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FINANCIAL APPRAISAL OF NON BANKING FINANCIAL COMPANIES (NBFC) IN INDIA: A STUDY

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Abstract

Banking in India plays an important role in economic growth and development. Indian banking sector is regulated by the Reserve Bank of India (RBI). Though the commercial banks and co operative banks are necessary to provide funding to credit but then also the role of NBFC is significant in India. The NBFCs have become impeccable alternatives to the Banking sector for fulfilling a wide range of financial needs of the society. There are prompt as well as efficient services without much procedural formalities. The present research paper is an attempt to study the financial appraisal of NBFC's in India. The present study highlights various services offered by NBFCs. The present study has also suggested certain measures.

***Keywords**: Non-banking financial institutions (NBFIs), primary dealers, Banks, Reserve bank of India*

INTRODUCTION:

Non-banking financial institutions (NBFIs) comprise a mixed group of financial intermediaries. Those under the regulatory purview of the Reserve Bank consist of all-India financial institutions (AIFIs), non-banking financial companies (NBFCs) and primary dealers (PDs). AIFIs are top institutions recognized during the development planning period to offer long-term financing or refinancing to precise sectors for instance;

1) Agriculture and rural development;
2) Trade;
3) Small industries;
4) Housing.

The NBFCs are conquered by joint stock companies, catering to niche areas ranging from personal loans to infrastructure financing. PDs play significant role as market for government securities. The Reserve Bank regulated NBFI sector grow by 15.8 per cent in 2017-18; by the end of March 2018, it was 19.8 per cent of the scheduled commercial banks (SCBs) taken together in terms of balance sheet size. Within the NBFI sector, AIFIs constituted 23 per cent of total assets, while NBFCs [1] represented 75 per cent and standalone PDs accounted for 2 per cent.

The Non–Banking Financial Companies (NBFCs) are financial intermediaries that supplement the banking services. RBI Act section 45(f) defines a Non-banking financial company as "A financial institution which is a company and which has as its principal business the receiving of deposit under any scheme or arrangement or in any other manner, or lending in any other non-banking institution notified by the Reserve Bank".

Non-Banking Finance Companies (NBFCs) are Financial Institutions involved chiefly in the business of accepting deposits as well as providing advances and credits. NBFCs are integral component of financial system, promoting competition, delivery of customized services, diversification and spreading of risks during financial distress. NBFCs are diverse groups of financial institution that reach out to the financial needs of unbanked sectors of the economy. These institutions are recognized for their customer centric services, simplified procedures, competitive rates and readiness in meeting financial requirements of the society.

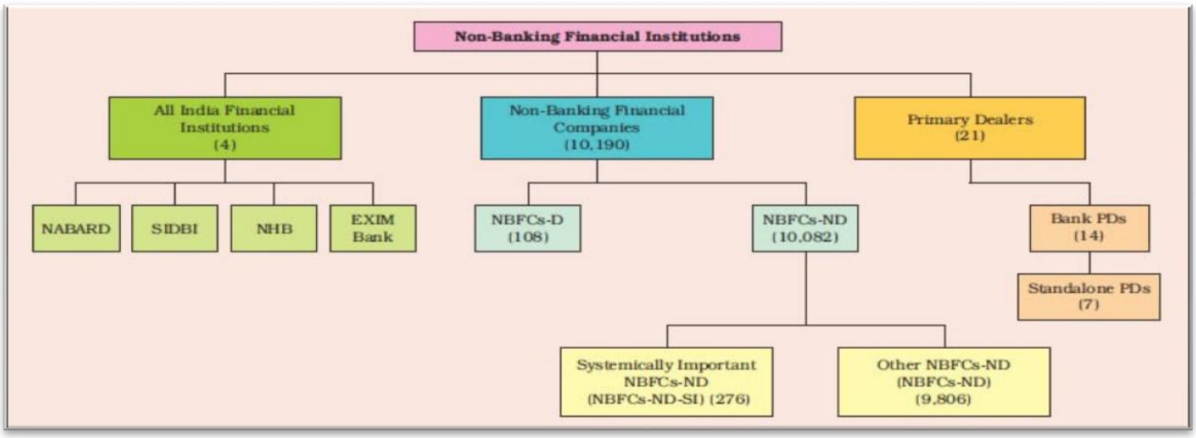
The Reserve Bank regulates and supervises three categories of NBFIs, viz. All-India Financial Institutions (AIFIs), Primary Dealers (PDs) and NBFCs. Based on deposit mobilization, NBFCs are classified into two major categories: NBFCs-D (deposit taking) and NBFCs-ND (non-deposit taking). NBFCs-ND were sub-divided into two categories in 2006 - Systemically Important Non-Deposit taking NBFCs (NBFCs-ND-SI) and other Non -Deposit taking NBFCs (NBFCs-ND) based on asset size. NBFCs with an asset size greater than `1 billion were considered as NBFC-ND-SI. The threshold for recognition of NBFCs-ND-SI was [2] increased to 5 billion in 2014 (RBI Bulletin October 2017)

THE STRUCTURE OF NBFC'S IN INDIA:

The structure of NBFC's in India has been explained with the help of following chart.

