



## IMPACT OF NON-BANKING FINANCIAL COMPANIES (NBFCs) IN INDIAN ECONOMY GROWTH

**Dr. H.R Kaushal<sup>1</sup>**

<sup>1</sup>Asst. Professor, Faculty of Commerce & Management Studies, Kumaun University, S S J Campus, Almora, Uttarakhand, India

### 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 NBFCs witnessed consolidation and now the number of NBFCs eligible to accept deposits is around 600, down from 40,000 in early 1990's. The number of asset financing NBFCs 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 unorganised sectors.

**KEYWORDS:** Financial Intermediaries, Economic Growth, Financial Services, Developed Economies, Lease Finance,

### INTRODUCTION

Non-Banking Financial Company (NBFC) in India began in a small way in the 1960's to serve the need of the saver and investor whose financial need was not adequately covered by the existing banking system in India. The NBFCs began to invite fixed deposits from investors and work out leasing deals for large industrial firms. In the early decade, their operation was on a limited scale and could not make a significant impact on the financial system. However, between 1980's and 1990's, NBFCs were well entered and began to attract a large number of investors owing to their customer friendly reputation.

The growth of NBFCs is fast growing with multiplication of financial services. Some of the NBFCs are also engaged in underwriting through subsidiary units 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 accept deposits from the public. They provide lease finance, housing finance, trade in shares, general loans and advances for share trading, hire purchase especially automobiles.

In recent times, NBFCs have emerged as substantial contributors to the Indian economy's growth by supplementing the efforts of banks and other financial institutions. They play a key role in the direction of saving and investment in waves 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.

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 undermined. This is more than evident from 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.

## TYPES OF NON-BANKING FINANCIAL COMPANIES (NBFCs)

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

- 1) Loan company
- 2) Investment company
- 3) Asset finance company
- 4) Hire purchase company
- 5) Mutual benefit financial company
- 6) Residuary non-banking company
- 7) Potential nidhi company
- 8) Chit fund company

## OBJECTIVES OF THE STUDY

- 1) 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.
- 2) 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, magazines and various other websites.

**Table - 01: Numbers of NBFCs Registered with RBI**

End June	NBFCs	NBFCs-D
2000	8,451	679
2001	13,815	776
2002	14,077	784
2003	13,489	710
2004	13,764	604
2005	13,261	507
2006	13,014	428
2007	12,968	401
2008	12,809	364
2009	12,740	336
2010	12,630	308
2011	12,409	297
2012	12,385	271

**Table - 02: Ownership pattern NBFCs  
(As on march 31<sup>st</sup>, 2012)  
(no. Of companies)**

S.no	Ownership	NBFCs - Nd-si	Deposit taking NBFCs
A	Government companies	09 (2.4)	07 (2.6)
B	Non-government companies:-	366 (97.6)	266 (97.4)
	• Public limited companies	198 (52.8)	263 (96.3)
	• Private limited companies	168 (44.8)	03 (1.1)
Total no. of companies (A + B)		375 (100)	273 (100)

Table - 02 shows that the ownership pattern of NBFCs - ND-SI as well as deposit taking the percentage of non-government companies (public & private) were 97.6% and 97.4% respectively in NBFCs - ND-SI and deposit taking NBFCs as against government companies having a share of 2.4% and 2.6%. according to the above details, the NBFCs in India have been predominantly non-government companies.

## RESOURCE PROFILE

NBFCs in India procedure resource formatting their financial requirements through owned funds (comprising share capital and surplus), public deposits and borrowings.

**Table - 03 Resource profile of NBFCs  
(as on march end)**

(Rs - crore)

