IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

THE OPERATIONAL AND FINANCIAL PERFORMANCE OF NON-BANKING FINANCIAL SECTOR IN INDIA

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Abstract
NBFCs offer most sorts of banking services, such as loans and credit facilities, private education funding, retirement planning, trading in money markets, underwriting stocks and shares, TFCs (Term Finance Certificate) and other obligations. These institutions also provide wealth management such as managing portfolios of stocks and shares, discounting services e.g. discounting of instruments and advice on merger and acquisition activities. The number of non-banking financial companies has expanded greatly in the last several years as venture, bank institutions also frequently support investments in property and prepare feasibility, market or industry studies for companies. However they are typically not allowed to take deposits from the general public and have to find other means of funding their operations such as issuing debt instruments. The working and operations of NBFCs are regulated by the Reserve Bank of India (RBI) within the framework of the Reserve Bank of India Act, 1934 (Chapter III B) and the directions issued by it. This paper is fully makes deep analysis the operational and financial performance of non-banking financial sector in India.

Key words: Non- Banking Financial Companies (NBFCs), Primary Dealers (PDs), Non-Banking Financial Institutions (NBFIs), State Level Coordination Committee (SLCC).

1. 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, 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 paper 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.

The Non-Banking Financial Companies (NBFCs) which are heterogeneous in nature in terms of activity and size are important financial intermediaries and an integral part of the Indian Financial system.hey can help to fulfill the credit needs of both wholesale and retail customers. Their number is increasing considerably, while their functions and services they render are different.

1.1. Meaning & Definition

According to the Reserve Bank of India (Amendment Act) 1997, A Non-Banking Finance Company means:

1. A Financial Institution which is a company;
2. A non-banking institution which is a company and which has as its principal business the receiving of deposits under any scheme or arrangement or in any other manner or lending in any manner;
3. Such other non-banking institution or class of such institutions as the bank may with the previous approval of the Central Government specify.
4.

The definition excludes financial institutions besides institutions which carry on agricultural operations as their principal business. Non-banking finance companies consist mainly of finance companies which carry on hire purchase finance, housing finance, investment, loan, equipment leasing or mutual benefit financial companies but do not include insurance companies or stock exchanges or stock-broking companies.

1.2. Types of NBFCs.

The Non-Banking Finance Companies operating in India fall in the following broad categories.

1. Equipment Leasing Company is a company which carries on as its principal business, the business of leasing of equipments or the financing of such activity. Apart from their Net Owned Funds (NOF), the leasing companies raise finds in the form of deposits from other companies, banks and the financial institutions.

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

Public deposits and inter-corporate deposits account for 74 percent of their total funds. Leasing is a form of rental system. A lease is a contractual arrangement whereby the lessor grants the lessee the right to use an asset in return for periodical lease-rent payments.

There are two types of leasses (i) operating lease, and (ii) financial or capital lease. The operating lease is a short-term lease which can be cancelled. Financial lease is a non-concealable contractual commitment.

2. Hire Purchase Finance Company is a company which carries on as its principle business, hire purchase transactions or the financing of such transactions. The sources of hire-purchase finance are
   Hire purchase Finance Companies.
   Retails and Wholesale Traders.
   Bank and Financial Institutions.
   Hire-purchase finance or credit is a system under which term loans for purchase of goods, producer goods or consumer goods and services are advanced which have to be liquidated under an installment plan. The period of credit is generally one to three years. The hire purchase credits available for a wide range of products and services. Hire-purchase finance companies are the public or private limited companies or partnership firms engaged in giving credit for acquiring durable goods.

3. Housing Finance Company is a company which carries on as its principle business, the financing of the acquisition or construction of houses including the acquisition or development of plots of lands for construction of houses. These companies are supervised by National Housing Bank, which refinances housing loans by scheduled commercial banks, co-operative banks, housing finance companies and the apex co-operative housing finance societies.
4. Investment Company means any company which carries on as its principle business the acquisition of securities. These types of companies are investment holding companies formed by business houses. As such they provide finance mainly to companies associated with these business houses.

   As compare to open-end investment companies or mutual funds/units trust, these investment companies are close end companies having a fixed amount of share capital. Almost all prominent industrial groups have their own investment companies.

5. Loan Company is a company which carries on as its principle business, the providing of finance whether by making loans or advances or otherwise for any activity other than its own. (This category excludes No.1 to No. 3 above categories).

   These types of companies are generally small partnership concerns which obtain funds in the form of deposits from the public and give loans to wholesale and retail traders, small scale industries and self-employed persons. These companies collect fixed deposits from the public by offering higher rates of interest and give loans to others at relatively higher rates of interest.
6. Mutual Benefit Finance Company (i.e. Nidhi Company) means any company which is notified by the Central Government under section 620A of the Companies Act, 1956. The main sources of funds for nidhis are share capital, deposits from their members and deposits from the public.

   Nidhis give, loans to their members-for several purposes like marriages, redemption of old debts, construction and etc. The nidhis normally follow the easy procedures and offer saving schemes and make credits available to those whose credit needs remain unmet by his commercial banks.

