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AN ANALYTICAL STUDY OF NBFCS AND ITS IMPACT ON THE FINANCIAL GROWTH OF THE NATION

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ABSTRACT

The attempt has been made through this research to analyse the role of NBFCs on the financial growth of the nation (India). Their role in the Indian financial sector has grown significantly. These companies are registered under the company act 1956 of India, according to this "A company which is engaged in the business of loan and advances, acquisition of shares, stock, bonds, hire–purchase insurance business or chit–funds business but does not include any institution whose principal business includes agriculture, industrial activities etc." RBI controls and regulate all activities of these companies.

NBFCs have grown in numbers over the years and their contribution has also increased the GDP of India. Currently the liquidity crisis plaguing Indian non-banking financial companies. Thus it is important to analyze the ups and down of NBFCs in India and its impact on financial sector of India.

KEYWORDS: *NBFCS, Financial Sector, Growth Curve, Banking, Crises*

Article History

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INTRODUCTION

Their role in the Indian financial sector has grown significantly. These companies are registered under the company act 1956 of India, according to this "a company which is engaged in the business of loan and advances, acquisition of shares, stock, bonds, hire-purchase insurance business or chit-funds business but does not include any institution whose principal business includes agriculture, industrial activities etc." RBI controls and regulate all activities of these companies. NBFCs are different from Banks as they lend and make investments and hence their activities are akin to that of banks but they don't accept demand deposits and no other facilities which a bank gives with demand deposits. Like banks, NBFCs are regulated by the Reserve Bank of India (RBI). The central bank also releases its report on stress-testing of NBFCs and also their interconnectedness with the financial system. Clearly, there is a case of strengthening the asset liability framework for NBFCs, but there are enough data points on NBFCs. Such as

- There are a dozen activity-based classifications of NBFCs by the RBI. The classification ranges from asset finance, loan company, investment company, infrastructure, MFI, and Peer to Peer (P2P). In fact, P2P is the latest addition when this new kind of fintech lending started globally. RBI was quite proactive in bringing the P2P under its fold by issuing fresh regulations for this new segment. This shows that there is a clear demarcation of activities of NBFCs, and each of these NBFCs follow regulations, maintain mandatory capital and abide by other requirements.

- The systemically important NBFCs currently have liabilities of Rs 22.76 lakh crore. The share of CP is about 6.17 per cent whereas the bank fund is about 17.74 per cent in 2017-18. This shows that the liability profile of NBFCs is clearly known. One can easily see how the liability profile is changing over the years.
- The non-performing assets (NPAs) of NBFCs are about 5.8 per cent in 2017-18. As against this, the commercial bank NPAs are about 11.6 per cent of its loan book. This shows that the NPAs are low as compared to banks. In fact, the former CEA Arvind Subramanian recently suggested a bank-like asset quality review (AQR) for the NBFCs. This is what is needed to check on the health of NBFCs or making provisions in advance for stressed loans.
- The retail loans of NBFCs are growing at a fast pace. The assets rose by 46.2 per cent in 2017-18. The previous year's growth was 21.6 per cent. This massive growth is driven by vehicle loans followed by consumer durables and housing loans. The regulators or the government should keep an eye on such kind of high growth and from where it is coming from.
- The total income of NBFC sector was Rs 51 lakh crore with net profits of Rs 38,600 crore in 2017-18. The financial health of NBFCs is also well-known. This is a very crucial data to show whether the NBFCs are running their house profitably or making losses.
- The Department of Economic Affairs Secretary S C Garg recently pointed out that data points are very poor when it comes to non-banking finance companies (NBFCs). He also talked about lacunae in the regulations. Garg made this comment in connection with the IL&FS crisis as the issue suddenly caught everyone off guard.

What seemed to be a debt default by a single large non-banking financial company (NBFC) Infrastructure Leasing and Financial Services (IL&FS)has assumed such large proportions that it threatens to derail the entire sector and throw into jeopardy a clutch of companies involved in asset financing and personal loans. The crisis in India’s NBFCs, triggered by the IL&FS debacle, has taken centrestage in the economic debate even as the tussle between the Union government and the Reserve Bank of India (RBI) on a host of issues, including refinancing for NBFCs, is heading for a climactic showdown at the central bank’s next board meeting scheduled on November 19.

