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## An overview of NBFCs IN India

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### Abstract

Financial sector is most important part of economic system of any country. Nowadays not only banks but other institutions also providing facilities like bank for example NBFCs. It is very interesting things about NBFCs that NBFCs does not hold license like bank but providing services like bank. NBFCs regulated under Companies Act 2013 in India and controlled by RBI. At present so many number of NBFCs working under different sectors like for NBFC- Micro Finance institutions (NBFCs-IMF) for micro business, Investment and credit company for providing credit facilities, NBFC infrastructure Debt fund (NBFC-IDF) for long term Debt for infrastructure projects, NBFC peer to peer lending (NBFC-P2P) provide providing online platform for mobilize fund etc. so, it is very interesting to know about NBFCs it types on the basis of activities and how many number of NBFCs working in different state of India for what type of activities. The purpose of article is to know about an overview of NBFCs in India. At present NBFC companies providing financial facilities to industry, agriculture, retail loans etc.

**Keywords:** NBFCs types, growth and credit

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### Introduction

Financial sector is very important part of economic activities. In any business activities money is at central point. Banking and non-banking are very important sources for finance. Banking sector provide financial facilities like to accept a deposit, Grant credit, to manage withdrawals pay interest, to provide general services to the clients. Non-banking financial companies provide financial facilities regarding loans and advances, acquisition of shares, stock, bonds, hire-purchase insurance business or chit-fund business. Banks are regulated by RBI and non banking financial institutions regulated by different authorities for example if we talk about housing finance company it regulated by NHB, if we talk about insurance companies that regulated by IRDA same way non-banking financial companies regulated by Ministry of department affairs under the Companies Act. It seems interesting about non-banking companies are functions like bank but does not hold license like bank. Non-banking financial companies registered under companies Act 2013. Non-banking financial companies are companies but companies whose main business is not include agriculture, industrial activity, purchase or sale of any goods or providing any services like sale, purchase, construction of immovable property.

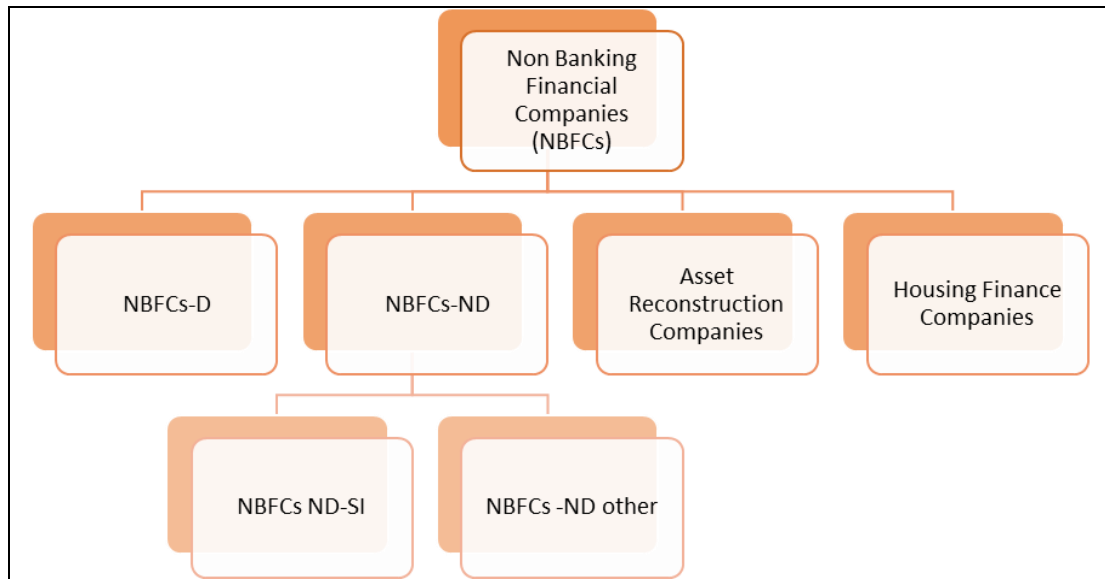
### Concepts of NBFCs In India

A Non-Banking Financial Company (NBFC) 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):

A non-banking companies are a financial companies that do not have a license like bank and facilitates bank related financial services.

