

Performance of non-banking financial institutions in India

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Abstract

Non-Banking Financial Institutions (NBFIs) Sector plays a pivotal role in the Indian economic growth. The NBFIs act as an intermediary between borrowers and final lenders, providing safety and liquidity. This process subsequently ensures earnings on the investments and savings involved. NBFIs does not have a full banking license and cannot accept deposits from the public. However, NBFIs do facilitate alternative financial services, such as investment (both collective and individual), risk pooling, financial consulting, brokering, money transmission, and check cashing. NBFIs are a source of consumer credit (along with licensed banks). NBFIs run in parallel to the traditional deposit taking commercial banks. NBFIs include, but are not limited to investment banks, development financial institutions (DFIs), insurance companies, specialized credit institutions, mod-arabas, mutual funds, leasing companies, currency exchanges, some microloan organizations, pawn shops, and venture capital companies. These NBFIs provide services that are not necessarily suited to banks, serve as competition to banks, and specialize in sectors or groups. This paper aims to understand the NBFIs and its importance for overall development of society and nation's economy. This study is in focus to analyze the financial performance of NBFIs in India during 2015-2016.

Keywords: NBFIs Sector, NBFs, DFIs, Mutual funds, Venture Capital, Investment Bank

Introduction

All India Financial Institutions (AIFIs), Non-Banking Financial Companies (NBFCs) and Primary Dealers (PDs) form three important segments of the Non-Banking Financial Institutions (NBFIs) sector in India that are regulated and supervised by the Reserve Bank. AIFIs constitute institutional mechanism entrusted with providing sector-specific long-term financing. NBFCs comprising mostly private sector institutions, provide a variety of financial services including equipment leasing, hire purchase, financing of physical assets, infrastructure loans, commercial vehicles, loans, and investments. Primary dealers (PDs) play a crucial role in fostering both the primary and secondary government securities markets. The operational and financial performance of NBFIs sector is presented in this article.

All India financial institutions (AIFIs)

Currently, the four AIFIs regulated and supervised by the Reserve Bank are Export-Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI). They play a salutary role in the financial markets through credit extension and refinancing operation activities and cater to the long-term financing needs of the industrial sector.

1.2 Export-Import Bank of India (EXIM)

EXIM is the premier export finance institution in India, established in 1st January, 1982 under the Export-Import Bank of India Act 1981. Exim Bank of India has, over the period, evolved into an institution that plays a major role in

partnering Indian industries, particularly the Small and Medium Enterprises (SME), in their globalization efforts, through a wide range of products and services offered at all stages of the business cycle, starting from import of technology and export product development to export production, export marketing, pre-shipment and post-shipment and overseas investment.

Functions of EXIM

- Planning, promoting and developing exports and imports;
- Providing technical, administrative and managerial assistance for promotion, management and expansion of exports; and
- Undertaking market and investment surveys and techno-economic studies related to development of exports of goods and services.

National Bank for Agriculture and Rural Development (NABARD)

NABARD was established on the recommendations of B. Sivaraman Committee, (by Act 61, 1981 of Parliament) on 12th July, 1982 to implement the National Bank for Agriculture and Rural Development Act 1981. It replaced the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of RBI, and Agricultural Refinance and Development Corporation (ARDC). It is one of the premier agencies providing developmental credit in rural areas. NABARD is India's specialized bank for Agriculture and Rural Development in India.

NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and

village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas.

Functions of NABARD

- It is an apex refinancing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas.
- It takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.
- It co-ordinates the rural financing activities of all the institutions engaged in developmental work at the field level and maintains liaison with Government of India, State Governments, Reserve Bank of India and other national level institutions concerned with policy formulation.
- It prepares, on annual basis, rural credit plans for all districts in the country; these plans form the base for annual credit plans of all rural financial institutions.
- It undertakes monitoring and evaluation of projects refinanced by it.
- It promotes research in the fields of rural banking, agriculture and rural development.

National Housing Bank (NHB)

NHB, a wholly owned subsidiary of RBI, was set up on 9th July, 1988 under the National Housing Bank Act, 1987. NHB is an apex financial institution for housing. NHB has been established with an objective to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support. NHB registers, regulates and supervises Housing Finance Company (HFCs), keeps surveillance through On-site & Off-site Mechanisms and co-ordinates with other Regulators.

Functions of NHB

- To promote a sound, healthy viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.
- To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
- To augment resources for the sector and channelize them for housing.
- To make housing credit more affordable.
- To regulate the activities of housing finance companies based on regulatory and supervisory authority derived under the Act.
- To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.

- To encourage public agencies to emerge as facilitators and suppliers of serviced land, for housing.

Small Industries Development Bank of India (SIDBI)

The SIDBI was established as a wholly owned subsidiary of Industrial Development Bank of India (IDBI) under a special Act of the Parliament 1988 and started its operations on 2nd April, 1990, headquarters in Lucknow, Uttar Pradesh. It took over the responsibility of administering Small Industries Development Fund and National Equity Fund which were earlier administered by IDBI. SIDBI aim is to serve as the principal financial institution for the promotion, financing and development of the Micro, Small and Medium Enterprise (MSME) sector and for co-ordination of the functions of the institutions engaged in similar activities.

Functions of SIDBI

- SIDBI refinances loans extended by the primary lending institutions to small scale industrial units, and also provides resources support to them.
- SIDBI discounts and rediscounts bills arising from sale of machinery to or manufactured by industrial units in the small scale sector.
- To expand the channels for marketing the products of Small Scale Industries (SSI) sector in domestic and international markets.
- It provides services like leasing, factoring etc. to industrial concerns in the small scale sector.
- To promote employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.
- To initiate steps for technological up-gradation and modernization of existing units.
- SIDBI facilitates timely flow of credit for both term loans and working capital to SSI in collaboration with commercial banks.
- SIDBI Co-Promotes state level venture funds in association with respective state government.
- It grants direct assistance and refinance loans extended by primary lending institutions for financing exports of products manufactured by small scale units.

