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ECONOMY GROWTH TREND OF NON-BANKING FINANCIAL INSTITUTIONS (NBFI) IN INDIA

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ABSTRACT

A robust banking and financial sector is critical for activating the economy and facilitating hire economic growth. Financial intermediaries like non-banking financial companies NBFCs have a definite and a very important role in the financial sector, particularly in a developing economy like india. They are a vital link in the system. After the proliferation phase of 1980's and early 1990's, the NBFIs witnessed consolidation and now the number of NBFCs eligible to accept deposits in around 600, down from 40,000 in early 1990's. The number of asset financing NBFs would be even lower, around 350, the rest are investment and loan companies. Almost 90% of assets financing NBFCs are engaged in financial transportation equipments and the balance are in financing equipments for infrastructure projects. Therefore, the role of non-banking sector in both manufacturing and service sector is significant and they play the role of an intermediary by facilitating the flow of credit to end customers particularly in transportation and other unorganized sectors.

***KEYWORDS**: Financial Intermediaries, Economic Growth, Financial Services, Lease Finance.*

Introduction

Non-Banking Financial Company (NBFC) in india begin in a small way in the 1960's to serve the need of the saver and investor whose financial need where not adequate covered by the existing banking system in india. The NBFCs begin to invite fixed deposit from investor and work out leasing deal for large industrial firms. In the early decade, there operation on a limited scale and could not make a significant impact of financial system. However between 1980's and 1990's, NBFCs where well entered and begin to attract a large number of investors owing to them customer friendly reputation. The cope up NBFCs is fast growing with multiplication of financial services. Some of NBFCs are also engaged in underwriting through subsidiary unit and by offering allied financial services including stock broking, investment banking, assets management and portfolio management.

Non-Banking Financial Companies are those companies, which are not banking companies under the banking regulation act, but carry out financial activities of providing finance; these companies may or may not accepting deposit from the public. These provide lease finance, housing finance, trade in share, general loan and advance for share trading, hire purchase especially automobiles. In recent times, NBFCs have emerged substantial contributors to the Indian economies growth by supplementing the effort of banks and other financial institutions. They pay key role in the direction of saving and investment in wave of rapid industrial development and liberalization of the financial sector; key financial institutions and professional have promoted financial institutions to create a diversified and competitive financial system, NBFCs intermediate between saver and investor. These companies' also known as financial companies, lease companies, loan companies, etc.

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The last few years have been significant developments in the financial sector that have raised competition across the world. Non-banking financial companies (NBFCs) have perhaps felt the pressure most. Consequently, top run NBFCs are changing tack initiating moves to become financial super markets. They are seeking to provide as many services as possible and their fate will be decided by how successful they are.

Review of Literature

Non-banking financial companies (NBFCs), spread all over the country, and registered with reserve bank of India and authorized to accept public deposits have joined hands and formed a Self-Regulatory Organization (SRO) under the name of Financial Industry Development Council (FIDC). FIDC is registered as a company u/s 25 of companies act, 1956.the main objective of the regulatory body is to towards code of conduct, besides presenting a unified phase of this sector. The role of NBFCs in creation of productive national assets can hardly be the fact that most of the developed economies in the world have relied heavily on lease finance route in their developmental process. NBFCs due to their inherent strengths in the areas of fast and easy access to market information for credit appraisal, well-trained collection machinery, close monitoring of individual borrowers and personalized attention to each client as well as minimum overhead costs are in a better position to cater of their segments.

Classification of NBFCs Based on Activity

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

- Loan Company
- Investment Company
- Asset Finance Company
- Infrastructure Finance Company
- Important Core Investment Company
- Infrastructure Debt Fund
- Micro Finance Institution
- Non Operative Financial Holding Company
- Mortgage Guarantee Company

Objectives of the Study

- The main objective of this paper is to analyze the Impact of Non-Banking Financing Companies (NBFCs) Unorganized Sector of India. It also aims at examining the determinates of micro financing, banking and financial sectors.
- The present study has been undertaken to study, analyze and identify success factors, limiting factors and failure factors of the development of financial system in Indian Economy.

Research Methodology

This is descriptive research paper based on secondary data. Data have been found out through different books, research papers, magzines and various other websites.