7. Chit Fund Company is a company which collects subscriptions from specified number of subscribers periodically and in turn distributes the same as prizes amongst them. Any other form of chit or kuri is also included in this category. The chit fund companies operations are governed by the Chit Fund Act, 1982, which is administered by State Governments. Their deposit taking activities are regulated by the Reserve Bank.

   The chit fund companies enter into an agreement with the subscribers that everyone of them shall subscribe a certain amount in installments over a definite period and that every one of such subscriber shall in his turn, as determined by lot or by auction or by tender, be entitled to a prize amount.

8. Residuary Non-Banking Company is a company which receives deposits under any scheme by way of subscriptions/contributions and does not fall in any of the above categories.

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E- ISSN -2347-856X
ISSN -2348-0653

There are few unhealthy features of the operations of these companies; (i) Negative NOF (Net Owned Fund), (ii) Understatement of their deposit liability, (iii) Forfeiture of deposits, (iv) Levy of service charges on the depositors (v) Payment of high rates of commission, etc.

To remove these features, RBI has extended prudential norms to these companies, introduced compulsory registration requirement, specified minimum rates of interest payable on their deposits under different schemes. Under the RBI (Amendment) Act, 1997, the RBI directly inspects and monitoring the activities of these companies.

1.3. Registration.

The Reserve Bank of India (Amendment) Act, 1997 provides for compulsory registration with the Reserve Bank of all NBFCs, irrespective of their holding of public deposits, for commencing and carrying on business, minimum entry point norms, maintenance of a portion of deposits in liquid assets, creation of Reserve Fund and transfer of 20 percent of profit after tax annually to the fund.

The act provides for an entry point norm of Rs. 25 lakh as the minimum Net Owned Fund (NOF). Subsequently, for new NBFC's seeking registration with the Reserve Bank to commence business on or after April 21, 1999, the requirement of minimum level of NOF was revised upwards to Rs. 2 crore.

No NBFC can commence or carry on business of a financial institution including acceptance of public deposit without obtaining a Certificate of Registration (COR) from the Reserve Bank.

1.4. Supervision of NBFCs

The Supervisory framework for NBFCs is based on three aspects—(a) the size of NBFC, (b) type of activity (c) the acceptance or otherwise of public deposits. Towards this end, a four-pronged supervisory strategy comprising

a. On-site inspection based on CAMELS (Capital, Assets, Management, Earnings, Liquidity, Systems and Procedures) methodology.
b. Computerized off-site surveillance through periodic control returns,
c. An effective market intelligence network, and
d. A system of submission of exception reports by auditors of NBFCs

1.5. Task Force.

To review the regulatory framework and supervision of NBFCs, the Government appointed a task force which submitted its report in October 1998. The recommendations made by the Task Force covering different aspects like ceiling on public deposits, investments in real estate and unquoted shares, minimum of NOF to be raised, registration, inspection disclosures etc. have been implemented.

1.6. Flow of credit from banks to NBFCs.

a. Bank credit to NBFCs for their advances against commercial vehicles has been brought under the ambit of priority sector advances.
b. (ii) The ceiling on bank lending to NBFCs registered with the Reserve Bank has been removed with effect from May 1999.

1.7. RBI Directions to NBFCs.

Reserve Bank of India announced a set of measures to protect the interest of depositors and provide more effective supervision over NBFCs on January 2, 1998. The regulations stipulate on the NBFCs, an upper limit both on public deposits to be accepted, on the rate of interest to deposits, in order to restrain then from offering incentives and mobilize excessive deposits.

The disclosure requirements have been strengthened and responsibilities cast on the Board of Directors and auditors of the companies to ensure proper conformation deposit regulations and prudential norms prescribed by RBI.

1.8. The salient features of the Director are stated hereunder.

Categorization of Companies

For the purpose of the new regulations, NBFCs have been divided into three broad categories an indicated below:

a. NBFCs accepting public deposits.
b. NBFCs not accepting public deposits are engaged in loan, investment, hire purchase finance and equipment leasing activities.

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

c. NBFCs not accepting public deposits and has acquired shares/securities in their own group/ holding/subsidiary companies of not less than 90 percent of their total assets and are not trading in these shares/securities.

While NBFCs accepting public deposits will be subjected to all the provisions of the Directors, those which do not accept public deposits will be supervised in a limited manner.

2. FINANCIAL PERFORMANCE OF AIFIS

2.1. Balance sheet of AIFIs

The consolidated balance sheet of the AIFIs expanded by 9 per cent during 2014-15 reflecting moderation from double-digit expansion in the previous couple of years(Table 4.1). Loans and advances posted a growth of 11.3 per cent while deposits and borrowings increased by 17 and 9.7 per cent, respectively during 2014-15. AIFIs, during the year, raised short-term funds mainly by floating commercial papers, which are capped under the umbrella limit.