Objects of the Study

- To analyze the financial performance of Non-Banking Financial Institutions in India.
- To understand the major credit extension, refinancing, long-term finance operation for EXIM, NABARD, NHB, and SIDBI.

Research Methodology

The present study based on secondary data. The data have been collected from NABARD, RBI reports (Statistical Tables Relating to Banks in India), Journals, Magazines, Books, Newspapers and Websites. For analysing the data, descriptive statistics like tabulation, percentage and ratio have been used.

**Data Analysis and Interpretation
Financial Performance of AIFIs**

Table 1: Consolidated Balance Sheet of AIFIs

(Amount in ₹ million)			
Item	2015	2016	% Variation
Liabilities			
1. Capital	109594 (2.21)	135963 (2.42)	24
2. Reserves	381197 (7.69)	435017 (7.75)	14.1
3. Bonds and Debentures	1187625 (23.96)	1385767 (24.69)	16.7
4. Deposits	2309436 (46.06)	2387282 (42.53)	3.4
5. Borrowings	469271 (9.47)	741117 (13.2)	57.9
6. Other Liabilities	499011 (10.07)	528285 (9.41)	5.9
Total Liabilities/Assets	4956133	5613432	13.3
Assets			
1. Cash and Bank Balances	205305 (4.14)	272872 (4.86)	32.9
2. Investments	323585 (6.53)	421663 (7.51)	30.3
3. Loans and Advances	4273155 (86.22)	4761769 (84.83)	11.4
4. Bills Discounted/Rediscounted	35736 (0.72)	26383 (0.47)	-26.2
5. Fixed Assets	6584 (0.13)	6922 (0.12)	5.1
6. Other Assets	111769 (2.26)	123822 (2.21)	10.8

Notes: i. Data pertain to four FIs, viz., EXIM Bank, NABARD, NHB and SIDBI. Data for EXIM Bank, NABARD and SIDBI for end March, while end June for NHB.

ii. Figures in parentheses are percentages to total liabilities or assets.

Source: i. Audited OSMOS Returns of EXIM Bank, NABARD and SIDBI for end-March 2015 and 2016, respectively.

ii. Audited OSMOS Returns of NHB end June 2015 and 2016, respectively.

The above table-1 indicates that the consolidated balance sheet of the AIFIs expanded by 13.3 percent during 2015-16 reflecting moderation from double-digit expansion in the previous couple of years. On the assets side, loans and advances posted a growth of 11.4 percent during 2015-16. On the liability side, deposits and borrowings increased by 3.4 and

57.9 percent, respectively during 2015-16. AIFIs, during the year, raised short-term funds mainly by floating commercial papers, which are capped under the umbrella limit. And also raised through bonds and debentures expanded by 16.7 percent during the year 2015-16.

Table 2: Profit and Loss Account of AIFIs

(Amount in ₹ million)				
	2014-15	2015-16	Variation	
			Amount	Percentage
A) Income (a + b)	350113	395084	44971	12.84
a) Interest Income	333694 (95.31)	385641 (97.61)	51947	15.57
b) Non-Interest Income	16419 (4.69)	9443 (2.39)	-6976	-42.49
B) Expenditure (a + b)	262646	300667	38021	14.48
a) Interest Expenditure	243332 (92.65)	278544 (92.64)	35212	14.47
b) Operating Expenses	19314 (7.35)	22123 (7.36)	2809	14.54
<i>of which Wage Bill</i>	13624	15381	1757	12.9
C) Profit				
Operating Profit (Profit Before Tax)	78339	69722	-8617	-11
Net Profit (Profit After Tax)	52930	48088	-4842	-9.15

Note: (i) Figures in parentheses are percentages to total income/expenditure,

(ii) Absolute figures rounded-off.

Source: 1. Audited OSMOS Returns of EXIM Bank, NABARD and SIDBI for end March 2015 and 2016, respectively,

2. Audited OSMOS Returns of NHB for end June 2015 and 2016, respectively.

The above table-2 indicates that the AIFIs posted strong growth in interest income, a double-digit growth in income during 2015-16 despite a significant decline in non-interest income. With the growth in expenditure exceeding income.

However, the major indicators of profitability, such as operating profits and net profits showed a decline during the year during the year.

Return on Assets (RoA)

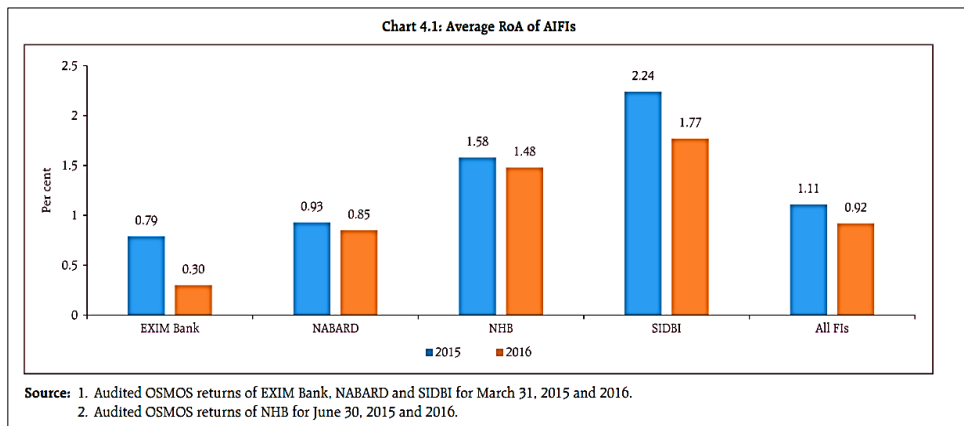


Fig 1

The above chart 4.1 indicates, during the year, the return on assets (RoA) of all the four AIFIs showed deterioration, partially due to increasing operating costs. RoA was the highest

for SIDBI followed by NHB, NABARD and EXIM Bank.