There are over 11,000 NBFCs registered with the RBI across the country, which have revved up India’s consumer economy as retailers across sectors have latched onto the EMI bandwagon to lure the consumer. After IL&FS defaulted on payments to lenders and triggered panic in the markets, there is now speculation that the entire sector might cave in unless desperate measures are taken to keep it afloat. Several questions have been raised on the viability of this shadow banking sector, which has grown at around 20 per cent and now has a fat aggregate book of Rs 26 lakh crore.

Hence it has become a very important part of our nation’s Gross Domestic Product and NBFCs alone count for 12.5% raise in Gross Domestic Product of our country. Most people prefer NBFCs over banks as they find them safe, efficient and quick in assisting with financial requirements. Moreover, there are various loan products available and there is flexibility and transparency in their services.

Objective of the Study

Attempt has been made:

- To study the role of NBFCs in the financial sector of the economy.
- To analysis the growth of NBFCs over the years.
- To study the impact NBFCs crises on the growth of the nation.

Data Collection and Research Methodology

To achieve the objective of the study, the secondary data has been collected from www.rbi.org.in,www.economicstimes.com, www.pwc.com and many more.Various publications of RBI, books and journals etc will be used. SPSS software has been used for the regression curve fit. Data is tabulated and analyzed using MS-EXCEL.

Review of Literatures

- **ASSCHOAM, PWC in the** article titled "Building the Building the NBFC of the future – scalable and profitable modes". This paper highlights the scrutiny on NBFCs and their operation. In this paper 10 themes that NBFC should take into their thinking around long term, sustainable growth has discussed.
- **Kaushal H.R. (2016)** – In their research paper titled "Impact of Non- Banking Financial Companies in Indian Economy growth." He found that NBFCs has great scope for the improvement in free based business. They play a role of intermediaries between savers and the investors. NBFCs are the perfect alternatives to the conventional banks for meeting various financial requirements of financial enterprise.
- **Kumar p**. "NBFCs- status paper database" in this research paper Mr. Kumar has shown types of NBFCs, classification,regulation and number of registered NBFCs with RBI. He also analysed the profile of NBFCs dealing in assets and public deposit in 2008-09. DSIM, DNBS, MCA maintained NBFCs for different purpose.
- **Shanmugham R. And sowahanya R. (2014):** In their research paper titled Analysis of financial performance of NBFCs in India". They analysed that there is a prominent difference between profitability ratio, leverage ratio, liquidity ratio and risk indicator ratios of selected NBFCs.
- **Singh Dr**. Kshetrimayum Ranjan (2014): in his research titled "Growth and development of Non banking Financial Companies in India", he found that NBFCs have greater reach and flexibility in tapping resources. They are doing more fee based business than fund based. The paper highlights that NBFCs have become major financial source for people. NBFCs are now focus more on retail sector, housing finance, personal loan etc.
- **Yadav Sunita (2017):** In her paper "A study of performance of NBFCs in India" showed the types of NBFCs. She analysed in profit ratio of Different non banking financial companies during 2008-16. Especially HDFC, BAJAJ FINSERY, PFC, INDIABULLS, LIC etc.

Structure and Evolution of NBFCS

The structure of the NBFCs can studied according the regulation of RBI. Reserve bank of India regulates and supervise three categories of Non banking financial institution i.e. AIFIs,PD,NBFCs. NBFCs then further classified on the basis of deposit mobilisation as NBFCs-D (deposit taking)and NBFCs-ND(non deposit taking). Further classification can be seen through following Figure 1 according to RBI regulation: NBFCS-D were introduced in 1997. NBFCs–ND then further studied into two categories in 2006 as NBFCs-ND-SI(systematically important deposit taking NBFCs) that has total assets greater than 500 cr Indian rupees and NBFCs-ND (other non deposit taking with NBFCs) that has total assets less than 500 cr Indian rupees. Recently few changes have been made in the regulatory framework of NBFCs by RBI in 2014. Under the new regulation, non deposit accepting NBFCs with total assets less than 500 are considered as not being systematically important and subject to light touch regulation. The systemically important NBFCs currently have liabilities of Rs 22.76 lakh crore. The share of CP is about 6.17 per cent whereas the bank fund is about 17.74 per cent in 2017-18. This shows that the liability profile of NBFCs is clearly known.

