of 10 percent).

CORE INVESTMENT COMPANIES

The Bank had announced in the Annual Policy 2010-2011 that companies which have their assets pre-dominantly as investments in shares for holding stake in group companies but not for trading, and also do not carry on any other financial activity, i.e., Core Investment

Companies, (CICs), justifiably deserve a differential treatment in the regulatory prescription applicable to Non-Banking Financial Companies which are non deposit taking and systemically important. In order to rationalize the policy approach for CICs, such companies having an asset size of Rs.100 crore and above would be treated as systemically important core investment companies. They would require registration with the Reserve Bank and would be given exemption from maintenance of net owned fund and exposure norms subject to certain conditions

The Bank had issued the captioned guidelines DNBS(PD)CC.No. 197/03.10.001/2010-11 dated August 12, 2010 to all Core Investment Companies (CICs) in terms of which CICs were defined and systemically important CICs (CICs-ND-SI) are required to be registered with RBI. It was also advised therein that all CICs-ND-SI should apply to RBI for obtaining CoR within a period of six months from the date of the Notification.

There are two broad categories of NBFCs based on whether they accept public deposits, namely, NBFC-Deposit taking (NBFC-D) and NBFCs-Non Deposit taking (NBFC-ND). NBFCs-ND[17] may also be classified into

(i) Systematic Investment and

(ii) Non-Systematic Investment NBFCs based on the size of its assets

OPERATIONAL AND FINANCIAL PERFORMANCE OF NON-BANKING FINANCIAL COMPANIES

A. PROFILE OF NBFCS

TABLE 2: PROFILE OF NBFCS (AMOUNT IN ` CRORE)

Item	**As at end-March**			
	2008-09		2009-10P	
	NBFCs	of which: RNBCs	NBFCs	of which: RNBCs
Total Assets	97,408	20,280 **(20.8)**	109,324	15,615 (**14.3**)
Public Deposits	21,566	19,595 **(90.9)**	17,247	14,520 **(84.2)**
Net Owned Funds	13,617	1,870 **(13.7**)	16,178	2,921 **(18.1)**

P:Provisional.

NOTE

1)NBFCs comprise NBFCs-D and RNBCs.

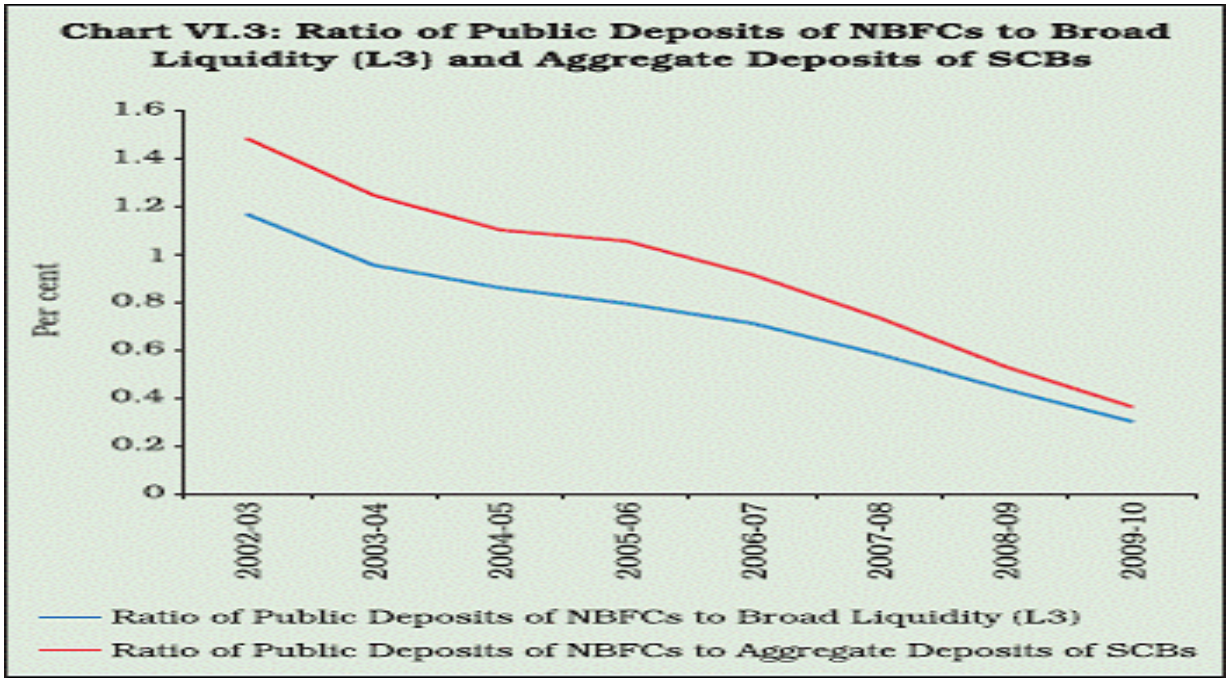
2)Figures in parentheses are percentage shares in respective total.