- Registered under the Companies' Act 2013.
- Control by reserve bank of India
- Lending funds as well as other activities like banking loans and advances, credit facility, saving and various schemes so on.
- Services regarding business like; of shares, stocks, debentures, bonds, and securities issued by the government
- Providing services like hire purchase, leasing, venture capital finance, housing finance, and insurance so on.

**Types of NBFCs In India**



(Source:-RBI)

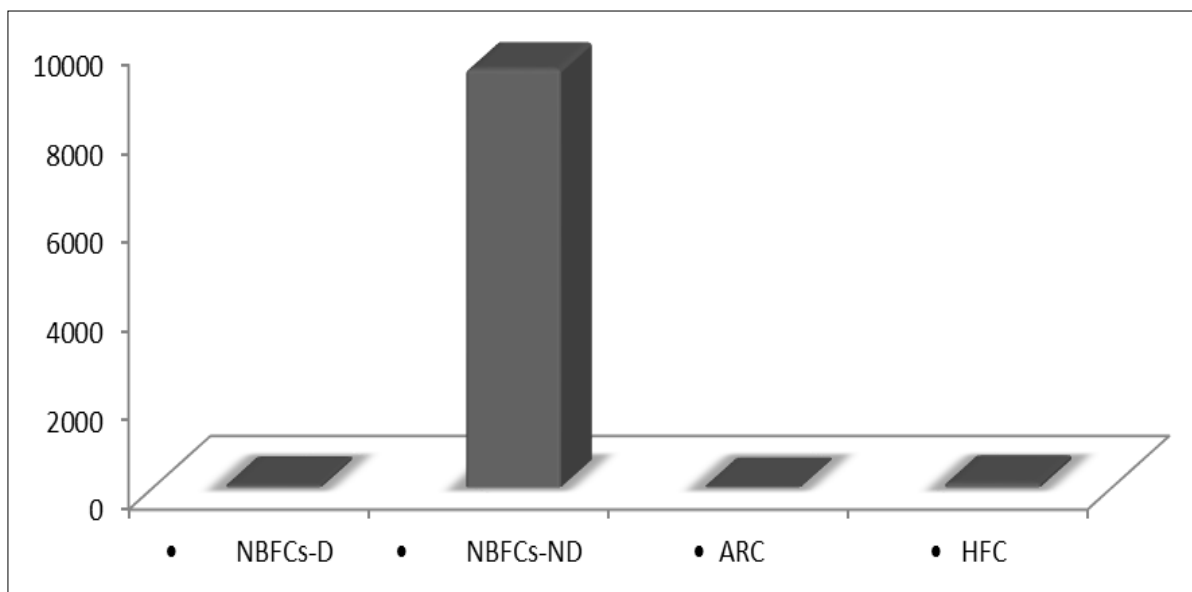
**Fig 1:** Classification on the basis of Structure

Above classification based on structure of NBFCs On the basis classification D means deposit taking NBFC (NBFC-D) and ND means non-deposit taking (NBFC-ND), which means company can hold public deposit or not holding public deposit. under the NBFCs-ND classified in to two sub categories are; those with asset size 500 crore or more are classified as non-deposit taking systemically important are indicated as – NBFCs-ND-SI, and NBFCs those with asset size less than 500 are classified as NBFCs ND other.