Capital Adequacy

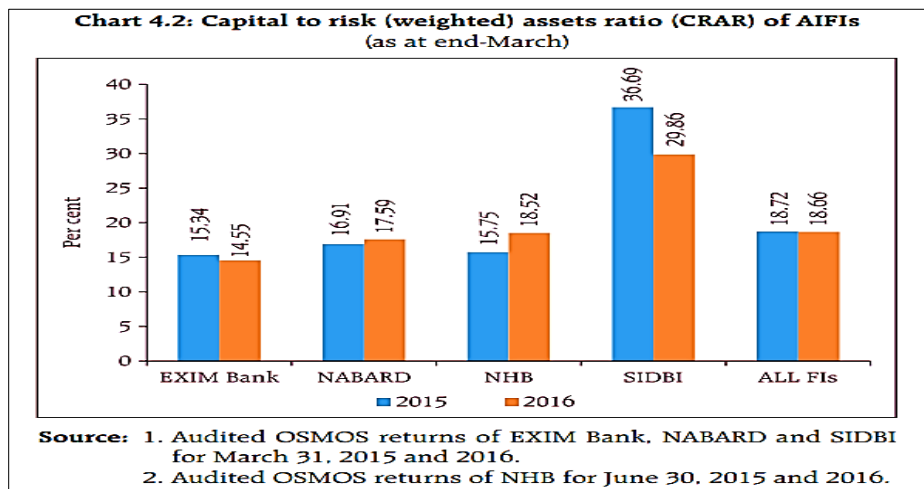


Fig 2

The above chart 4.2 indicates that the AIFIs capital adequacy witnessed marginal deterioration during 2015-16. The capital adequacy position of EXIM Bank and SIDBI deteriorated while that of NABARD and NHB improved. Yet, all the four

AIFIs maintained CRAR higher than the minimum regulatory requirement of 9 percent.

Asset Quality

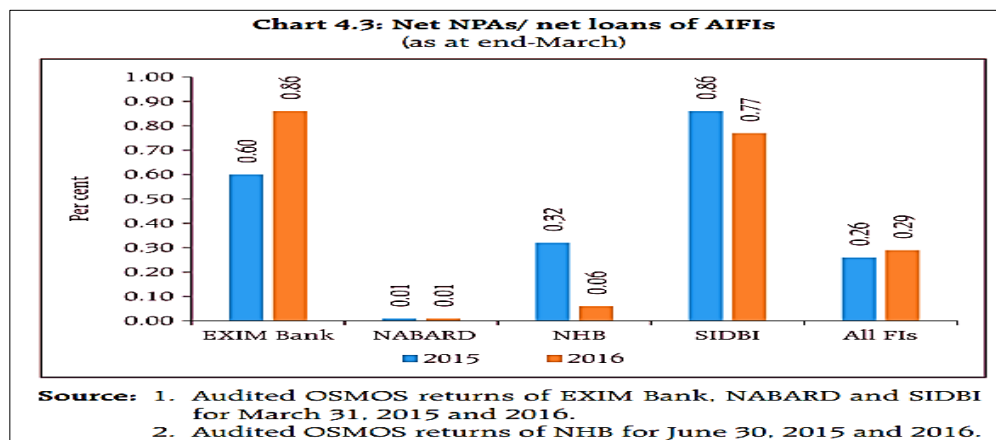


Fig 3

The above chart 4.3 indicates that the asset quality of AIFIs deteriorated marginally as net non-performing advances (NPAs) as percentage to net loans increased from 0.26 percent in 2014-15 to 0.29 percent in 2015-16. NHB and SIDBI's asset quality improved whereas that of EXIM Bank witnessed deterioration. EXIM Bank also had the largest quantum of net NPAs among the AIFIs.

Non-Banking Financial Companies (NBFCs)

NBFCs is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

NBFCs are categorized into two types on the basis of their liability structure:

1. Deposit-Taking NBFCs (NBFCs-D) and
2. Non-Deposit Taking NBFCs (NBFCs-ND)

Broad categorization the different types of NBFCs are as follows:

Asset Finance Company (AFC): An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipment's, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

Investment Company (IC): IC means any company which is a financial institution carrying on as its principal business the acquisition of securities.

Loan Company (LC): LC means any company which is a financial institution carrying on as its 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.

Infrastructure Finance Company (IFC): IFC is a non-banking finance company a) which deploys at least 75 percent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of ₹ 300 crore, c) has a minimum credit rating of 'A' or equivalent d) and a CRAR of 15%.

Systemically Important Core Investment Company (CIC-ND-SI): CIC-ND-SI is an NBFC carrying on the business of

acquisition of shares and securities which satisfies the following conditions:-

- It holds not less than 90% of its Total Assets in the form of investment in equity shares, preference shares, debt or loans in group companies;
- Its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its Total Assets;
- It does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;
- It does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the RBI act, 1934 except investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies.
- Its asset size is ₹ 100 crore or above and
- It accepts public funds

Infrastructure Debt Fund-NBFCs: IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

NBFCs - Micro Finance Institution: NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

- Loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding ₹ 1,00,000 or urban and semi-urban household income not exceeding ₹ 1,60,000;
- Loan amount does not exceed ₹ 50,000 in the first cycle and ₹ 1,00,000 in subsequent cycles;
- Total indebtedness of the borrower does not exceed ₹ 1,00,000;
- Tenure of the loan not to be less than 24 months for loan amount in excess of ₹ 15,000 with prepayment without penalty;
- Loan to be extended without collateral;
- Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;
- Loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

Non-Banking Financial Company - Factors: NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

Mortgage Guarantee Companies (MGC): MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is ₹ 100 crore.

NBFC- Non-Operative Financial Holding Company (NOFHC) is financial institution through which promoter / promoter groups will be permitted to set up a new bank. It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

As at end-March 2016, there were 11,682 NBFCs registered with the Reserve Bank out of which 202 were NBFCs-D and 11,480 were NBFCs ND entities. There were 209 systemically important non-deposit taking NBFCs (NBFCs-ND-SI), which are subject to more stringent prudential norms and provisioning requirements.