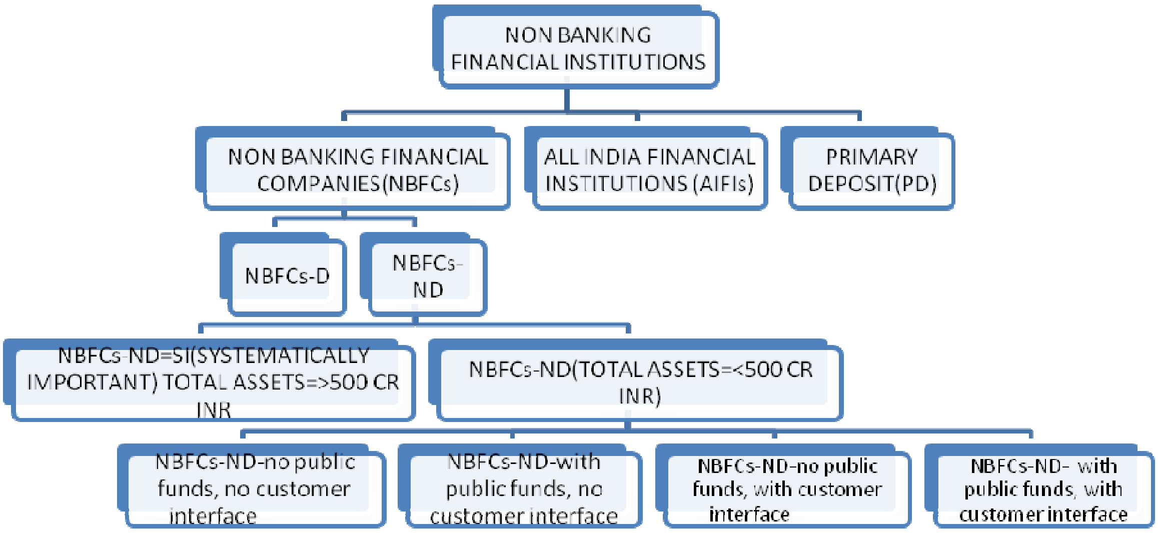


Figure 1: Structure and Evolution of NBFCS.

Registered NBFCS and NBFCS-D

NBFCs are growing in the nation with their various routes to work with support of other financial institution. NBFCs have changed the scenario of financial sector of India. Now-a-days people are no longer depended on banking loan or financial needs. They can have easy process and availability of loan through NBFCs. This is why NBFCs have grown in the nation over the year and supporting financial sector through their different mode. They are now sharing their role in BSE and NSE market also. But then also it has been observed that their number are sometimes increasing and sometimes falling due to bullish and bearish effect of market. Even their depository taking NBFCs are also showing the same behavior over 2000-18 financial years:

Table 1: Number of Registered NBFCS and NBFCS-D

Years	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	273
2013	12,225	254
2014	12,029	241
2015	11,842	220
2016	11,682	202
2017	11,522	178
2018	11,402	156

*Till 2011 end June data from 2012 end March

In March 2018, there were 11,402 of these companies registered with the RBI. Of those 156 were deposit-accepting (NBFCs-D). There were 249 deemed systemically important non-deposit accepting NBFCs. The number has come down to 10,102 by the end of September 2018, according to the RBI data. NBFC-D The number of Deposit taking NBFCs reduced by around 12% to total to 178 entities during 2016-17, mainly on account of the higher NOF threshold imposed by RBI.