Table 4.1: Liabilities and assets of AIFIs

(million)

Item	**2014**	**2015**	**Percentage Variation**
Liabilities			
1. Capital	93594	109594	17.1
	(2.06)	(2.21)	
2. Reserves	520298	566533	8.9
	(11.45)	(11.44)	
3. Bonds and Debentures	1141801	1059890	-7.2
	(25.13)	(21.41)	
4. Deposits	1865420	2183064	17.0
	(41.05)	(44.09)	
5. Borrowings	659456	723318	9.7
	(14.51)	(14.61)	
6. Other Liabilities	263486	308423	17.0
	(5.80)	(6.23)	
Total Liabilities or Assets	4544054	4950822	9.0
Assets			
1. Cash and Bank Balances	73364	78213	6.7
	(1.61)	(1.58)	
2. Investments	243345	256028	5.2
	(5.36)	(5.17)	
3. Loans and Advances	3911090	4352598	11.3
	(86.07)	(87.92)	
4. Bills Discounted/ Rediscounted	58385	21067	-64.0
	(1.28)	(0.43)	
5. Fixed Assets	6253	6586	5.3
	(0.14)	(0.13)	
6. Other Assets	251617	236330	-6.1
	(5.54)	(4.77)	

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: Audited OSMOS Returns of EXIM Bank, NABARD and SIDBI for end-March 2014 and 2015, respectively; Audited OSMOS Returns of NHB end June 2014 and 2015, respectively.

IJBARR
E- ISSN -2347-856X
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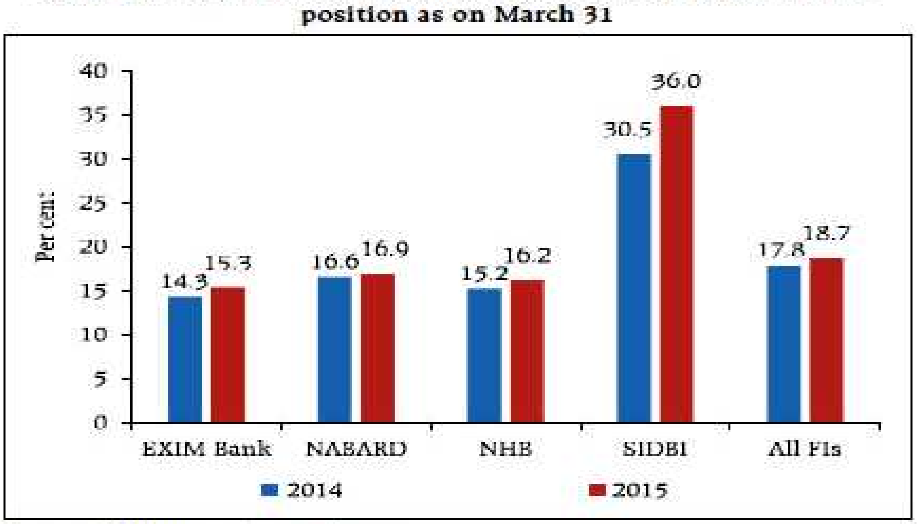
Table 4.2: Financial performance of all India financial institutions

(million)

	2013-14	2014-15	Variation	
			Amount	Percentage
A) Income (a+ b)	325765	350113	24348	7.5
a) Interest Income	308887	333694	24807	8.0
	(94.82)	(95.31)		
b) Non-Interest Income	16878	16419	- 459	- 2.7
	(5.18)	(4.69)		
B) Expenditure (a+b)	236803	262646	25843	10.9
a) Interest Expenditure	219322	243332	24010	10.9
	(92.62)	(92.65)		
b) Operating Expenses	17480	19314	1834	10.5
	(7.38)	(7.35)		
of which Wage Bill	12257	13624	1367	11.1
C) Profit				
Operating Profit (Profit Before Tax)	61330	78339	17009	27.7
Net Profit (Profit After Tax)	41751	52930	11179	26.7

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 2014 and 2015, respectively.
2. Audited OSMOS Returns of NHB for end June 2014 and 2015, respectively.

Chart 4.1: Capital to risk (weighted) assets ratio (CRAR) of AIFIs - position as on March 31

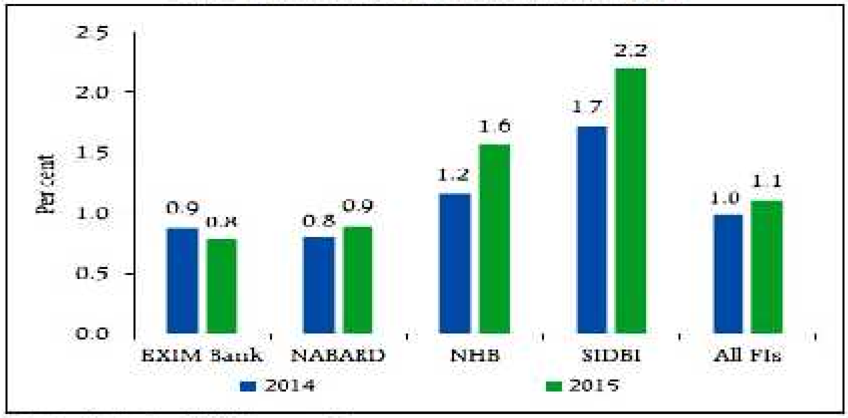


Source: RBI supervisory returns.