Table 3: Ownership Pattern of NBFCs (No. of Companies)

Ownership	2015 NBFCs-D	2016 NBFCs-D	2015 NBFCs-ND-SI	2016 NBFCs-ND-SI
A. Government Companies	7 (3.2)	5 (2.5)	10 (5.0)	16 (7.7)
B. Non-Government Companies	211 (95.9)	194 (97.5)	190 (95.0)	193 (92.3)
i. Public Limited Companies	209 (95.0)	188 (94.5)	105 (52.5)	105 (50.2)
ii. Private Limited Companies	2 (0.2)	6 (3.0)	85 (42.5)	88 (42.1)
Total No. of Companies (A+B)	220 (100)	199 (100)	200 (100)	209 (100)

Note: Figures in parenthesis represent % to total number of NBFCs. NBFCs-ND-SI means non-deposit taking NBFCs having asset size more than or equal to ₹ 500 crore.

Source: Department of Non-Banking Supervision, RBI.

The above table-3 indicates, amidst the consolidation process, which reduced the number of both NBFCs-D and NBFCs-ND-SI registered with the Reserve Bank, the asset side of NBFCs

continued to register significant growth. The ownership pattern of NBFCs-D and NBFCs-ND-SI is given in Table 3.

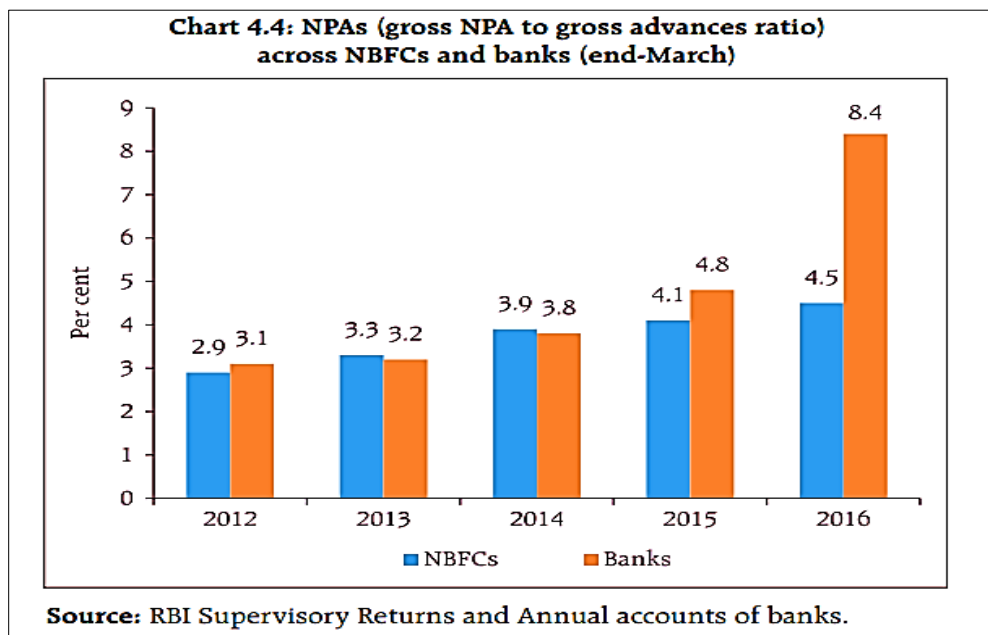


Fig 4

The above chart 4.4 indicates, while banks witnessed subdued credit growth in sectors constrained by asset quality stress, NBFCs did well. The NBFC sector registered a 15.5 percent credit growth during 2015-16 as against an increase of 9.1 percent in non-food credit by commercial banks. The quality of assets of the NBFC sector has been deteriorating since 2012. However, the NPAs of NBFCs remained relatively lower than the NPAs of the banking sector.

The Reserve Bank initialized a new category of NBFCs as NBFC-account aggregators (AAs) in September 2016 with a view to facilitating a consolidated view of individual investors' financial asset holdings, especially when the entities fall under the purview of different financial sector regulators. AAs fill this gap by collecting and providing information about a customer's financial assets in a consolidated, organized and retrievable manner to the customer or any other person as per the instructions of the customer. Further, as peer-to-peer (P2P)

lending is gathering momentum globally and also taking roots in India, the Reserve Bank is in the process of bringing this under its regulatory ambit.

Deposit-Taking NBFCs (NBFCs-D)

The Reserve Bank, as part of deliberate policy, has been discouraging the NBFCs from engaging in public deposit

mobilization activities, with a view to protecting depositors’ interests as also fostering financial stability. The regulations for the NBFCs-D have been strengthened so that only the sound and well-functioning entities remain in business.

Financial Performance of NBFCs-D

Table 4: Consolidated Balance Sheet of NBFCs-D (as on March 31)

(Amount in ₹ billion)			
Items	2015	2016 P	% Variation
Liabilities			
1. Share Capital	31	34	9.2
2. Reserves and Surplus	258	337	30.9
3. Public Deposits	270	379	40.6
4. Debentures	389	539	38.6
5. Bank Borrowings	552	659	19.3
6. Borrowings from FIs	16	23	43.1
7. Inter-Corporate Borrowings	2	6	283.3
8. Commercial Paper	58	66	13.8
9. Borrowings from Government	38	30	-21.3
10. Subordinated Debts	76	88	15.6
11. Other Borrowings	157	224	42.2
Total Liabilities/Assets	1847	2386	29.2
Assets			
1. Loans and Advances	1590	2117	33.1
2. Investments	69	85	23.9
3. Cash & Bank Balance	120	98	-18.7
4. Other Assets	68	87	26.7