3)Of the 311 deposit taking NBFCs, 227 NBFCs filed Annual Returns for the year ended March 2010 by the cut-off date September 20, 2010.

Source: Annual Returns

Despite the decline in the number of NBFCs, their total assets as well as net owned funds registered an increase during 2009-10, while deposits recorded a decline. The share of Residuary Non-Banking Companies (RNBCs) in total assets as well public deposits of NBFCs witnessed a decline in 2009-10, while share of the RNBCs in net owned funds registered an increase.

The ratio of deposits of NBFCs to aggregate deposits of Scheduled Commercial Banks (SCBs) in 2009-10 indicated a decline. The ratio of deposits of NBFCs to the broad liquidity aggregate of L3 also declined over this year (Chart 1).



The ownership pattern of NBFCs-D as well as NBFCs-ND-SI companies suggest that these companies were per-dominantly non-government companies (mainly Public Ltd. Companies in nature). The percentage of non-government companies was 97.1 per cent and 96.6 per cent respectively, in NBFCs-D and NBFCs-ND-SI as against government companies having a share of only 2.9 per cent and 3.4 per cent respectively, at end-March 2010.

TABLE 3: OWNERSHIP PATTERN OF NBFCS

(NUMBER OF COMPANIES AS ON MARCH 2010)

Ownership	NBFCs-D	NBFCs-ND-SI
A. Government Companies	9 (2.9)	9 (3.4)
B. Non-Government Companies	302 (97.1)	258 (96.6)
1. Public Ltd Companies	293 (94.2)	161 (60.3)
2. Private Ltd Companies	9 (2.9)	97 (36.3)
Total No. of Companies (A+B)	311	267
Note: Figures in parentheses are percentage share in total number of companies.		

In sub-categories of non-government companies; Public limited companies were dominating, i.e., 94.2% and 60.3% in NBFCs-D and ND-SI respectively. The share of government owned companies should be increased for growth of this sector. So, government should take measurable steps in this regard.

B. FINANCIAL PERFORMANCE OF NBFCS

A) NBFCS-D

The balance sheet size of NBFCs-D expended at the rate of 21.5% in 2009-10 as compared with 3.4% in the previous year, largely due to in crease in borrowings of NBFCs-D. It may be noted that borrowings is dominating component and constitutes around three fourth of the total liabilities of NBFCs-D; followed by reserve & surplus; other liabilities; paid up capital and public deposits. Variation in absolute figures in this components was also highest i.e. increase of Rs. 13,173 crores in the year 2009-10 compare to 2008-09. Here it should be noted that variation percentage was highest in the component of public deposits (34. %) followed by reserve & surplus (30%); borrowings (23.6%); other liabilities (4.7%) respectively. However, paid up capital presents a negative variation i.e. Rs 456 crore or 11.9% during the year 2009-10. So, it can be resultant that public deposits was top in the term of percentage variation but borrowing is dominating component and witnessed large expansion during 2009-10 in liabilities of NBFCs-D.. On the assets side, hire purchase assets remained the most important asset category for NBFC-D constituting over two fifth of their total assets. Loan and advances constitute the second most important assets category which is followed by investments; other assets; equipment leaving assets and other assets. Total investments of NBFCs-D also recorded a sharp rise during 2009-10 primarily on account of rise in non-SLR investments. Loan and advances witnessed large expansion followed by investment; hire purchase assets and other assets during 2009-10. However equipment leasing assets shows contraction in the year 2009-10. Here it should be noted that Bill business stands at the bottom of assets

categories but percentages variation in percentage was highest i.e, 83.3% followed by loan and advances; other assets; investments and hire purchase assets. So, it can be concluded that hire purchase assets was dominating components in the assets of NBFC-D; while loan and advances shows largest expansion in absolute figures and bill business stands on top variation in percentage in the assets categories of NBFC-D.