**Table 1:** Different types of NBFCs working in India

NBFCs working in India	Number of NBFCs
NBFCs-D	64
NBFCs-ND	9415
NBFCs ND-SI	292
NBFCs -ND other	9123
Asset Reconstruction Companies	28
Housing Finance Companies	101

(Source:-RBI)



**Fig 2:** Different Types of NBFCs Registered in India

Company Name	• Activities
1. Investment and Credit Company (ICC)	• Lending and investment.
2. NBFC-Infrastructure Finance Company (NBFC-IFC)	• Provision of infrastructure loans.
3. NBFC-Systemically Important Core Investment Company (CIC-ND-SI)	• Investment in equity shares, preference shares, debt or loans in group companies.
4. NBFC-Infrastructure Debt Fund (NBFC-IDF)	• Facilitation of flow of long-term debt into infrastructure projects.
5. NBFC-Micro Finance Institution (NBFC-MFI)	• Credit to economically dis-advantaged groups.
6. NBFC-Factor	• Acquisition of receivables of an assignor or extending loans against the security
7. NBFC-Account Aggregator (NBFC-AA)	• Collecting and providing information about a customer's financial assets in a consolidated organised and retrievable.
8. NBFC-Peer to Peer Lending Platform (NBFC-P2P)	• Providing an online platform to bring lenders and borrowers together to help mobilise funds

**Fig 3:** Classification on the basis of Activities

#### **Investment and Credit Company (ICC)**

Under this category main business of company is to carry out asset finance, providing finance by making loans or advances, own and the acquisition of securities. This is new categorized under NBFCs for flexibility in the operation of lending and finance. Main activities of this company is to provide lending and investment facilities.

#### **NBFC-Infrastructure Finance Company (NBFC-IFC)**

Infrastructure finance means a company providing loan for infrastructure. The company has minimum net owned funds rupees 300 crore and having credit rating rate "A" or equivalent. This company provides facility of credit only for infrastructure sectors like water and sanitation, transport, communication, social and commercial infrastructure etc.

#### **NBFC-Systemically Important Core Investment Company (CIC-ND-SI)**

Systemically important core investment company carry out the principal business of equity shares, preference shares, debt and other securities which satisfies these conditions are; (i) not less than 90% of total assets in form of investment in equity shares, preference shares, debt or loans in group companies, (ii) investment constitutes not less than 60% of its total assets, (iii) for dilution or disinvestments, (iv) not carry out other financial activity 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. (v) Company's asset size is rupees 100 crore or more and (vi) Company can accepts public funds.

#### **NBFC-Infrastructure Debt Fund (NBFC-IDF)**

Infrastructure Debt fund non-banking financial companies provide services regarding flow of long term debt into infrastructure projects. This company sponsored by only infrastructure finance companies. IDF –NBFC raise fund with the help of issuing of rupee or dollar denominated bonds of minimum five years maturity.

#### **NBFC-Micro Finance Institution (NBFC-MFI)**

NBFC- micro finance institution provides credit to economically disadvantaged groups. This is non-deposit taking company who having more than 85% of its assets in the nature of qualifying assets are satisfy the parameters;(i)rural household annual income not more than 1 lakh rupees, in urban and semi urban area household income not more than 1 lakh six thousand. (ii)Amount not more than 5 thousand in first cycle and in

subsequent cycles nor more than 1 lakh. (iii) Total debts not more than 1 lakh, (iv) period of loan not more than 2 years. (V) Loan can be extended. (vii) Aggregate amount of loans, given for income groups, is not exceeding 50% of the total loans given by the institutions. (viii) Loan can be repayable on weekly, fortnightly or monthly installments at the choice of the loan taker.

### NBFC-Factor

This type of institutions is a not taking deposit and main business of this type of companies' business of factoring. Financial assets in this business should constitute not less than % of its total assets and income derived from factoring should at least % of its gross income. The main activities of NBFCs factor intuitions are Acquisition of receivables of an assignor or extending loans against the security interest of the receivables at a discount.

### NBFC-Account Aggregator (NBFC-AA)

The account aggregator NBFC companies work for pull and consolidate all of an individual's financial data and present that in easy way and analyze financial holdings of person. It means providing information about customer's financial assets in a consolidated, organized and retrievable manner.