P: Provisional

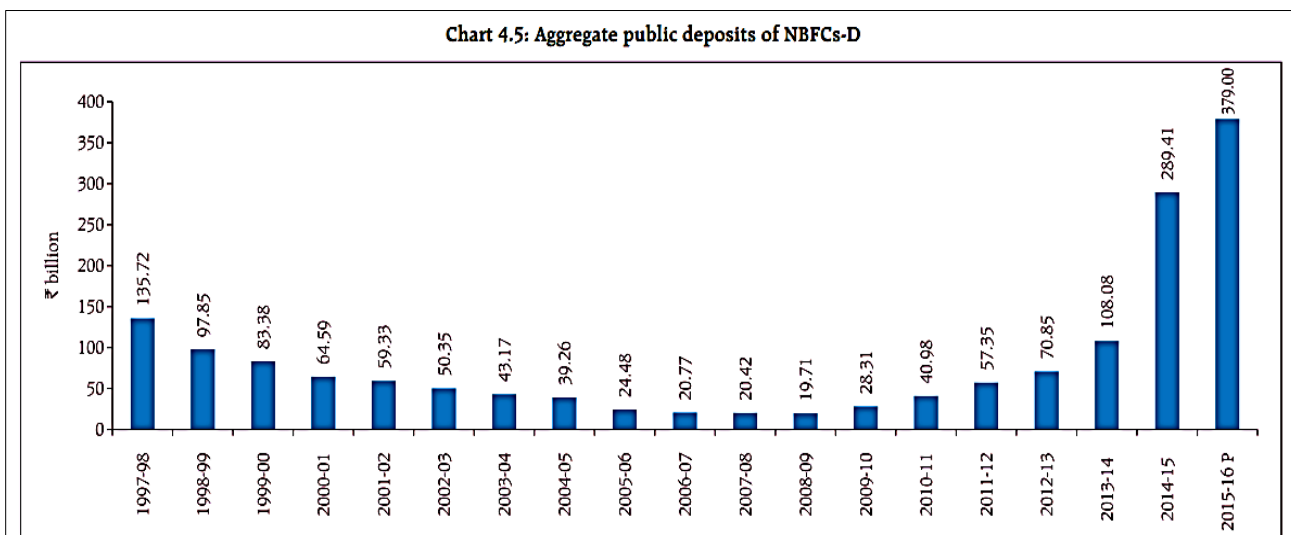
Note: Percentage variation in figures could be slightly different because amounts have been rounded-off to ₹ billion. The data pertain to 162 NBFCs-D companies based on precise numbers.

Source: Quarterly returns of NBFCs-D.

The above table-4 indicates that the balance sheet of NBFCs-D expanded by 29.2 percent during 2015-16. On the assets side, loans and advances, which constituted close to 90 percent of the assets, registered significant growth and NBFCs-Ds’ investment activities also witnessed an increase during the year. On the liability side, borrowings from banks still

constituted the largest source of funding for NBFCs-D. Mobilization of funds through debentures, which constituted the second biggest source of funding, increase by 38.6 percent during the year.

Aggregate Public Deposits of NBFCs-D



Source: RBI Supervisory Returns.

Fig 5

The above chart 4.5 indicates that the Public deposits garnered by NBFCs-D have been showing a rising trend since 2010.

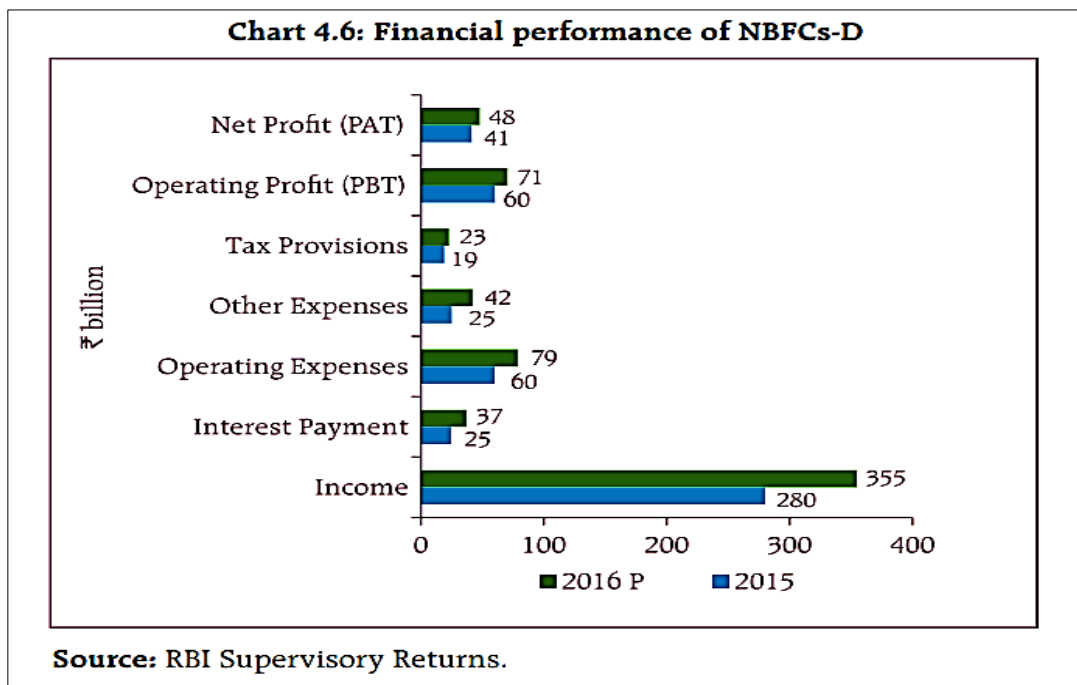


Fig 6

The above chart 4.6 indicates, as compared to the previous year, Income of NBFCs-D income recorded a growth of 26.8

percent during 2015-16, contributing to higher operating and net profits, despite higher operating and other expenses.