TABLE 4: CONSOLIDATED BALANCE SHEET OF NBFCS-D

(AMOUNT IN ` CRORE)

Item	As at End-March		Variation	
	2008-09	2009-10 P	Absolute	Per cent
Liabilities				
1. Paid up capital	3,817 (**4.9**)	3,361 (**3.6**)	-456	**-11.9**
2. Reserves & Surplus	9,412 **(12.2)**	12,237 **(13.1)**	2,825	**30**
3. Public Deposits	1,971 **(2.6)**	2,727 **(2.9)**	756	**38.4**
4. Borrowings	55,897 **(72.5)**	69,070 **(73.7)**	13,173	**23.6**
5. Other Liabilities	6,031 **(7.8)**	6,314 **(6.7)**	283	**4.7**
LIABILITIES/ASSETS	**77,128 (100)**	**93,709(100)**	**16,581**	**21.5**
Assets				
1. Investments	15,686 **(20.3)** (100)	19,335 **(20.6)** (100)	3,649	**23.3**
i) SLR Securities @	9,412 **(12.2**) (60)	10,773 **(11.5)** (55.72)	1,361	**14.5**
ii) Other Investments	6,274 **(8.1)** (40)	8,562 **(9.1)** (44.28)	2,288	**36.5**
2. Loan & Advances	21,583 **(28)**	30,802 **(32.9)**	9,219	**42.7**
3. Hire Purchase Assets	35,815 **(46.4)**	38,549 (**41.1)**	2,734	**7.6**
4. Equipment Leasing Assets	613 **(0.8)**	241 **(0.3)**	-372	**-60.7**
5. Bill business	24 **(0)**	44 **(0)**	20	**83.3**
6. Other Assets	3,407 **(4.4)**	4,739 (**5.1)**	1,332	**39.1**

P : Provisional @ : SLR Asset comprises 'approved securities' and 'unencumbered term deposits' in Scheduled Commercial Banks.
Note: Figures in parentheses are percentage shares in respective total.
Source: Annual Returns.

B) NBFCS-ND-SI

Information based on the returns received from non-deposit taking systemically important NBFCs for the year ended March 2010 showed an increase of 16.7 per cent in their liabilities/assets over the year ended March 2009. Total borrowings (secured and unsecured) by NBFCs-ND-SI increased by 19.6 per cent during the year ended March 2010, constituting around two-thirds of the total liabilities (Table-5). Total Borrowing is dominating component of NBFC-ND-SI liabilities which witnessed large expansion in term of absolute figures; Rs.62675 crores and also stands top in variation percentage followed by Reserve & surplus; current liabilities & provisions and share capital respectively during the year 2009-10. In total borrowing un- secured borrowing is dominating; contributing 54.22% expansion of amount followed by secured borrowings. Further in the categories of secured borrowing – others borrowings was dominating components followed by debentures borrowings from banks; borrowings from FIs and interest accrued. Bank borrowing was top in expansion of amount followed by debentures; others; borrowings from FIs and interest accrued in this matter. Borrowings from FIs show highest variation percentage followed by Banks borrowings, interest accrued; debentures and other borrowings during the year 2009-10. In the sub - categories of unsecured borrowings – debentures is dominating component followed by borrowings from banks; commercial papers; other borrowings; inter- corporate borrowings; interest accrued; borrowings from FIs and borrowings from relatives. In the matter of raising funds during the year 2009-10 debentures were on top followed by commercial papers; inter corporate borrowings from banks. Here, it should be noted that borrowing from relatives were paid during the year 2009-10. funds raised from commercial papers presents highest variation in term of percentage followed by inter- corporate borrowings; debentures; interest accrued; borrowings from FIs; other borrowings and borrowings from banks in this year. So, it can be conclude that total Borrowings is the main source of NBFC-ND-SI and in this category also unsecured borrowing play a vital role in this matter. In sub categories of secured borrowings – borrowings from others is dominating while bank borrowing was most important source of fund and borrowings from FIs presents highest variation in percentage during the year 2009-10. So, NBFC-ND-SI should try to reduce their dependency on total borrowing specially from un- secured borrowing whose cost always high which also affect the operating profits in negative.