2.2.Financial indicators

- AIFIs posted modest growth in income during 2014-15 owing to low growth in interest income and decline in non-interest income even while income from bill discounting/ rediscounting shrunk substantially (Table 4.2). However, AIFIs fared better on the profitability front as both their operating profit and net profit increased significantly during the year.
- AIFIs maintained capital in excess of the stipulated norm and their capital adequacy position comparatively improved during the year (Chart 4.1).
- On the whole, the FIs enjoyed higher returns on their assets during the year barring EXIM Bank whose return on assets was marginally lower (Chart 4.2).

Chart 4.2: Average return on assets of AIFIs



Note: Data for NHB for end-June.
Source: RBI supervisory returns.

- The asset quality of FIs deteriorated marginally and net non-performing advances (NPAs) as percentage to loans increased from 0.19 per cent in 2013-14 to 0.26 per cent in 2014-15 (Chart 4.3). Nevertheless, the stressed asset position of these four FIs remained comparatively better than that of the commercial banks and other NBFCs.
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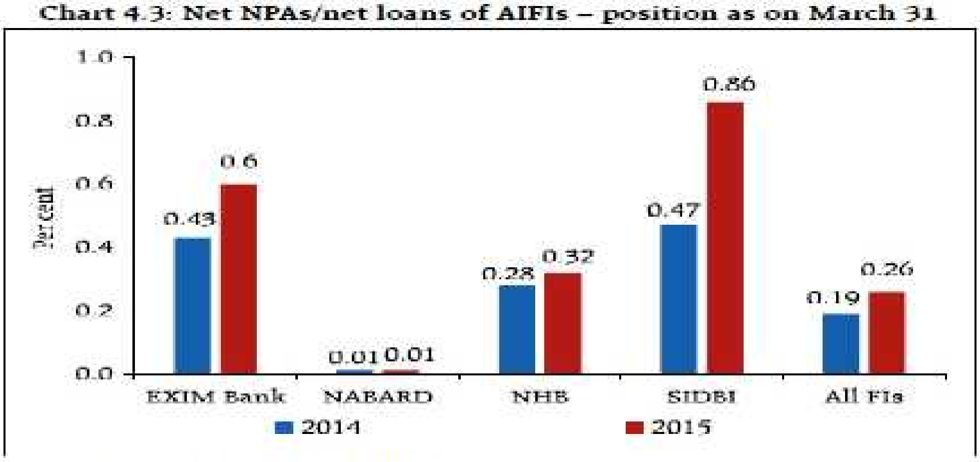
Chart 4.3: Net NPAs/net loans of AIFIs – position as on March 31



Note: Data for NHB for end-June.
Source: RBI supervisory returns.

3. NON-BANKING FINANCIAL COMPANIES (NBFCS)

Based on their liability structure, the NBFCs are classified into two broad categories: (a) Deposit taking NBFCs, and (b) Non-deposit taking NBFCs. As on March 31, 2015, there were 11,842 NBFCs registered with the Reserve Bank; out of which 220 were deposit-taking (NBFCs-D) and 11,622 were non-deposit taking (NBFCs-ND) entities. The two existing residual Non-Banking Finance Companies (RNBCs)[2] are in the process of winding up their businesses.

The role of NBFC sector in the Indian financial system has become critical in terms of its size, spread and niche areas of operations. Many of the larger NBFCs have grown bigger and become more connected with other financial entities, necessitating periodical review of the regulatory framework for this sector. During the year, the Reserve Bank, with a view to addressing the regulatory gaps, arbitrage and risks associated with NBFCs, initiated a host of measures to strengthen regulation and supervision of NBFCs and harmonise their regulations with those of the banks in a phased manner as also to foster financial stability.

3.1. Deposit-taking NBFCs (NBFCs-D)

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

3.2. Financial performance

3.2.1.Balance sheet of deposit-taking NBFCs

The balance sheet of NBFCs-D expanded by 2.1 per cent during the year(Table 4.3). Loans and advances, which constituted close to three-fourth of their assets, rose marginally whereas investment activities of NBFCs-D witnessed a sharp rise during the year. On the liability side, the expansion was mainly in terms of public deposits, and bank borrowings. Borrowings from banks still constituted the largest source of funding for NBFCs-D. Mobilisation of funds through debentures, which constituted the second biggest source of funding, declined during the year. Borrowing through commercial papers also declined sharply during the year.

Table 4.3: Consolidated balance sheet of NBFCs-D (as on March 31)

(billion)

Items	2014	2015 P	Percentage Variation
1. Share Capital	33	32	-0.7
2. Reserves and Surplus	274	276	0.9
3. Public Deposits	260	275	5.8
4. Debentures	417	408	-2.1
5. Bank Borrowings	520	551	5.8
6. Borrowings from FIs	16	16	2.6
7. Inter-Corporate Borrowings	1	2	32.7
8. Commercial Paper	93	78	-16.6
9. Borrowings from Government	38	38	-1.0
10. Subordinated Debts	79	78	-2.2
11. Other Borrowings	153	170	11.1
Total Liabilities/Assets	1885	1925	2.1
1. Loans and Advances	1585	1601	1.0
2. Hire Purchase and Lease Assets	46	39	-14.8
3. Investments	58	77	32.8
4. Other Assets	195	205	5.1