### NBFC-Peer to Peer Lending Platform (NBFC-P2P)

NBFC P2P means non-banking financial companies peer to peer lending platform is type of NBFC which work for providing services an online to bring lenders and borrowers together to help mobilize funds. This company not allowed accepting deposits from public or lending on its own.

### Other than above companies also who work for different activities

#### NBFC-Non-Operative Financial Holding Company (NBFC-NOFHC)

NBFC non-operative financial holding company is financial company providing felicities of promoter or promoter groups will be permitted to set up new bank. This institution hold the bank as well as all other financial services companies regulated by reserve bank of India or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

#### Mortgage Guarantee Company (MGC)

Non-banking financial company -Mortgage guarantee companies (NBFC- MGC) are company for which not less than 90% of the gross income is from mortgage guarantee business and owned fund is rupees 100 crore. Principal business of this institution is undertaking mortgage guarantee.

#### Housing Finance Companies (HFC)

Housing finance company means a company established for providing finance for house. The company who fulfills the condition is whose financial assets in the business constitute not less than 60 % of its total assets.

### Growth of NBFC sector in India

Table 2: Showing growth of NBFCs sector in India

Profitability of NBFC Sector (Deposit Taking and NDSI)				
Profitability Parameters	Mar-17	Mar-18	Mar-19	Mar-20
Net profit (Rs. Crore)	31,923	42,434	17,460	41,257
Annualised ROA	1.5	1.6	0.6	1.2
Annualised ROE	6.3	6.8	2.4	5.1

(Source: -report of RBI)