Deposits constituted 11.1% of the total funds of NBFC-D as on 31st March, 2017. While borrowings from Banks fell by around 7%, those from Debentures and Financial Institutions grew sharply as NBFCs looked to diversify their source of funding and reduced reliance on the over-burdened banking sector.

Regression curve fit analyses has been shown in Figure 2 and 3.

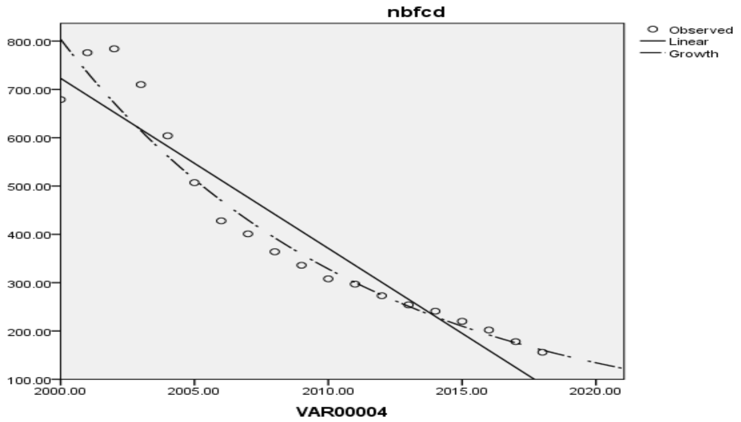


Figure 2.

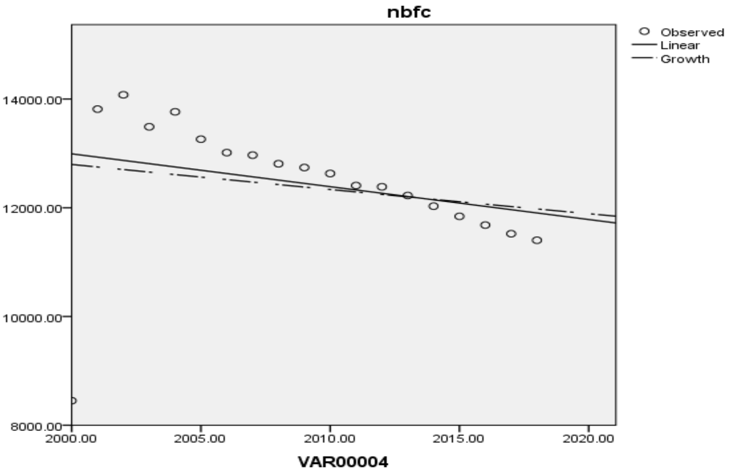


Figure 3.