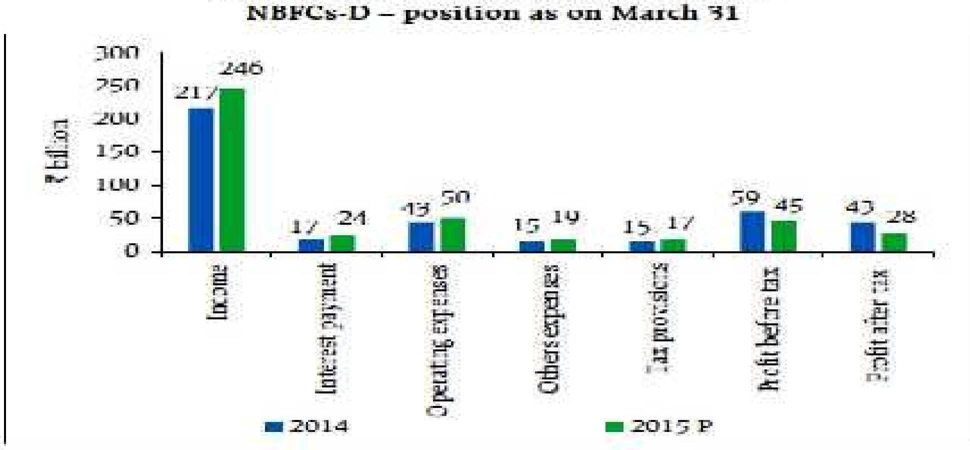
P: Provisional.

Note: Absolute figures rounded-off. Percentage variation is based on precise numbers. Source: Quarterly returns of NBFCs-D.

3.2.2. Financial Indicators

As compared to the previous year, growth in profitability declined during 2014-15 which inter alia may be attributed to increased interest payment burden and higher operating expenses (Chart 4.4).

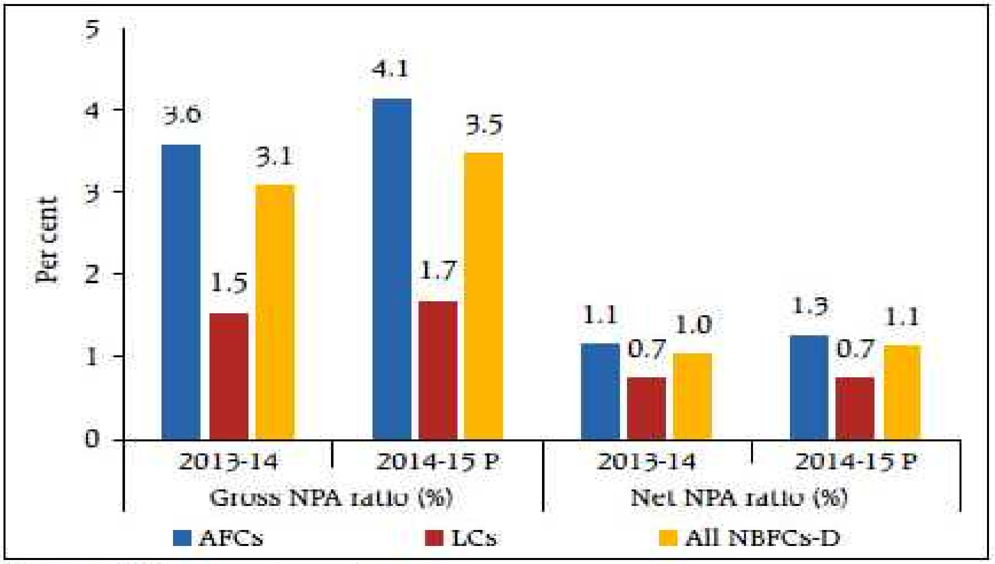
Chart 4.4: Select financial parameters of NBFCs-D – position as on March 31



Source: RBI supervisory returns.

3.2.3. Asset quality of NBFCs-D. It deteriorated as both gross and net NPAs increased during 2014-15 (Chart 4.5). Category-wise, deterioration in asset quality was more in respect of the Asset Finance Companies (AFCs) as compared to the Loan Companies (LCs).

Chart 4.5: Gross NPA and net NPA of NBFCs-D



Source: RBI supervisory returns.

3.2.4. Non-deposit taking systemically important NBFCs (NBFCs-ND-SI)

A. Financial performance

Non-deposit taking NBFCs with an asset size of 1 billion or more were being classified as systemically important NBFCs (NBFCs-ND-SI) till November 2014. Since then, an upward revision in the asset size criterion for classifying NBFCs-ND-SI has been effected, which now stands at 5 billion. During 2014-15, the balance sheet of NBFCs-ND-SI expanded significantly on the back of marked growth in disbursement of loans and advances on the asset side and sharp rise in borrowings on the liability side (Table 4.4).