[1] **www. rbi.org.in**
[2] ***RBI Bulletin October 2017***

The structure of NBFC's under RBI regulation



Source: The Reserve Bank of India

REVIEW OF LITERATURE:

The present research on the NBFC's depends upon various references from the books, journals, periodicals, RBI reports and so on. Some of the reviews are given as follows:

Bhole (1992) [3]has studied the growth pattern, problems, prospects and impact of NBFCs on financial market. He maintained that as any nation become develop, NBFCs become more and more important. He compared the business volume and profitability ratio of Commercial Banks and NBFCs at aggregate level. He uses only the profitability ratio for the purpose.

Saggar (1995) has examined the financial performance of 10 leasing companies at disaggregate level and compared with other group of NBFCs for a period of 1985-90. The simple method of ratio analysis has been used to compare the financial performance. The study by Saggar does not reflect the overall performance of NBFCs as it is based on selected 10 companies.

Kantawala (1997) examined the relative financial performance of different groups of NBFCs for the period 1985-86 to 1994- 95 in terms of profitability, leverage and liquidity. A significant difference in the profitability ratios, leverage ratios and liquidity ratios of various categories of NBFCs was observed from the analysis and concluded that different categories of NBFCs behave differently and it is the entrepreneur's choice in the light of behavior of some the parameters which go along with the category of NBFC.

A study by Harihar (1998) throws light on overall performance of all NBFCs taken together in terms of cost of debt, operating margin, net profit margin, return on net worth and asset

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[3] **Bhole, L.M., Financial Institutions and Markets, Tata MC Graw Hill Publishing Co. Ltd.,**

turnover ratio. It is revealed the aggregate performance of NBFCs which does not throw light on the financial performance of different group of NBFCs. The study has used only few ratios to analyse the financial performance.

Khan (2005) studied the Product options of NBFCs in Bangladesh and concludes that NBFCs with multiproduct are more financially stable in comparison with NBFCs in single business. The study used simple method of ratio analysis. Only few ratios had been taken for the study.

SIGNIFICANCE OF THE STUDY

Finance is an important component for ordinary people to maintain their standard of living. Non-Banking Financial Companies (NBFC) help the people to get rid of their financial difficulties. It is flexible in its services and is a refuge to the needs of people when formal banking have fixed and cumbersome procedures. In this context, NBFCs have become a last resort to customers. NBFCs are essential social organizations rendering variety of services to the socio-economic objectives of the society. NBFCs offer different types of loans to the customers in Maharashtra for their socio- economic needs. In this context, the present study is very significant and relevant.

STATEMENT OF THE PROBLEM

The Indian financial system is quite weak and does not wholly come under the formal system. The banks consist of the commercial, private and foreign banks have diversified services and products for the huge population. Regardless of this, the large number of people does not come under the official financial system. This is mainly due to the geographical and economic inequality. It is in this circumstance that NBFCs have taken over the role to provide the needs of these populations. They have special features like diversified products and services and they have shown remarkable progress over the years. This paper is an attempt to assess the NBFCs in India.

OBJECTIVES OF THE STUDY

The present research on the NBFC's has certain objectives, which are as follows;

1. To study the NBFCs in India
2. To study the classification and structure of NBFCs in India
3. To study the financial appraisal of NBFCs in India
4. To suggest various measures to improve the NBFCs in India

SCOPE OF THE STUDY

The NBFCs are very important in Indian financial system as they deliver diversified and customized financial services and products. The formal financial system is highly frail in Indian circumstances. The services provided by formal sector are inadequate and are in unassailable compartments. These NBFCs fulfil the needs of the unbanked and under privileged citizens.

Thus, NBFCs are necessary part of Indian financial system. The study aims at evaluation and classification, structure, the financial appraisal of NBFCs in India.

NON-BANKING FINANCIAL COMPANIES:

The NBFCs are classified on the basis of a) their liability structures; b) the type of activities they undertake; and c) their systemic importance. In the first category, NBFCs are further subdivided into NBFCs-D–which are authorised to accept and hold public deposits– and non-deposit taking NBFCs (NBFCs-ND)– which do not accept public deposits but raise debt from market and banks. Among NBFCs-ND, those with an asset size of ₹5 billion or more are classified as NBFCs-ND-SI. At the end of September 2018, there were 108 NBFCs-D and 276 NBFCs-ND-SI as compared with 168 and 230, respectively, at the end of March 2018.

Since 1997, the Reserve Bank has endeavored to limit the operations and growth of NBFCs-D with the objective of securing depositors' interest. This strategy was adopted in recognition of the fact that these deposits are not covered by the Deposit Insurance and Credit Guarantee Corporation (DICGC). NBFCs-D with investment grade rating are allowed to accept fixed deposits from the public for a tenure of 12 to 60 months only with interest rates capped at 12.5 per cent.