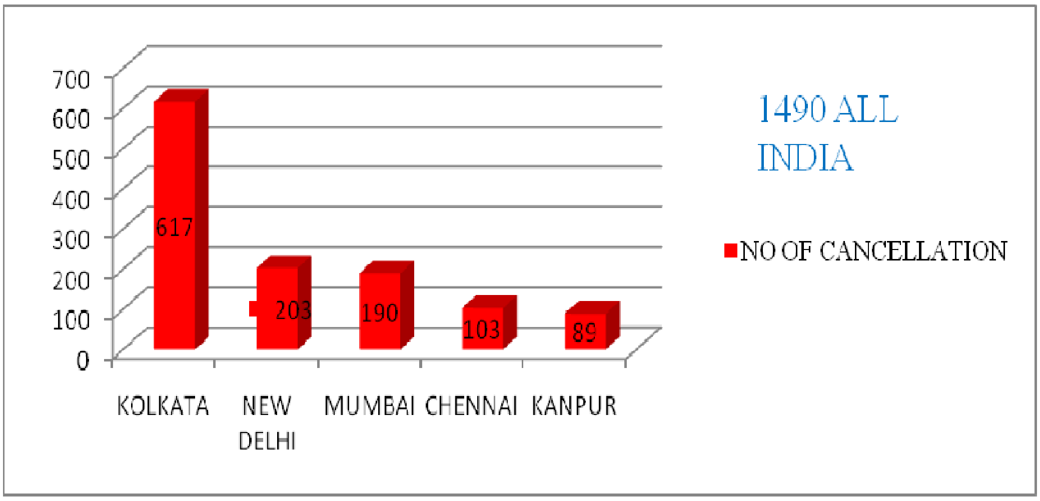
Model Summary

Table 2: Dependent Variable: NBFC and NBFC-D

Equation	NBFC		NBFC-D	
	R Square	b1	R Square	b1
Linear	.074	-60.412	.901	-35.195
Growth	.034	-.004	.975	-.089

The independent variable is VAR00004(years)

Here the regression curve fit model has been used to analyze the growth in NBFCs numbers and NBFCs-d. and it is found that in both NBFCs and NBFCs-d, there is no growth over the years as B1 values are found negative. Even the linear curves are also negatively sloped in Figure 2 and 3. Thus it is truly accepted that NBFCs activities are growing but they reducing in number.through following figure it is observed how RBI cancelling their registration i.e. bounding them to increase. RBI cancels registration of 1,490 NBFCs in 2 years due to this their number has been reduced and growth has declined. It is for NBFCs that failed to meet prudential norms and those that voluntarily surrendered registration.Regulatory action was taken against top fiveregional offices, number of cancellation is about 1202 rest 288 were cancelled in other state.



Source: Parliamentary Questions and Answer

Figure 4.

Credit Growth of NBFCS

NBFCs are not growing much in numbers but their credit availability to public in Indian financial market has been growing from 2015-2018 on the basis of this their future expected rate is also assumed for 2019 and 2020. In terms of financial assets, NBFCs have recorded a healthy growth- a compound annual growth rate (CAGR) of 19% over the few years comprising 13% of the total credit and expected to reach nearly 18% by 2018-19. Figure 5 depicts the trend of NBFCs credit at growing rate.

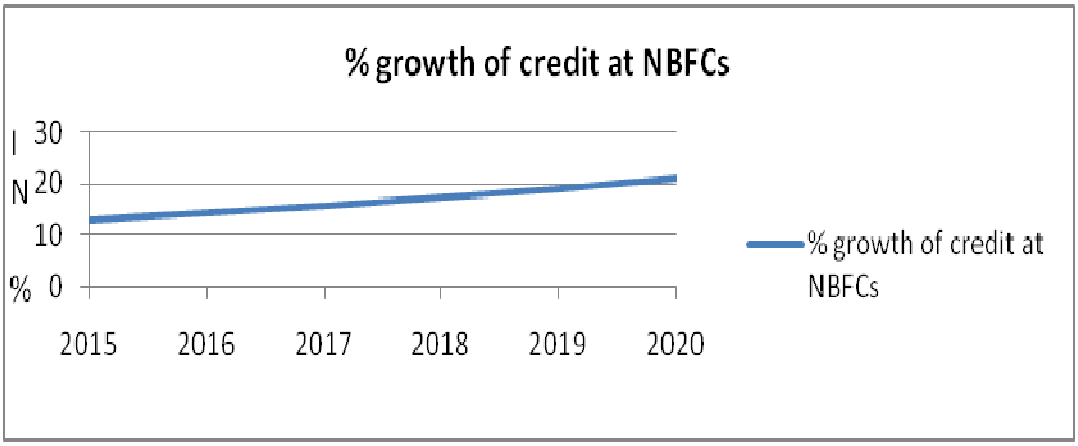


Figure 5.