On the asset side loan and advances (secured and unsecured) was the dominating component followed by investments; Hire purchase asset; other current assets; cash and bank balances and other assets. Further loan and advances was most significant component in the matter of variation in term of absolute amount i.e. Rs 63915 crores in 2009-10 followed by investments; Hire purchase assets; other current assets and other assets. Here, it should be noted that cash & bank balance shows a decline of Rs 3527 crores during the year 2009-10. Again loan & advance was most vibrating in percentage i.e. 22.30% in this year followed by other assets; Hire purchase assets; other current Assets and investments. In the sub categories of loan &

Advances – Secured was dominating by contributing 71.30% of this category and most expansion component in term of absolute figures as well as in percentage during this year. Long term investment was also dominating which is witnessed by expansion in terms as well as percentage in the sub categories of investments followed by current investments. So, it is resultant that loans and Advances was the most significant assets of NBFC-ND-SI. It is dominating assets witnessed by raising funds during the year 2009-10. Further; it is also favorable indication towards their future growth that secured loan & Advances and long term investment are playing a vital role in the expansion of the overall assets.

TABLE 5: CONSOLIDATED BALANCE SHEET OF NBFCS-D

(AMOUNT IN ` CRORE)

Item	**2008-09**	**2009-10**	**Variation**	
			Absolute	**Percentage**
1. Share Capital	31,756 **(6.58)**	33,576 **(5.96)**	1,820	**5.73**
2. Reserves & Surplus	99,011 (20.50)	111967(**19.87**)	12,956	**13.09**
3. Total Borrowings (A + B)	319175 **(66.09)** (100)	381850 **(67.77)** (100)	62,675	**19.64**
A. Secured Borrowings	149569 **(30.97)** **(46.86**) (100)	174803 **(31.02)** **(45.78)** (100)	25,234	**16.87**
A.1. Debentures	48,833 **(10.11)** (32.65)	56,913 **(10.10)** (32.56)	8,080	**16.55**
A.2. Borrowings from Banks	36,263 **(7.51)** (24.24)	47,404 **(8.41)** (27.12)	11,141	**30.72**
A.3. Borrowings from FIs	5,749 **(1.19)** (3.84)	7,844 **(1.39)** (4.49)	2,095	**36.44**
A.4. Interest Accrued	2,897 **(0.60)** (1.94)	3,506 **(0.62**) (2.01)	609	**21.02**
A.5. Others	55,828 **(11.56)** (37.33)	59,136 **(10.49**) (33.83)	3,308	**5.93**

B. Un-Secured Borrowings	169606 **(35.12** **(53.14)** (100)	207047 **(36.74)** **(54.22)** (100)	37,441	**22.08**
B.1. Debentures	64,570 **(13.37)** (38.07)	82,529 **(14.65)** (39.86)	17,959	**27.81**
B.2. Borrowings from Banks	42,430 **(8.79**) (25.02)	42,364 **(7.52)** (20.46)	-66	**-0.16**
B.3. Borrowings from FIs	2,687 **(0.56)** (1.58)	3,064 **(0.54)** (1.48)	377	**14.03**
B.4. Borrowings from Relatives	2,230 **(0.46)** (1.31)	1,784 **(0.32)** (0.86)	-446	**-20.00**
B.5. Inter-Corporate Borrowings	13,829 **(2.86)** (8.15)	19,136 **(3.40**) (9.24)	5,307	**38.38**
B.6. Commercial Paper	22,337 **(4.63)** (13.17)	33,580 **(5.96)** (16.22)	11,243	**50.33**
B.7. Interest Accrued	3,198 **(0.66)** (1.89)	3,729 (**0.66)** (1.80)	531	**16.60**
B.8. Others	18,326 (**3.79)** (10.81)	20,860 **(3.70)** (10.08)	2,534	**13.83**
4. Current Liabilities & Provisions	32,966 **(6.83)**	36,082 **(6.40)**	3,116	**9.45**
Total Liabilities / Total Assets	**4,82,907**	**5,63,476**	80569	**16.68**
Assets				
1. Loans & Advances	286555 **(59.34)** (100)	350470 **(62.20)** (100)	63,915	**22.30**
1.1. Secured	195335 **(40.45)**	249895 **(44.35)**	54,560	**27.93**