Table 4.4: Consolidated balance sheet of NBFCs-ND-SI-position as on March 31

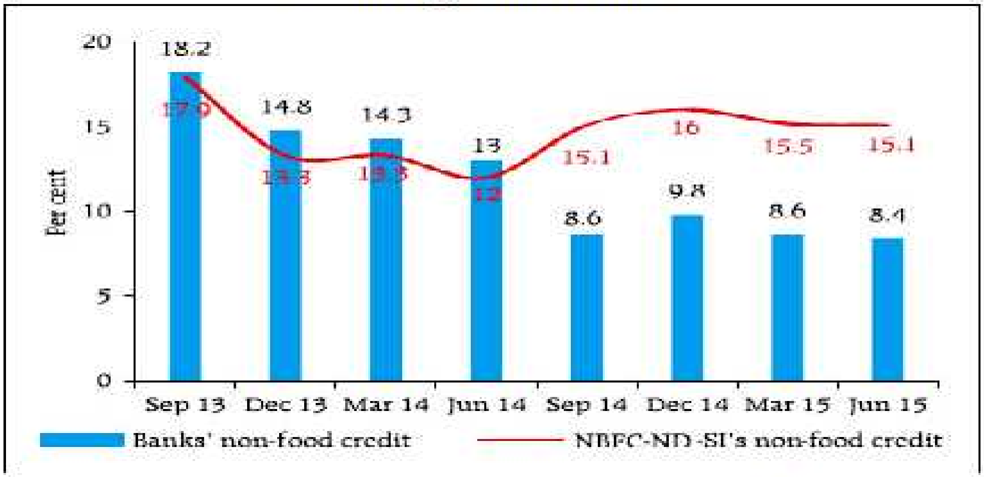
(billion)

Item	2014	2015 P	Variation (Per cent)
1	2	3	4
1. Share Capital	638	685	7.4
2. Reserves and Surplus	2311	2613	13.1
3. Total Borrowings	8669	10177	17.4
4. Current Liabilities and Provisions	608	691	13.6
Total Liabilities/ Total Assets	12226	14166	15.9
1. Loans and Advances	8273	9555	15.5
2. Hire Purchase Assets	895	985	10.1
3. Investments	1888	2267	20.1
4. Other Assets	1170	1359	16.2

P: Provisional.
Note: Data presented here pertain to 418 entities, which have consistently reported data for end March 2014 and 2015 respectively and accounted for more than 95 per cent of the total assets of the NBFCs-ND-SI sector.
Source: Monthly returns of NBFCs-ND-SI (1 billion and above).

Loans and advances extended by NBFCs-NDSI posted significant growth at 15.5 per cent during 2014-15, in contrast to the slowdown in commercial bank's non-food credit during the same period (Chart 4.6). Strong growth in credit extended by the NBFC - Infrastructure finance companies (IFCs), microfinance companies and loan companies contributed to sturdy growth in the loan portfolio of NBFCs-ND-SI. Among the sectors, infrastructure, medium and large-scale industries, and the transport sectors contributed to strong growth in credit off-take of the NBFCs-ND-SI.

Chart 4.6: Comparative growth (y-o-y) in credit extended by banks and NBFCs



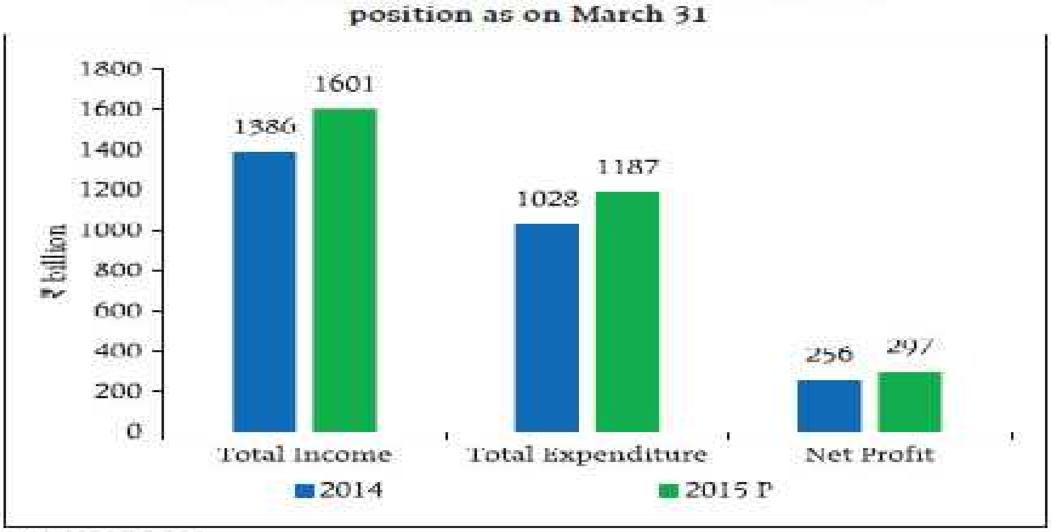
Note: Data pertains to NBFCs ND SI with asset size of ₹1 billion and above.
Source: RBI.

During 2014-15, NBFCs-ND-SI raised funds mainly through debentures and commercial papers. Borrowings from banks, which earlier constituted the main source of funding, have been progressively reduced. A notable feature is the rising exposure of mutual funds to the financial instruments floated mainly by the NBFC-IFCs, LCs and NBFC-Micro Finance Institutions (NBFC-MFIs).