Year	Owned funds	Public deposits	Borrowing & other liabilities	Total
1999	8,026.6 (26.4)	9,784.7 (32.2)	22,620.6 (41.4)	40,431.9 (100)
2000	6,665.7 (17.8)	8,338 (22.3)	22,448.4 (59.9)	37,452.1 (100)
2001	4,089.5 (16)	5,350.9 (15.1)	16,163 (68.9)	25,603.4 (100)
2003	7,605 (20.1)	5,035 (13.4)	25,069 (66.5)	37,709 (100)
2004	6,741 (20.6)	4,317 (13.2)	21,556 (66.3)	32,614 (100)
2005	6,750 (18.7)	3,926 (10.9)	23,044 (70.3)	33,720 (100)
2006	6,787 (19.1)	2,667 (7.5)	23,641 (73.4)	37,095 (100)
2007	8,258 (17.2)	2,042 (4.3)	37,699 (78.5)	48,000 (100)
2008	11,870 (16.9)	2,038 (2.9)	58,385 (80.2)	70,293 (100)
2009	12,845 (17)	1,941 (2.6)	60,730 (80.4)	75,516 (100)
2011	18,000 (15.4)	12,000 (10.2)	86,900 (65.6)	1,16,900 (100)
2012	22,500 (18.6)	10,000 (8.6)	91,800 (73.3)	1,24,400 (100)

Note:- Figures in parentheses are percentage share in total

Over the period 1999-2012 reliance on outside sources has increased at expenses of the owned funds. Thus, it may be seen from table-03 that while relative share of owned funds in total funds nose divided from 26.4% in 1999 to 18.1% in 2012, that outside funds recovered sharp

increase from 73.6% to 81.9% during the corresponding period. So as to increase Network and upto 40% to a group of NBFCs has been increased for a single NBFC borrower with effect from April 1,2007.

### Deposit profile of NBFCs:-

**Table - 04 Aggregate of deposits of NBFCs  
As on March**

Year	Rs in crore
1999 - 2000	20,428.93
2000 - 2001	19,341.70
2001 - 2002	18,064.64
2002 - 2003	18,822.00
2003 - 2004	20,100.00
2004 - 2005	19,644.00
2005 - 2006	20,576.00
2006 - 2007	24,697.00
2007 - 2008	24,400.00
2008 - 2009	21,565.00
2009 - 2010	17,247.00
2010 - 2011	11,964.00
2011 - 2012	10,100.00

Deposits of NBFCs in india have recorded tremendous progress, indicating growing popularity of these companies among public at large .thus, if may be seen from table-04 shows that the deposit of the reporting NBFCs surged from Rs 119 crore as on march in 1970 to over Rs 24,500 crore as at march end 2007, recording almost 200 times increase during the period. This can be

attributed to simplified sanction procedures, orientation towards customers, attractive rates of return on deposits and flexibility and timeliness in meeting the credit needs of specified sectors like equipments leaseings and hire purchase. However, amount of deposits garnered by NBFCs declined steeply and continuously to reach low level of Rs 10,100 crore as on march end 2012.

### Activity-wise profile of deposit:-

**Table-05 Activity-wise profile of deposit of NBFCs  
(figures in brackets indicate percentage total)**

S.no	Nature of business	1999	2001	2003	2005	2007
1	Equipment leasing (EL)	1,172.91 (5.7)	1,450.21 (8.0)	511.00 (2.5)	4,727.00 (12.2)	3,489.00 (9.8)
2	Hire purchase (HP)	3,339.78 (16.3)	3,659.19 (20.2)	3,539 (17.9)	20,500 (51.8)	28,682 (74.6)
3	Investment and loan (IL)	4,455.80 (21.8)	785.82 (4.2)	329 (1.6)	2,894 (22.9)	2,987 (7.8)
4	RNBCs	10,644.27 (52.2)	11,625.24 (64.3)	15,065 (75)	3,926 (10.9)	2,667 (7)
5	Other NBFCs	816.17 (4)	564.18 (3.1)	636 (3.3)	816 (2.2)	317 (0.8)
	Total	20,428.93 (100)	18,084.64 (100)	20,100 (100)	38,908 (100)	38,228 (100)

Table-05 shows that the pre-dominance of RNBCs in total deposits held by all NBFCs has been the characteristics features of the NBFCs operating in india. It may be observed in over the period 1999-2003 RNBCs has been significant surge in the relative share of the

NBFCs from 52.2% in 1999 to 75% in 2003. However, the period of 2005-2006, Hire-Purchase(HP) emerged as a large NBFC group, constituting as high 51.8% in 2005 and 74.6% at end 2006.