NPA Position of NBFCs-D

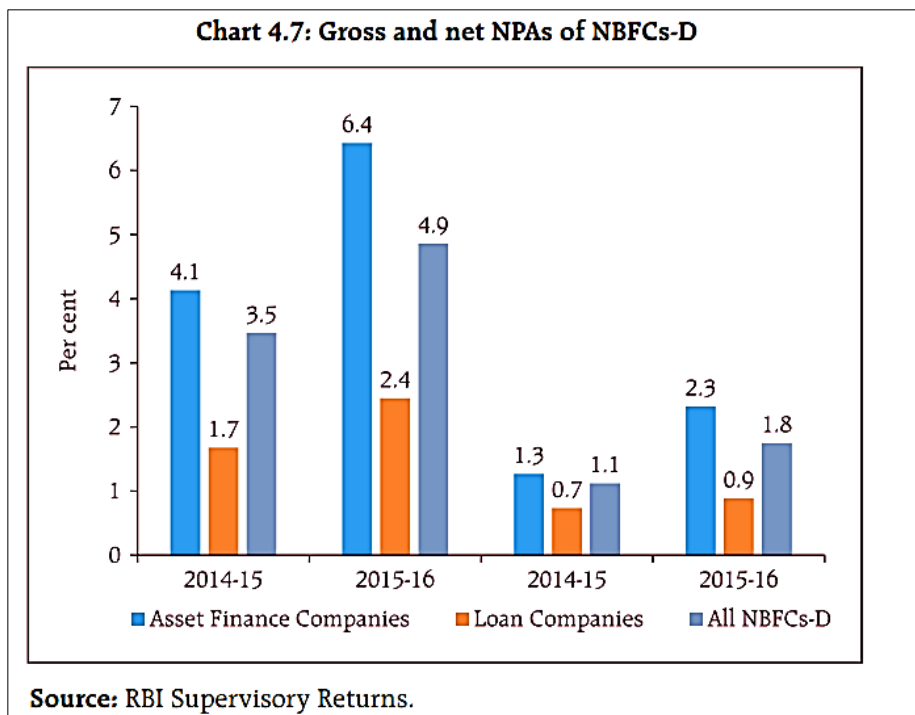


Fig 7

The above chart 4.7 indicates, during 2015-16, NBFCs-Ds' NPAs as reflected by gross NPAs, further deteriorated (4.9 percent). Category-wise, deterioration in asset quality was more with respect to asset finance companies (AFCs) as

compared to loan companies (LCs). The NPAs were mainly concentrated in some sectors such as transport operators, agriculture and medium and large industries.

Non-Deposit Taking Systemically Important NBFCs (NBFCs-ND-SI)

Financial Performance of NBFCs-ND-SI

Table 5: Consolidated Balance Sheet of NBFCs-ND-SI (as on March 31)

(Amount in ₹ billion)			
Item	2015	2016 P	% Variation
Liabilities			
1. Share Capital	630	678	7.7
2. Reserves and Surplus	2271	2550	12.3
3. Total Borrowings	9411	10335	9.8
4. Current Liabilities and Provisions	608	725	19.3
Total Liabilities/ Total Assets	12920	14288	10.6
Assets			
1. Loans and Advances	9516	10709	12.5
2. Investments	2042	2052	0.5
3. Cash & Bank Balance	463	434	-6.4

4. Other Assets	899	1093	21.7
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P: Provisional.

Note: Data presented to 259 entities. Percentage figures are rounded-off.

Source: Quarterly returns of NBFCs-ND-SI (₹ 500 crore and above).

The above table-5 indicates, during 2015-16, NBFCs-ND-SIs' balance sheet expanded by 10.6 percent, a moderation from the previous year (15.9 percent). Loans and advances extended by NBFCs-ND-SI posted a growth of 12.5 percent during 2015-16, though this was lower than the previous year due to slow growth in credit extended by infrastructure finance companies (NBFCs-IFCs) and LCs.

During the year, NBFCs-ND-SI raised funds mainly through debentures, borrowings from banks and commercial papers. Investments by NBFCs-NDSI showed marginal growth.

Asset Quality

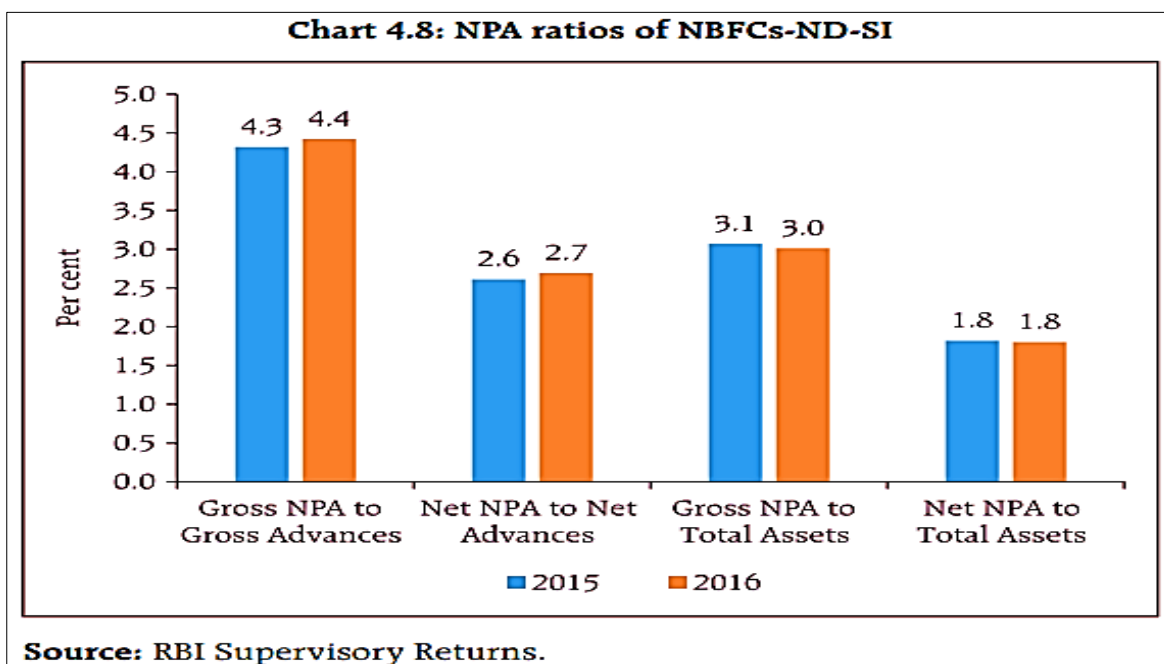


Fig 8

The above chart 4.8 indicates, their asset quality continued to remain stressed as their NPA ratios increased marginally vis-à-vis the previous year's level. Among the NBFCs-ND-SI, Loan Companies (LCs) accounted for a major chunk of NPAs followed by NBFC-IFCs and Asset Finance Companies (AFCs). Profits of NBFCs-ND-SI witnessed a modest improvement during 2015-16.