B. Financial indicators

Profitability of the NBFCs-ND-SI improved significantly as at end-March 2015 (Chart 4.7). Net profit as a ratio to total income remained in double-digits and higher than last year's level.

Chart 4.7: Financial performance of NBFCs-ND-SI - position as on March 31



P: Provisional.
Source: RBI supervisory returns.

All the seven standalone PDs posted profit during 2014-15. Profitability increased due to softening of yields during the year.(Chart 4.9).

Nevertheless, asset quality of systemically important NBFCs continued to deteriorate and the

NPA ratio rose marginally compared to the previous year (Chart 4.8). Amongst the NBFCs-

NPAs of the NBFCs-ND-SI sector were primarily concentrated in infrastructure sector, transport operator segment, and

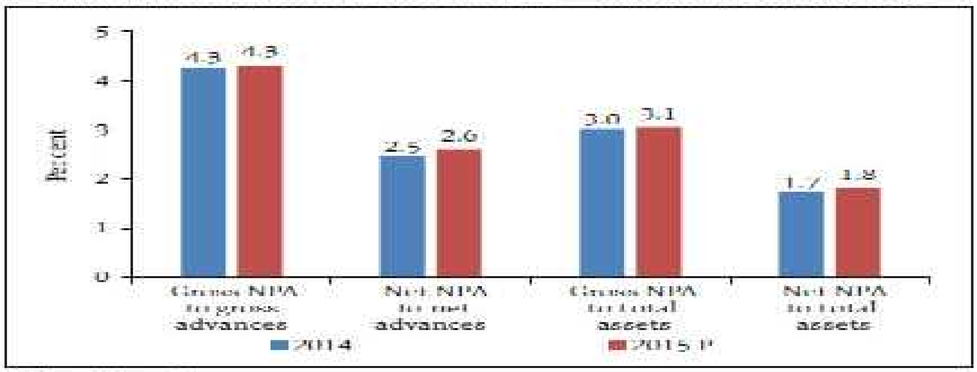
IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

medium and large scale industries. However, the systemically important NBFCs remained well-capitalised. The capital adequacy ratio of these entities remained far above the mandated level of 15 per cent.

4. PRIMARY DEALERS (PDS)

As on March 31, 2015, 20 Primary Dealers (PDs) were operating in Indian financial market. Of these, 13 were bank-PDs while seven were standalone PDs. All the PDs achieved a higher success ratio (bids accepted to bidding commitment) than

Chart 4.8: NPA ratios of NBFCs-ND-SI – position as on March 31



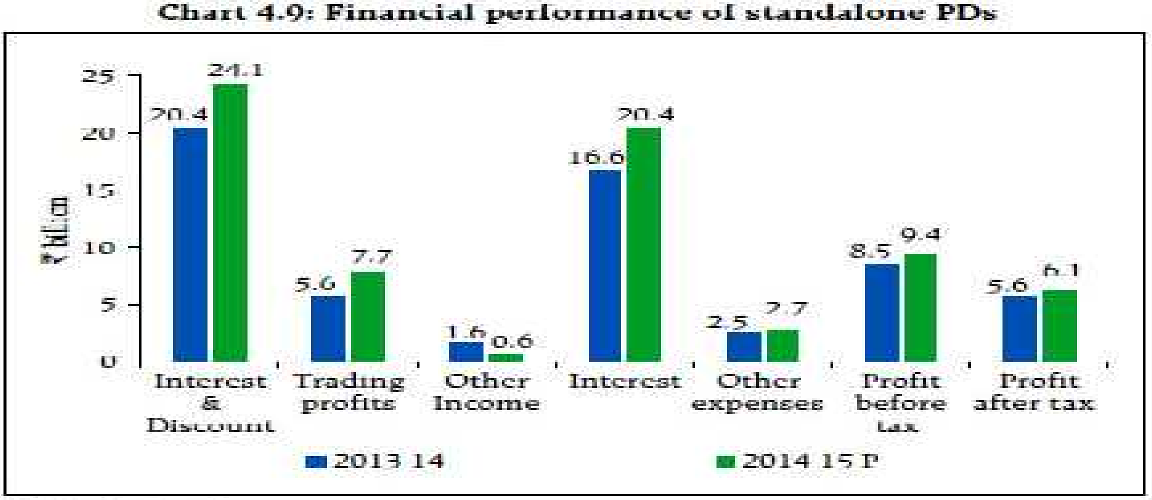
P: Provisional.
Source: RBI supervisory returns.

the previous year and this remained way above the mandated ratio of 40 per cent during 2014-15. In the auctions of dated securities, the share of the PDs (bids accepted to the securities issued) increased marginally during 2014-15 to 51.8 per cent. Devolvement pressure on the PDs remained comparatively lower during the year. Partial devolvement on the PDs took place on two instances involving 52.7 billion during 2014-15 as compared to 12 instances for 174.5 billion during 2013-14.

4.1.Financial performance of standalone primary dealers (PDs)

ND-SI, LCs accounted for the major chunk of NPAs followed by NBFC-IFCs and AFCs as at end-March 2015. The asset quality of the NBFC-MFIs witnessed some improvement albeit it still remained at an elevated level.