Table 2: Growth Rate of Credit of Major Categories of NBFCS

Categories	2012-13	2013-14	2014-15	2015-16	2016-17
LOAN COMPANIES	11.3	7.7	20.5	22.7	22.1
NBFCs -IFC	24.4	17.8	24.6	7.6	5.6
NBFCs-MFI	34.3	21.3	47.6	36.3	-3.4
AFCs	30	10.4	13.2	23.1	-17.1

Source: RBI bulletin

In the above table 2 it is observed NBFCs with categories like loan companies, NBFCs-ifc, NBFCs-mfi and AFCs all have shown significant growth in credit availability till 2015-16. But their route of growth has been diverted in 2016-17 as all categories showed declined in this financial years. Where loan companies and NBFCs-IFC were remain positive while their credit growth declined where as performance of NBFCs-MFI and AFCs were good in 2015-16 while their growth triggered down to negative range in 2016-17as credit growth become -3.4 and -17.1 respectively. It is mainly due to crises where many large NBFCs were converted into small banks. In Figure 6, X axis is numbered as 1,2,3,4,5 which shows 2012-13,2013-14,2014-15,2015-16,2016-17 financial years.

Here Figure 6 and table 3 highlights the scenario of NBFCs performance over Banks (private and public). It is clearly seen that NBFCs are more facilitating to costumer as their growth related to credit is much higher than the public sector bank while sometimes private sector banks also greater credit growth compare to NBFCs but then also it can be said that NBFCs performance is better than banks over the years

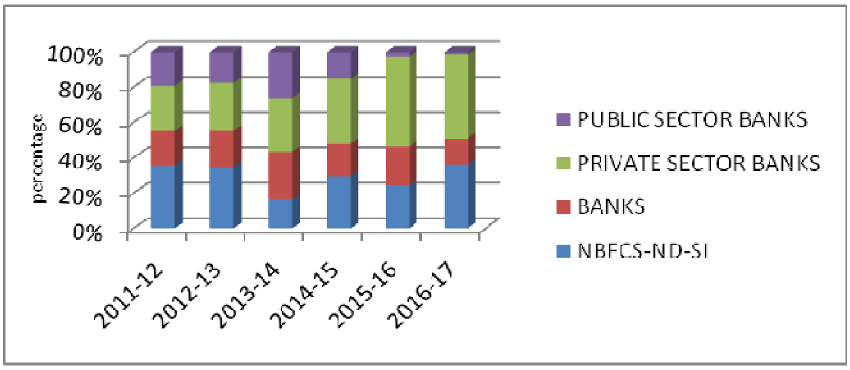


Figure 6: Credit growth of NBFCs and Banks.

Table 3

Years	NBFCS-ND-SI	Banks	Private Sector Banks	Public Sector Banks
2011-12	30.5	16.8	21.8	16.4
2012-13	23.7	14	18.5	12
2013-14	8.8	14.2	16.1	13.9
2014-15	15	9.3	18.6	7.8
2015-16	12.4	10.9	25.7	1.4
2016-17	13	5.4	17.1	0.6

Source: RBI bulletin

The Liquidity Crunch

Crises has been faced by NBFCs in last two to three years after demonetisation. The liquidity crisis plaguing Indian non-banking financial companies, or NBFCs, which has spooked public markets investors, is likely to hit stake sale and fund-raising plans for these lenders in the near term. The recent issues of NBFCs, which started with defaults by Infrastructure Leasing and Financial Services Ltd (IL & FS), have hurt sentiments towards NBFCs, as witnessed in the stock prices of several leading companies in the sector. The crisis in India's NBFCs, triggered by the IL&FS debacle, has taken centre stage in the economic debate even as the tussle between the Union government and the Reserve Bank of India (RBI) on a host of issues, including refinancing for NBFCs, is heading for a climactic showdown at the central bank's next board meeting scheduled on November 19.

Investors are likely to wait and see how the financial sector goes through this transition period, Harikrishnan said. People are expecting for the deals that are already in the market to get caught up. The financial services industry, especially NBFCs, is an important segment for private equity investments.