NPAs of the NBFCs-ND-SI sector were primarily concentrated in infrastructure sector, transport operator segment, and medium and large scale industries. However, the systemically important NBFCs remained well-capitalized. The capital adequacy ratio of these entities remained far above the mandated level of 15 percent.

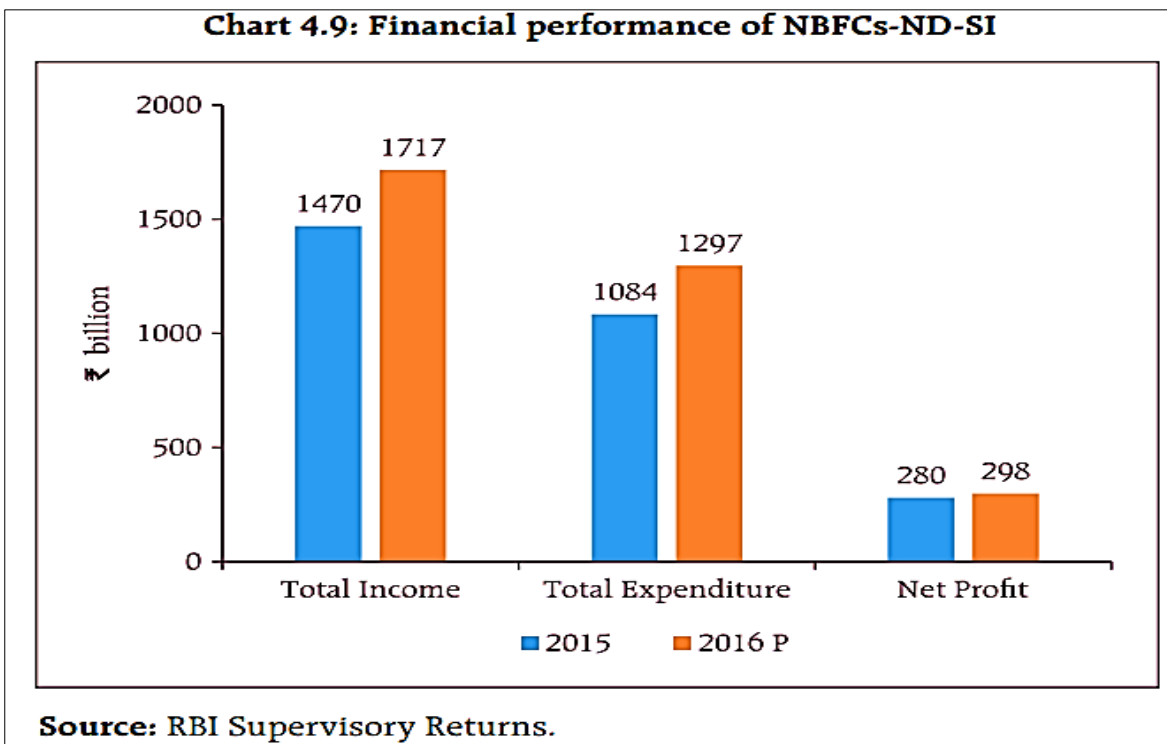


Fig 9

The above chart 4.9 indicates that the profitability of the NBFCs-ND-SI improved significantly as at end-March 2016. Net profit as a ratio to total income remained in double-digits and higher than last year’s level.

Primary Dealers (PDs)

As on March 31, 2016 there were 21 PDs of which 14 were banks and the remaining seven were non-bank entities (standalone PDs) registered as NBFCs. During 2015-16, all the PDs achieved the stipulated minimum success ratio (bids accepted to the bidding commitment of 40 percent for T-bills and cash management bills [CMBs] put together every half year) both in the first half as well as in the second half of the

year. The PDs subscribed 75 percent of the T-bills issued during 2015-16 as against 62 percent during 2014-15. The underwriting commission paid to PDs during 2015-16 was marginally higher during the year as compared to last year. During 2015-16, in the secondary market, all the 21 PDs had individually achieved the required minimum annual total turnover (outright and repo transactions) ratio of 5 times in G-Secs and 10 times in T-bills. Partial devolvement of the PDs took place on seven occasions for `109.99 billion as compared to two instances for `52.71 billion in 2014-15.

Financial Performance of Standalone PDs

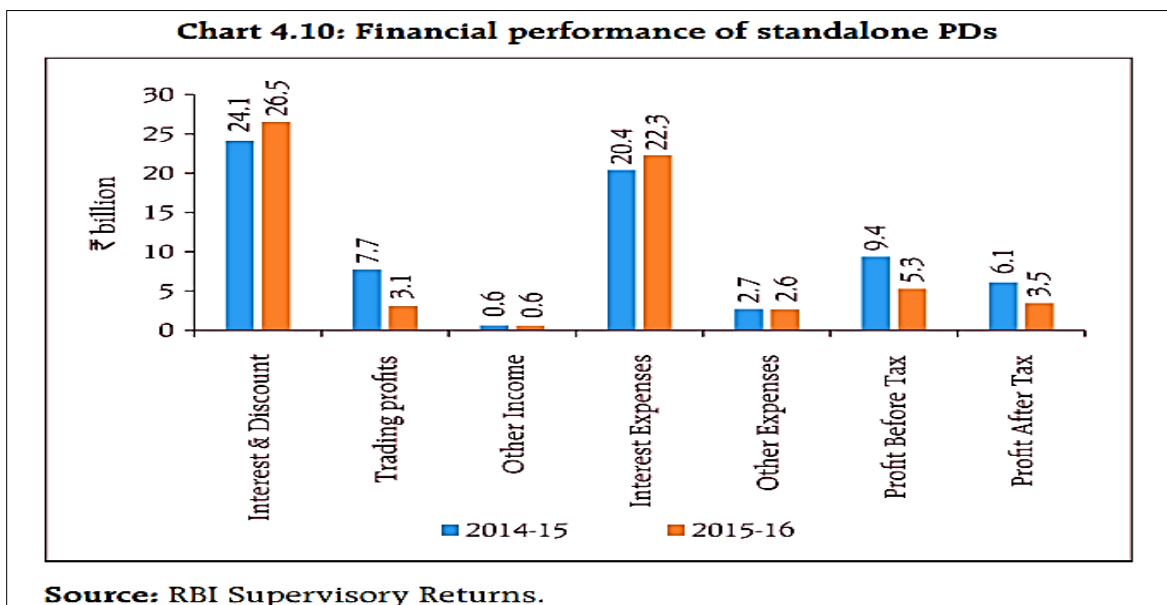


Fig 10

The above chart 4.10 indicates that the all seven standalone PDs, except Goldman Sachs (India) Capital Markets Pvt. Ltd. posted profits in 2015-16. Profit after tax (PAT) decreased on account of limited trading opportunities due to lack of fresh

triggers and a relatively flat yield curve during a large part of the year.