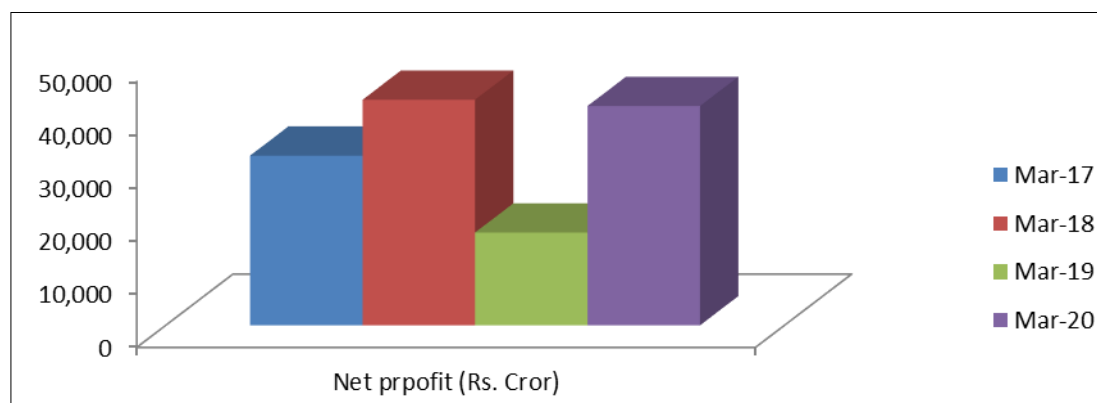
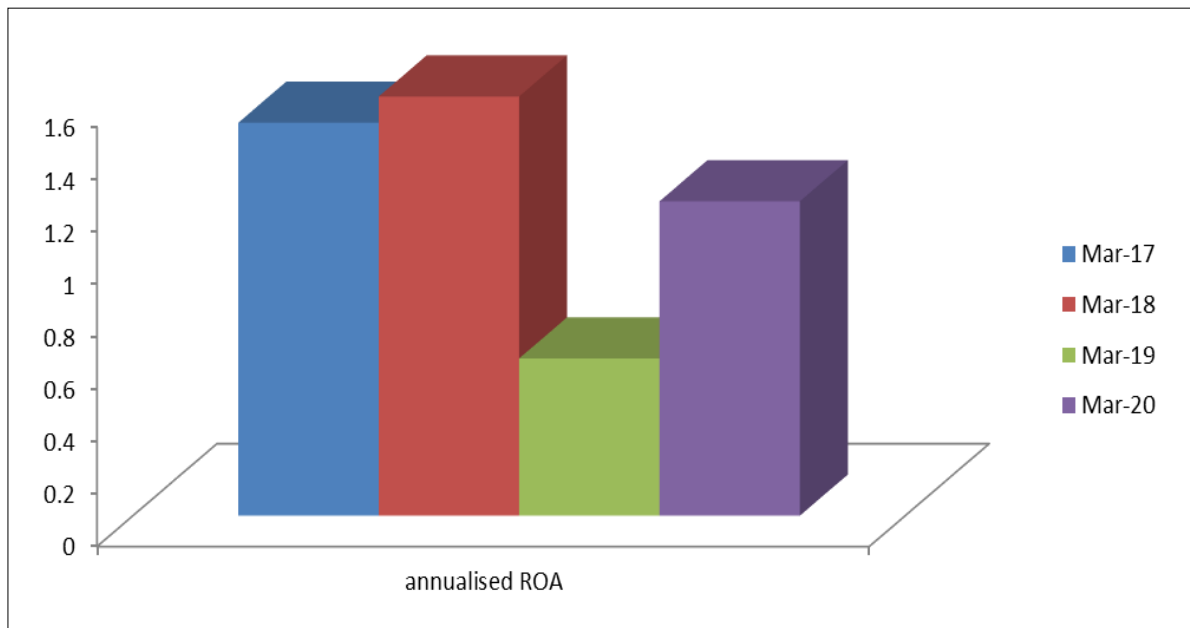
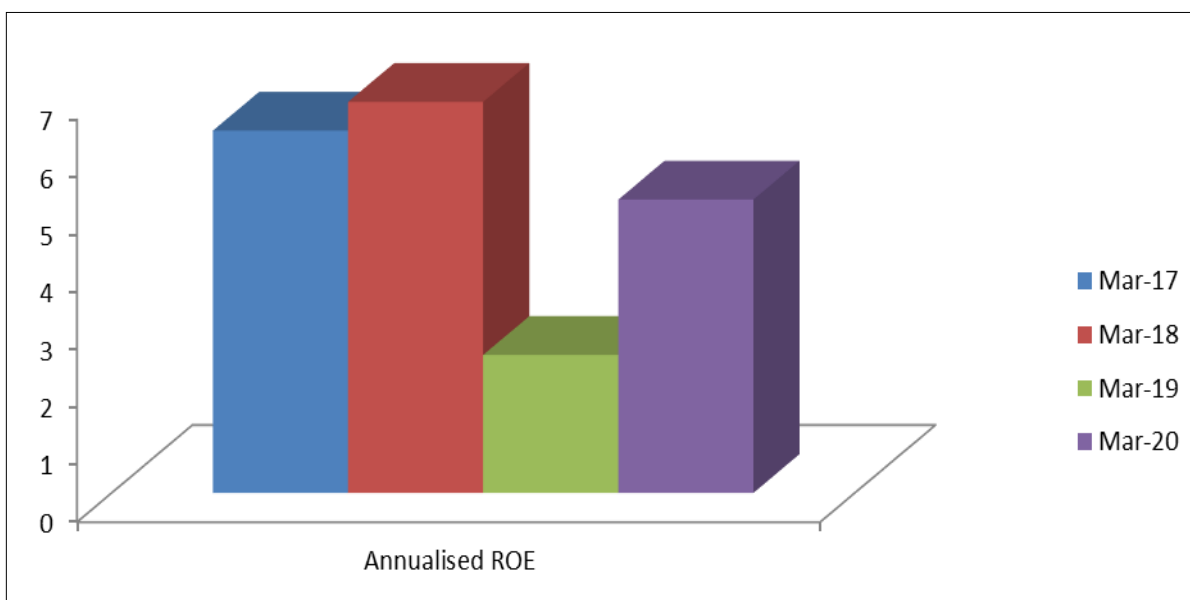