**Asset profile of NBFCs-D:****Table-06 Asset composition of NBFCs-D  
(as on march end)**

Components	2001	2002	2003	2004	2005	2006	2009	2010	2011	2012
Loan and Advances	8,090.9 (31.2)	8,592 (28.7)	13,398 (35.5)	12,363 (37.7)	12,749 (35.4)	9,199 (25.9)	57,305 (38.6)	71,119 (37.9)	77,901 (38.2)	87,400 (39)
Investments	2,882.4 (11.3)	3,302 (11)	4,338 (11.6)	3,817 (11.6)	3,957 (11)	3,589 (10.1)	14,813 (10)	18,498 (10.9)	21,102 (10.3)	19,100 (8.5)
Other Financial Assets	14,630.7 (17.7)	18,001 (60.3)	19,973 (52.9)	16,574 (50.7)	19,297 (53.3)	22,773 (54)	75,516 (51.4)	94,212 (51.2)	1,05,431 (51.5)	1,16,900 (52.5)
Total	25,604 (100)	29,895 (100)	37,709 (100)	32,754 (100)	36,003 (100)	35,561 (100)	1,47,634 (100)	1,83,829 (100)	2,04,434 (100)	2,23,400 (100)

Table-06 shows that the development of funds of NBFCs-D sector in india. It can be seen from this table that funds of NBFCs are utilised in the form of loan, investment and other financial assets. In year 2001 loan and advances in total assets of NBFCs-D where 31.2%, which increase to 39% in 2012. The percentage of

investment in 2001 was 11.3 which decrease to 8.5 and other financial assets investment in 2001 was 17.7 which increased to 52.5 in 2012. It is interested to note from the above table that more than half of the funds of these companies are invested in other financial assets.

**Table- 07-Activity-wise development of assets of NBFCs  
(as at march end)**

(Rs in crore)

Components	2001	2002	2003	2004	2005	2006	2009
Loans & Inter-Corporate Deposits	8,090 (31.2)	13,710 (34.4)	4,109 (10.9)	5,485 (16.7)	6,964 (9.3)	1,377 (3.9)	21,073 (27.9)
Investments	2,882.4 (11.3)	4,334 (10.9)	2,208 (5.9)	2,422 (7.4)	1,890 (5.2)	1,160 (4.5)	14,813 (19.6)
Hire-Purchase	8,341 (33.4)	13,202 (33.1)	22,163 (58.8)	19,929 (60.8)	20,500 (56.9)	28,682 (80.7)	35,647 (47.2)
Equipment Leasing	3,187.2 (12.8)	3,112 (7.8)	7,996 (21.2)	3,744 (11.4)	4,727 (13.1)	3,489 (9.8)	585 (0.8)
Other Assets	3,102.5 (11.3)	5,475 (13.8)	1,233 (3.3)	1,173 (3.6)	1,922 (5.3)	404 (1.1)	3,398 (4.5)
Total	25,604 (100)	39,833 (100)	37,709 (100)	32,754 (100)	36,003 (100)	35,561 (100)	75,516 (100)

Table-07 shows that Loans And Inter-Corporate Deposits has claimed at most 31.2% of the assets NBFCs in 2001, which decrease to 3.9% in 2006, but increases to 27.9% in 2009. The percentage share of investments assets was 11.3 in 2001, which decreases to 4.5 in 2006 but increases to 19.6 in 2009. In contrast, percentage share of hire-purchase assets rises from 33.4 to 80.7 during the corresponding period, but decreases to 47.2 in 2009. The percentage share of equipment leasing assets was 12.8 in 2001, which decrease to 9.81 in 2006 and it further decrease to 0.8 in 2009. The percentage share of other assets was 11.3 in 2001, which decrease to 1.1 in 2006 but increases to 4.5 in 2009. Activity-wise distribution of assets of NBFCs reveals that the major portion of the assets NBFCs are in the form of hire-purchase assets.

**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 mirrored in the financial market in India.

### FINDING / SUGGESTION

NBFCs have been playing a very important role both from the macroeconomics – perceptible 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 rigmarole of conventional banking formalities. However, to service

and to constantly grow. NBFCs have to 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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