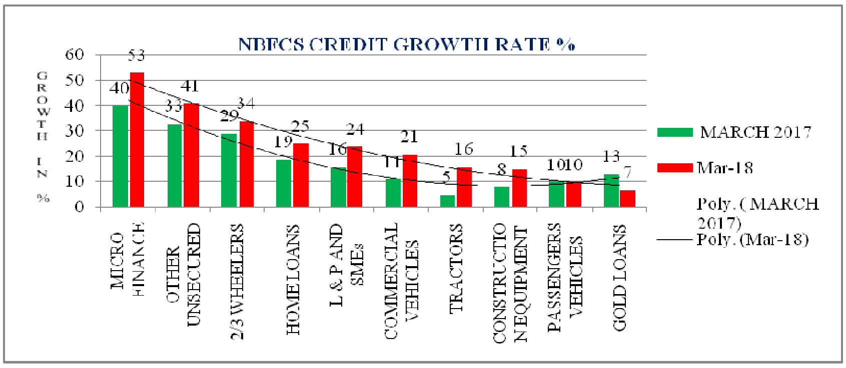
In near future NBFCs has to raise their capital to reset their importance in financial sector of India as well as to regenerate the believes of investors. NBFCs that are very heavily funded by short-term papers will see an impact. "There will be short-term impact on valuations and this may reset market expectations." Market experts believe that the long-term prospective of the sector remains unbroken and this modification could ultimately provide private investors the opportunity to enter the sector at more attractive valuations.

With a significant section of the Indian population still not having been penetrated by financial services, there is a huge growth potential for the financial services industry as the economy continues to grow at a healthy rate of close to 7%. As the financial services sector is like a fuel to any economy's growth and should generally grow at 3-4 times its gross domestic product growth rate.

Furthermore in this segment mutual fund of IL and FSare discussed which faced the impact of NBFCs crises.With the IL and FS default, some mutual funds were strapped for cash. With the stock market going down, there have been more withdrawals from mutual funds. They have been trying to curtail more and more cash, and hence not giving out Commercial Papers. This choked NBFCs of funds, and their disbursements slowed down. Growth suffered and owing to liquidity fears, the stock prices of these firms took a hit. Companies then began to sell subsidiaries to raise cash.

Here in the Figure 7 given below, it is observed that from 2017 to 2018 credit growth of NBFCs has increased in various loan against property but decreased especially in gold loans and also in MSMEs. This show how NBFCs sector was affected due its liquidity crises.

Meanwhile, institutional investors have shuffled their holdings in the NBFC sector. In September 2018, for instance, foreign investors used the fall in share prices of NBFCs to buy stakes in about 11 major NBFCs, such as Repco Home Finance, Shriram Transport Finance Company, Dewan Housing and Muthoot Finance, and reduced stake in about 13 of them, media reports said.



Source: Boston consulting group

Figure 7

CONCLUSIONS

In all the paper reviewed, main focus was given to growth,deposit,loan and advances of NBFCs till 2017. The gap was found related to their negative growth rate till 2018 and crises faced by NBFCs. Thus through this research it was analysed that NBFCs credit facilities are increasing but their numbers are decreasing as well as their deposits taking are also decreased. RBI has cancelled the 1490 NBFC's registration and that too in Kolkata, Mumbai, Chennai,Delhi and Kanpur when NBFCs faced liquidity crises. Demonetisation was the main reason behind the stagnant growth of NBFCs. NBFCs have recorded a healthy growth- a compound annual growth rate in credit growth it means NBFCs easy credit availability is helpful in expanding their credit growth. Compare to banks people of India are more preferring NBFCs for their financial needs. Financial sector has robust due to the inclusion of NBFCs-ND-SI.

Their route of growth has been diverted in 2016-17 as all categories showed declined in this financial years. Where loan companies and NBFCs-IFC were remain positive and credit growth declined where as NBFCs-MFI and AFCs were good in 2015-16 while their growth triggered down to negative range in 2016-17. It is mainly due to crises where many large NBFCs were converted into small banks. Growth suffered and owing to liquidity fears, the stock prices of these firms took a hit with NBFCs. Companies then began to sell subsidiaries to raise cash and to meet crises.

Banks and non bank both are the key element of sound and stable financial system. but now-a-days NBFCs have gained popularity both in developing and developed countries. Growth of NBFCs widened the range of product availability for individual and institutions with resource to investment.

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