Fig 4: Showing Net profit (Rs. Crore) of NBFCs during the year 2017-2020



**Fig 5:** Showing return on assets ratio of NBFCs during the year 2017-2020



**Fig 6:** showing return on employed ratio of NBFCs during the year 2017-2020

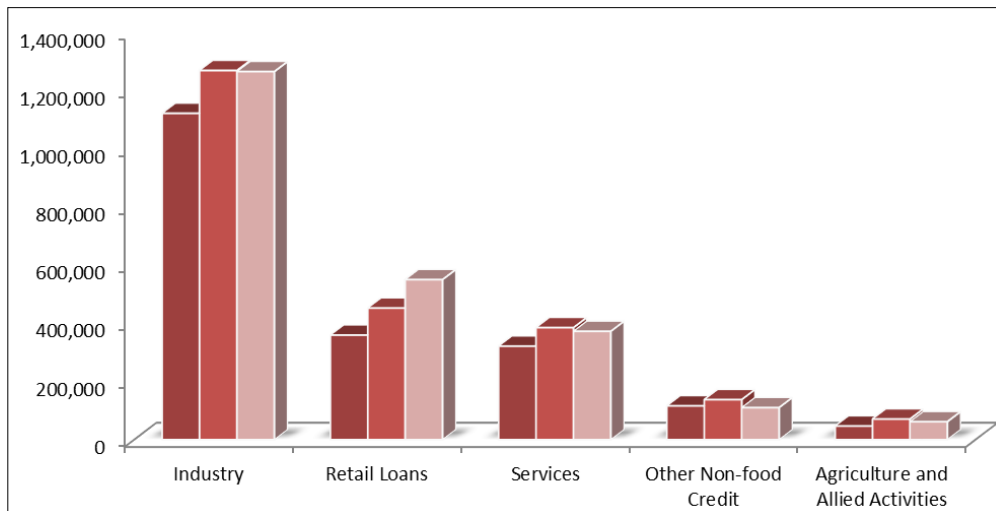
As can be seen from table and graph due to covid-19 and problems in economic activity due to lockdowns let to building up of huge stress in the financial system. Due covid-19 whole economic activities was affected its impact also significantly on NBFCs as than can be seen in year 2019-2020.

#### Contribution of NBFCs in credit to various sectors

**Table 3:** Showing Contribution of NBFCs in Credit to various sectors:

Credit to Various Sectors By NBFCs			
NAME	2018	2019	2020
Industry	1,121,951	1,269,075	1,265,248
Retail Loans	359,380	452,442	550,302
Services	321,437	385,177	372,596
Other Non-food Credit	116,292	137,716	110,289
Agriculture and Allied Activities	46,794	70,965	61,759

(Source: -report of RBI)



**Fig 7:** showing Contribution of NBFCs in Credit to various sectors:

It can be seen in table and graph that NBFCs contributed lots in economic activities of country, majority NBFCs facilitate credit to industrial development. From above table it can be seen that compare to other sector NBFCs sectioned less credit to agriculture and allied activities due to retails loans were driven by housing loans and vehicle loans mainly because of lending shift in lending by micro finance institutions to industry. Credit facilities given by NBFCs to industry, services and agriculture seen as declines during the period due to covid-19.

### Conclusions

NBFCs are very important source of finance for business. NBFCs lend money to industry, infrastructure, housing finance, agriculture etc. At present in India so many NBFCs working in India like for infrastructure; infrastructure debt fund companies, for house housing finance companies, for lender and borrower peer to peer lending company etc., this is conceptual paper for understanding of NBFCs. There are so many scopes for future research like financial performance of NBFCs based on classification, impact of NBFCs on economic development of India.

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