Table 1: Ownership Pattern of NBFCs (End March) (Amount in billion)

Ownership (In companies)	2014		2015		2016		2017	
	Number	Assets	Number	Assets	Number	Assets	Number	Assets
1.Govt. com.	15	4,181	15	5,337	15	5,765	15	6,280
2.Non-Govt com.(i+ii)	478	8,561	456	9,895	205	9,068	205	10,637
i.public ltd	252	1,705	243	2.120	105	2,026	105	8,268
ii.private ltd	226	6,856	213	7,775	100	7,041	100	2,369
Total(1+2)	493	12,742	471	15,232	220	14,832	220	16,917

Source: RBI Supervisory Return

Table 1 shows that NBFCs-ND-SI constitute 86 per cent of the total assets of the NBFC sector. The number of these companies declined by more than half in 2015-16 in view of the revised regulatory framework for NBFCs, which raised threshold asset size for NBFCs-ND-SI to ‘5 billion or more from 1billion. Accordingly, many of the NBFCs- ND-SI was reclassified as NBFC-ND in view of the changed definition. In terms of ownership, non-government NBFCs-ND-SI held 62.9 per cent of the total assets of NBFCs-ND-SI.

Table 2: Sources of Borrowings of NBFCs-ND-SI (End March)

(Amount in billion)

Items	2014	2015	2016	2017	Percentage Variation	
					2015-16	2016-17
Debentures	4,212	5,287	4,855	5,795	-8.2	19.4
Bank borrowings	2,377	2,541	2,716	2,527	6.9	-7.0
Borrowings from FIs	145	144	159	263	10.4	65.4
Inter-corporate borrowings	253	279	356	404	27.6	13.5
Commercial Paper	417	549	786	1,119	43.2	42.4
Borrowings from govt.	100	185	195	193	5.4	-0.9
Subordinate debts	233	273	304	333	11.4	9.5
Other borrowings	1,178	1,593	1,299	1,283	-18.5	-1.2
Total borrowings	8,916	10,853	10,671	11,917	-1.7	11.7

Source: RBI Supervisory Returns.

Resource Mobilization

Table 2 NBFCs-ND-SI increased resources raised through debentures and CPs while their borrowings from banks and government declined during the year.

Table 3: Major Components of Liabilities and Assets of NBFC (End March)

(Amount in billion)

Items	Asset finance company				Loan company				Total			
	2014	2015	2016	2017P	2014	2015	2016	2017P	2014	2015	2016	2017P
No of comp.	166	159	137	90	49	41	37	25	215	200	174	115
Deposits	24	60	68	58	107	145	203	248	131	205	271	306
Borrowings	759	841	932	1,059	464	536	660	780	1,223	1,378	1,592	1,838
Total (A+L)	1020	1,172	1,313	1,471	714	847	1,077	1,283	1,734	2,019	2,390	2,754
Total Advance	796	961	1,136	1,256	576	720	938	1,149	1,372	1,681	2,073	2,405
Investments	52	59	49	56	18	25	36	69	70	85	86	125

P: Provisional,
Note: Excluding Investment Companies.

Table 3 there are three categories of NBFCs-D – AFCs, LCs and ICs, the last one being negligible in terms of balance sheet size. Category-wise, deposits of AFCs shrank during the year reflecting both a decline in the number of companies under this category as well as a reduction in the limit for acceptance of deposits for rated AFCs from 4 times to 1.5 times of NOF as part of harmonisation of limits across all NBFC-D. The growth in LCs' deposits decelerated to 22.2 per cent in 2016-17 while borrowings increased at a faster pace to finance credit. In terms of assets, credit constituting 87.3 per cent of total assets showed strong growth, albeit some deceleration was seen over the previous year.

Conclusion

As for financial performance of the NBFCs, it is interesting to find that over the years profitability and financial health of these institutions have remarkably improved. But there is still great scope for the NBFCs to improve their earning through expanding their fee-based business. NBFCs represent an extremely heterogeneous group of intermediaries concerned with mobilization of resources and their profitable development. NBFCs played the role of intermediaries between the savers and the investors. However, in the least few decades, the importance and nature of financial intermediation has undergone a dramatic transformation the world over. The dependence of bank credit to fund investments is giving way to rising resources through a range of market based instruments such as the Stock and Bond Markets, New Financial Products and Instruments like Mortgage and Other Assets, Backed Securities, Financial Futures And Derivative Instruments like swaps and complex options. Besides transferring resources from savers to investors, these instruments enable allocation of risks and Re- allocation of capital to more efficient use. The increase in the breadth and depth of financial market as also coincided with a pronounced shift among the ultimate lenders who have moved away from direct participation in the financial market to participation through a range of intermediaries. These developments in international financial markets have been ri mirrored in the financial market in India.

Finding / Suggestion

NBFCs have been playing a very important role both from the macroeconomics – perceptive and the structure of the Indian financial system. NBFCs are the perfect or even better alternatives to the conventional banks for meeting various financial requirements of a financial enterprise. They offer quick and efficient services without working one to go through the complex rigma role of conventional banking formalities. However, to service and to constantly grow. NBFCs have to be focus on their core strengths while improving on weakness, with the opening of financial sector to overseas investors, there will be spate of tie-up for requisite expertise and technology transfers. NBFCs having professional expertise and strong infrastructural base can take advantage of this opportunity.

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