	(68.17)	**(71.30)**		
1.2. Un-Secured	91,221 **(18.89)** **(31.83)**	100575 **(17.85)** **(28.70)**	9,354	**10.25**
2. Hire Purchase Assets	35,682 **(7.39)**	41,746 **(7.41)**	6,064	**16.99**
3. Investments	90,242 **(18.69**) (100)	98,170 (**17.42)** (100)	7,928	**8.79**
3.1. Long Term Investments	60,569 **(12.54**) (67.12)	65,999 **(11.71)** (67.23)	5,430	**8.96**
3.2. Current Investments	29,673 **(6.14)** (32.88)	32,171 **(5.71)** (32.77)	2,498	**8.42**
4. Cash & Bank Balances	28,934 **(5.99**)	25,407 (**4.51)**	-3,527	**-12.19**
5. Other Current Assets	32,119 **(6.65)**	36,270 **(6.44)**	4,151	**12.92**
6. Other Assets	9,376 **(1.94)**	11,413 **(2.03)**	2,037	**21.73**
Memo Items				
1. Capital Market Exposure Of which	81,865	105514	23,649	28.89
Equity Shares	34,952	38,670	3,718	10.64
2. CME as % to Total Assets	17	18.7		
3. Leverage Ratio	2.69	2.87		
P : Provisional @ : SLR Asset comprises 'approved securities' and 'unencumbered term deposits' in Scheduled Commercial Banks.				
Note: Figures in parentheses are percentage shares in respective total.				
Source: Annual Returns.				

ND-SI sector is growing rapidly and unsecured borrowings comprise their largest source of funds, mostly sourced from banks/FIs. Thus, they have a systemic linkage and need to be monitored closely to ensure that they do not pose any risk to the system. To the extent that they rely on bank financing, there is an indirect exposure for depositors. While the concentration of funding has risks, the caps on bank lending to NBFCs may constrain their growth. The development of an active corporate bond market will help to address the funding requirement of NBFCs. The leverage ratio of the entire ND-SI sector rose during 2009-10. ND-SI sector's exposure towards the sensitive sector that is prone to potential boom-bust cycles such as capital market also shows an increase.

C. OPERATIONAL PERFORMANCE OF NBFCS

A). NBFCS-D (EXCLUDING RNBCS)

The operational performance of NBFCs-D witnessed moderate deterioration as reflected in the decline in their operating profits during 2009-10. Total incomes of these institutions has increased by 14.96% during the year mainly due to increase in fund based income i.e. Rs. 1917 crore. But fee based portion of income shows a decline in the same year. Here, it should be noted that fund based income is the main source of earnings of these institution but decline in fee based income also an adverse remarks for these.

Expenditure also increase during the year but it exceed the increase income .True to this excess increase in expenditure operating profits, net profit also negative i.e. loss. The decline in operating profit along with a marginal increase in tax provision resulted in a decline in net profit in 2009-10. In sub component of expenditure – financial expenditure is dominating i.e.64.4 % followed by operating and other expenditures. So, it can be articulate that these institutions depend on fund based income and about one half of this income outflows as financial charges. These institutions should try to increase their fee based income and also minimize their financial charges by conversion of high cost of fund to low cost. This is possible by increasing portion of share capital and unsecured to secured borrowings.

TABLE 6: OPERATIONAL PERFORMANCE OF NBFCS-D(AMOUNT IN ` CRORE)

Item	**As at end-March**		**2009-10 Variation**	
	2008-09	**2009-10P**	**Absolute**	**Per cent**
A. Income (i+ii)	**11,879**	**13,656**	**1,777**	**14.96**
(i) Fund Based	11,572(97.4)	13,489 (98.8)	1,917	16.57
(ii) Fee-Based	307 (2.6)	167 (1.2)	-140	-45.60
B. Expenditure (i+ii+iii)	**8,789**	**11,166**	**2,377**	**27.05**
(i) Financial	5,663 (64.4)	6,742 (60,4)	1,079	19.05
(ii) Operating	2,392 (27.2)	2,587 (23.2)	195	8.15