NBFCs can also be categorized on the basis of activities undertaken as they typically focus on niche segments and fulfill sector– specific requirements. Consequently, their varied business models require appropriate modulation of the regulatory regime. Till 2010, the NBFC sector was divided into five categories viz., asset finance companies; loan companies; residuary non-banking companies; investment companies and mortgage guarantee companies. Since then, however, newer types of activity have been added to the NBFC space. At the end of September 2018, there were 12 activity-based classifications of NBFCs

At the end of September 2018, the number of NBFCs registered with the Reserve Bank declined to 10,190 from 11,402 at the end of March 2018. NBFCs are required to have a minimum net owned fund (NOF) of 20 million. In a proactive measure to ensure strict compliance with the regulatory guidelines, the Reserve Bank cancelled the Certificates of Registration (CoR) of NBFCs not meeting this criterion. The number of cancellations of CoR's of NBFCs has exceeded new registrations in recent years

THE BALANCE SHEET OF NBFCS: The consolidated balance sheet of NBFCs expanded in 2017-18 and in 2018-19 (up to September), buoyed by strong credit expansion. Category-wise, the balance sheet of NBFCs-ND-SI expanded by 13.4 per cent, while the balance sheet of NBFCs-D registered robust growth at 24.4 per cent in 2017-18 on account of a sharp rise in loans and advances

Table Balance Sheet of NBFCs

(Amount in Rs. billion)

Items	At end-March 2017			At end-March 2018			At end-Sept 2018		
	NBFCs	NBFCs-ND-SI	NBFCs-D	NBFCs	NBFCs-ND-SI	NBFCs-D	NBFCs	NBFCs-ND-SI	NBFCs-D
1	2	3	4	5	6	7	8	9	10
1. Share Capital and Reserves	4,527	4,104	423	5,153	4,590	563	5,595	4,997	598
	(19.0)	(19.8)	(11.9)	(13.8)	(11.8)	(33.1)	(15.1)	(13.5)	(30.0)
2. Public Deposits	306	-	306	319	-	319	326	-	326
	(12.9)	-	(12.9)	(4.2)	-	(4.2)	(12.0)	-	(12.0)
3. Debentures	6,481	5,813	668	7,155	6,321	834	7,551	6,681	870
	(20.2)	(19.7)	(23.9)	(10.4)	(8.7)	(24.9)	(-0.4)	(-2.1)	(14.9)
4. Bank Borrowings	3,134	2,520	614	4,039	3,319	720	4,936	4,108	828
	(-7.2)	(-7.2)	(-7.0)	(28.9)	(31.7)	(17.3)	(49.3)	(52.8)	(34.2)
5. Commercial Paper	1,291	1,143	148	1,406	1,224	182	1,816	1,525	291
	(51.2)	(45.1)	(124.2)	(8.9)	(7.1)	(23.0)	(19.7)	(13.0)	(74.3)
6. Others	4,058	3,436	622	4,688	3,846	842	5,795	4,909	886
	(14.8)	(12.7)	(28.0)	(15.5)	(11.9)	(35.4)	(25.0)	(26.1)	(19.2)
Total Liabilities	19,798	17,017	2,781	22,760	19,300	3,460	26,019	22,220	3,799
	(14.9)	(14.7)	(15.9)	(15.0)	(13.4)	(24.4)	(17.2)	(16.0)	(25.2)
1. Loans and Advances	14,800	12,347	2,453	17,643	14,533	3,110	19,842	16,427	3,415
	(12.8)	(12.2)	(15.8)	(19.2)	(17.7)	(26.8)	(16.3)	(14.4)	(26.1)
2. Investments	2,759	2,628	131	3,011	2,880	131	3,352	3,186	166
	(21.9)	(21.0)	(42.4)	(9.1)	(9.6)	(0.0)	(14.1)	(12.8)	(48.2)
3. Cash and Bank Balances	796	700	96	649	553	96	848	747	101
	(36.1)	(44.3)	(-4.0)	(-18.5)	(-21.0)	(0.0)	(27.5)	(31.3)	(5.2)
4. Other Current	1,106	1,021	85	1,168	1,064	104	1,639	1,537	102

Assets									
	(8.0)	(7.2)	(18.1)	(5.6)	(4.2)	(22.4)	(30.1)	(32.7)	(0.0)
5. Other Assets	336	321	15	288	270	18	337	323	14
	(40.0)	(43.9)	(-11.8)	(-14.3)	(-15.9)	(20.0)	(26.2)	(28.7)	(-12.5)
Notes: 1. Data are provisional 2. Figures in parentheses indicate y-o-y growth in per cent. *Source: Supervisory Returns, RBI.*									

FINDINGS AND CONCLUSION

The present study on the financial appraisal of non banking financial companies (NBFC) in India has brought various findings such as there is constant need to increase the funding by these institutions, the RBI being the highest monetary authority should take proper care for the same. Indian NBFCs can have potential to cater the financial need of the people.

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