Capital Adequacy Position of Standalone PDs

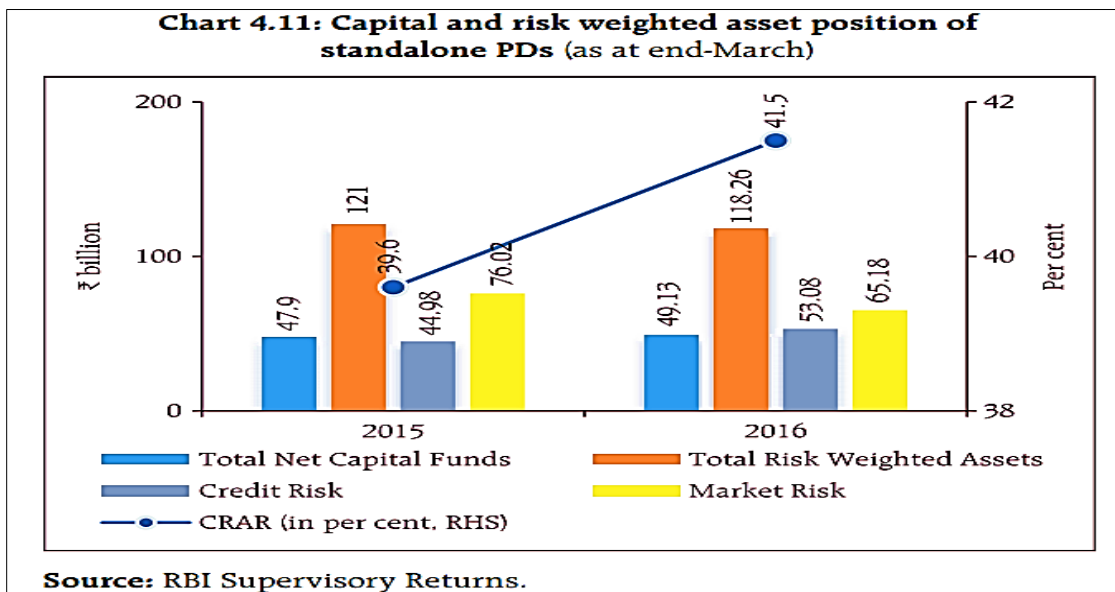


Fig 11

The above chart 4.10 indicates that the standalone PDs held lower risk-weighted assets during the year vis-à-vis the previous year. The capital adequacy position of PDs at 41.5 percent during the year was well above the regulatory stipulation of 15 percent. During the year, all the PDs fulfilled all their primary and secondary market regulatory requirements.

Assessment of the NBFCs sector

- The NBFCs sector assumes a critical role in financial inclusion as it caters to a wide range of financial activities particularly in areas where commercial banks have limited penetration. NBFCs are expected to play a crucial role in fostering inclusive growth, especially in sectors like MSMEs.
- Consolidation within the NBFCs sector continued during 2015-16, resulting in a reduction in the number of both NBFCs-D and NBFCs-ND-SI. Their assets continued to register substantial growth. The accelerated growth in credit deployment by NBFCs was due to their ability to contain risks and tap demand in niche markets. The profitability of NBFCs was significantly higher as compared to commercial banks.
- The NBFCs sector continued to raise funds mainly through debentures, borrowings from banks and commercial papers. The Reserve Bank also eased the norms for external commercial borrowings (ECBs) for NBFCs that lend to the infrastructure sector, to raise ECBs with a minimum maturity of five years. In addition, the Reserve Bank also allowed NBFCs to raise funds through rupee denominated bonds overseas.
- The quality of assets of the NBFCs sector has, however, showed steady deterioration since 2012, though their NPAs have remained relatively lower than those of the

banking sector. On the policy front, the revised regulatory framework for NBFCs, introduced in 2014 by the Reserve Bank of India, is beginning to be phased in to harmonize the prudential norms.

Conclusion

Banks and NBFI are both the key elements of a sound and stable financial system. Banks usually dominate the financial system in most of the countries because business, household & the public sectors all rely on the banking system for a wide range of financial products to meet their financial needs. However, by providing the additional and alternative financial needs, NBFIs have already gained considerable popularity both in developed and developing countries. In one hand these institutions help to facilitate long term investment and financing, which is often a challenge to the banking sector and on the other; the growth of NBFIs widens the range of products available for individuals & institutions with resources to invest. NBFIs operation not only provides demand side of fund an alternative sector of financing besides bank financial institution but also facilitate an sound competitive environment in the financial market. Traditional and highly standardized product design strategy creates a vacuum for NBFIs to widen their activities with custom design-quick tailor product strategy; more customers oriented non-conventional financing activities. Role of NBFIs is also become very vital especially in the moments of economic distress that seems to be a cushion in the economy. Diversified investment sectors, long term investment plan, more customer tailored products etc. contributes to the overall economic stability and growth of NBFIs in the economy as well mitigate systematic risk in a large extent.

This study can be extended in two ways. Firstly, instead of focusing only on traditional financial analysis, the growth of

NBFIs addresses by financial growth picture of the industry, and secondly, a subsequent investigation can be done to identify the growth of NBFIs in other economic indicators like GNP, Income per capita and so on in relation with the growth of financial parameters of NBFIs.

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