(iii) Others	734 (8.3)	1,837 (16.4)	1,103	150.27
C. TAX Provisions	**1,017**	**1,085**	**68**	**6.69**
D. Operating Profit (PBT)	**3,090**	**2,490**	**-600**	**-19.42**
E. Net Profit (PAT)	**2,073**	**1,405**	**-668**	**-32.22**
F. Total Assets	**77,128**	**93,709**	**16,581**	**21.50**
G. Financial Ratios (as % to Total Assets)@				
i)Total Income	15.4	14.6		
ii)Fund Income	15	14.4		
iii) Fee Income	0.4	0.2		
iv) Total Expenditure	11.4	11.9		
v) Financial Expenditure	7.3	7.2		
vi) Operating Expenditure	3.1	2.8		
vii)Other Expenditures	1.0	1.9		
viii) Tax Provision	1.3	1.2		
ix) Net Profit	2.7	1.5		
H. Cost to Income Ratio	74	81.8		
P: Provisional. @: As percentage of total assets.				
Note: Figures in parentheses are percentages to respective total.				
Source: Annual Returns.				

Financial ratio indicates that NBFCs-D institutions' financial position was more critical in 2009-10 as compared to 2008-09. In this year total income as well as fund income ratio decline and total expenditure ratio shows increase. However this increase was due to other expenditure. It is a goods indication that financial as well as operating expenditures decline in this year compared to last year. That's why net profit to total assets ratio decline in this year. Here; it should be noted that cost to income ratio in both years was too much high that these institution should take immediate remedial steps to down it by conversion of unsecured loan to secured loan and increasing in share capital other wise present source of fund of these institution will wound up. Perhaps, it is the main reason of decrease in the registered number of NBFC-D with SEBI.

B). Nbfcs – nd-si

The operational performance of the NBFCs- ND-SI sector improved marginally as reflected in the increase in net profit during 2009-10 over the previous year.

TABLE 7: OPERATIONAL PERFORMANCE OF NBFCS – ND-SI

(AMOUNT IN ` CRORE)

Item	**As at end-March**		**2009-10 Variation**	
	2008-09	**2009-10P**	**Absolute**	**Per cent**
1. Total Income	60,091	58,628	-1,463	**-2.43**
2. Total Expenses	43,885	43,227	-658	**-1.50**
3. Net Profit	10,800	10,897	97	**0.90**
4. Total Assets	482907	563476	80,569	**16.68**
Financial Ratios				
(i) Income as % to Total Assets	12.4	10.4		
(ii) Expenditure as % to Total Assets	9.1	7.7		
(iii) Net Profit to Total Income	18	18.6		
(iv) Net Profit to Total Assets	2.2	1.9		
Source: Monthly Return on ND-SI.				

However total income decline by Rs 1463 crores or 2.43% in comparison to total expenditure i.e. Rs 1.5% .financial ratio indicate hat income to total assets ratio decreased which is not a good sign but decrease in expenditure ratio and increase in net profit to income ratio is satisfactory for these institutions. However, cost to income ratio of these institutions also very high so, these should also take immediate remedial steps by decreasing contribution of borrowings and increasing contribution of other source of funds like public deposits, share capital etc.

CONCLUSION

On the basis of the study, it can be concluded that the NBFCs segment of finance was less regulated over a period of time. These are regulated and supervised by RBI which assigns the

priority for proper management of NBFCs, keeping in view the investors' protection. The ownership pattern of NBFCs suggests that these companies were per-dominantly non-government companies (mainly public ltd. companies in nature). There was an expansion in the Balance Sheet of NBFCs –D as well as NBFCs-ND-SI companies in 2009-10. Borrowing is the main source of funds which also dominating component in the liabilities of these institutions. Hire purchase assets is dominating component and loan & Advances is the most expansive assets of NBFCs-D while in case of NBFCs-ND-SI loan & Advances (mainly secured) is dominating as well as expanding assets in 2009-10. The operational performance of NBFCs-D reflects decline in their operating profit due to decrease in fee-based income, increase in other expenditure and slight in provision for taxation during the year. NBFCs-ND-Si sector improved marginally as reflected by net profits, but total income substantially decreases. Financial position of NBFSs-D as well as ND-SI was not at satisfactory level as indicated by ratios. It may be noted that there are still exist a large number of NBFCs which do not come under the direct purview of regulation and supervision of the Reserve Bank. For promoting the growth of the NBFC sector, the development of alternative source of funding in the form of an active corporate bond market, would be desirable.

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