Chart 4.9: Financial performance of standalone PDs



P: Provisional.
Source: RBI supervisory returns.

Standalone PDs held more risk-weighted assets during the year (Chart 4.10). The capital adequacy position of the PDs declined during the year to 39.6 per cent from 48.7 per cent as at end of March 2014. However, their capital adequacy position was well above the regulatory stipulation of 15 per cent. The PDs were able to meet all their primary and secondary market regulatory requirements during the period.

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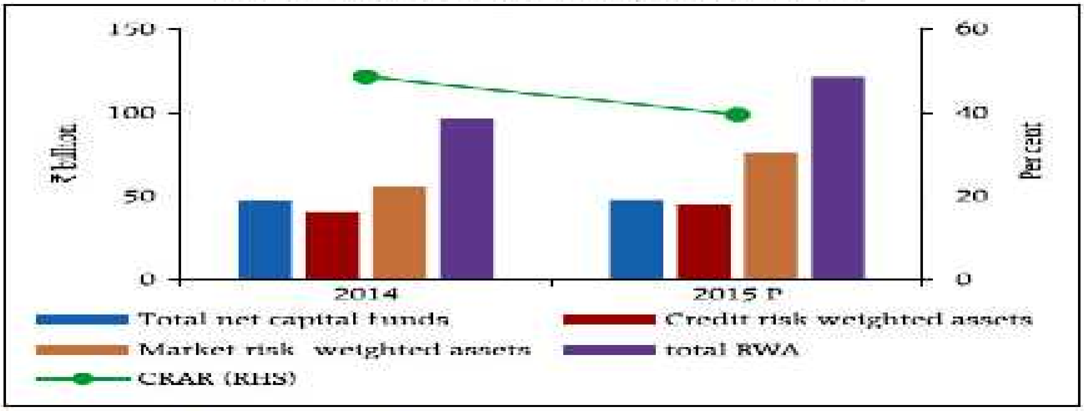
ISSN -2348-0653

Chart 4.10: Capital and risk weighted asset position of standalone PDs – position as on March 31



Source: RBI Supervisory Returns.

5. CONCLUSION OVERALL ASSESSMENT

The dynamics of the NBFCs sector is reflective of its evolving role in niche areas of specialised services. Operationally, the sector remained relatively stronger vis-à-vis the commercial banks in terms of capital adequacy and profitability. There has also been certain amount of consolidation in the NBFCs space, with some larger-sized NBFCs having grown bigger and becoming well-connected with other financial entities, which has financial stability implications. Asset quality of the entire NBFIs sector also suffered deterioration in recent years.

In order to address the issue of recovery of bad loans, bigger NBFCs, with an asset size of 5 billion and above, have been proposed to be brought under the SARFAESI Act, 2002. With a view to address the regulatory gaps and arbitrage owing to differentiated regulation for the NBFCs vis-à-vis commercial banks and risks associated with NBFCs, the Reserve Bank has revised regulatory framework. The revised regulatory framework, put in place in November 2014, aimed at addressing gaps in regulations of NBFCs and harmonising regulation with that of the commercial banks. Some of the important changes inter alia include raising of net owned funds (NOF) for the NBFCs to 10 million by March 2016 and 20 million by March 2017, rating requirement for all unrated deposit-taking AFCs by March 31, 2016 for being eligible for acceptance of public deposits, fixing of threshold of 5 billion for all the NBFCs-ND for being considered systemically important, and harmonisation of the asset classification norms for NBFCs-ND-SI and NBFCs-D in line with that of banks, in a phased manner. The entire regulatory framework was revised with a view to transforming over time to an activity-based regulation of NBFCs while ensuring that NBFCs having low risk profiles would be lightly regulated.

Notwithstanding such interventions, bringing the credit intermediation activities of a number of small entities, organised and unorganised, which operate as shadow banking entities outside regulatory oversight, within the regulatory jurisdiction remains a challenge. The Reserve Bank has been, from time to time, through its outreach, sensitisation programmes and public notices, sensitising public not to fall prey to such entities. To deal with delinquent and unauthorised entities, State Level Coordination Committee (SLCC) was reconstituted in May 2014 with active state level intervention to facilitate regular sharing of market intelligence and effective coordinated timely action.

NOTES

1. AIFIs are allowed to mobilise resources within the overall 'umbrella limit', which is linked to the net owned funds (NOF) of the FI concerned as per its latest audited balance sheet. The umbrella limit is applicable for five instruments viz., term deposits, term money borrowings, certificates of deposits (CDs), commercial papers (CPs) and inter-corporate deposits.
2. RNBCs in the process of winding up are: Peerless General Finance and Investment Ltd. and Sahara India Financial Corporation Ltd. (SIFCL).
3. Asset finance company (AFC): AFC is a non-bank financial company, carrying on the principal business of financing of physical assets. Investment company. Loan company (LC): LC is non-bank financial company, carrying on the principal business of providing loans or advances for any activity other than its own but does not include AFC.
4. For the sake of comparability, however, in the present analysis, old definition of NBFCs-ND-SI has been considered.
5. Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

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