

Non-Banking Financial Institutions

Non-Banking Financial Institutions (NBFIs) are playing pivotal role in broadening access to financial services, enhancing competition and diversification of the financial sector. They are increasingly being recognised as complementary to the banking system capable of absorbing shocks and spreading risk mitigation at the times of financial distress. The financial performance of deposit-taking Non-Banking Financial Companies (NBFCs-D) witnessed improvement as reflected in increased operating profits while expenditure declined marginally during 2010-11. The consolidated balance sheet of Systemically Important Non-Deposit taking NBFCs (NBFCs-ND-SI) have expanded but their net profit to total assets remain unchanged. Resources mobilised by financial institutions (FIs) were considerably higher during 2010-11. Notwithstanding the turnaround in the trading income, net profit of the primary dealers (PDs) declined mainly on account of disproportionate increase in interest expenses and decline in other income. Rapid financial diversification has posed new challenges for regulators, especially in devising appropriate regulatory safeguards for the highly complex NBFIs sector.

1. Introduction

6.1 Non-Banking Financial Institutions (NBFIs) sector in India comprises various types of financial institutions with each one of them having its roots at a particular stage of development of the financial sector. All-India financial institutions (AIFIs), largely an outcome of the development planning in India, were created for long-term financing. Non-banking financial companies (NBFCs), on the other hand, are mostly private sector institutions which provide a variety of services including equipment leasing, hire purchase, loans, and investments. Primary dealers (PDs), which came into existence in 1995, have played an important role in both the primary and secondary Government securities market. Although commonly grouped as NBFIs, the nature of operations of FIs, NBFCs and PDs are quite different from each other. The regulatory focus in respect of these three types of NBFIs is also different. Business operations and financial performance of these entities are driven mainly by sector-specific factors.

6.2 NBFCs perform a diversified range of functions and offer various financial services to individual, corporate and institutional clients. They have been helping to bridge the credit gaps in several sectors where the institutions like banks are unable to venture. With the growing importance assigned to financial inclusion, NBFCs have come to be regarded as important financial intermediaries particularly for the small-scale and retail sectors. The regulations governing these institutions are less rigorous as compared to banks as they are not subject to certain regulatory prescriptions applicable to banks. NBFCs-D are not subject to Cash Reserve Ratio (CRR) requirements like banks but are mandated to maintain 15 per cent of their public deposit liabilities in Government and other approved securities as liquid assets. The public deposits do not have insurance cover. NBFCs do not enjoy refinance facilities from the Reserve Bank and do not have chequable deposits and are thus not part of the payment and settlement systems.

6.3 Since 2006, NBFCs were reclassified based on whether they were involved in the creation of productive assets. Under the new classification, the NBFCs were divided into three major categories, *viz.*, asset finance companies, loan companies, and investment companies. Considering the growing importance of infrastructure finance, a fourth category of NBFCs involved in infrastructure finance was introduced in February 2010, *viz.*, Infrastructure Finance Companies (IFCs). Subsequently, in January 2011, a new category of companies, *viz.*, systemically important non-deposit taking core investment companies (CIC-ND-SI) were brought under regulation and supervision of the Reserve Bank.

6.4 Till recently, NBFCs-ND were subject to minimal regulation as they were non-deposit taking bodies and considered as posing little threat to financial stability. However, recognising the growing importance of this segment and its inter-linkages with banks and other financial institutions, capital adequacy and exposure norms have been made applicable to NBFCs-ND that are large and systemically important (*i.e.*, having asset size of ₹100 crore and above) from April 1, 2007; such entities are referred to as NBFCs-ND-Systemically Important.

6.5 This chapter provides analysis of the financial performance and soundness indicators related to each of these segments of NBFIs during 2010-11. The chapter is organised into four sections. Section 2 analyses the financial performance of FIs. Section 3 discusses the financial performance of NBFCs-D and NBFCs-ND-SI. Section 4 provides an analysis of the performance of PDs in the primary and secondary markets, followed by Conclusions in Section 5.

2. Financial Institutions

6.6 As at end-March 2011, there were five financial institutions (FIs) under the regulation of the Reserve Bank *viz.*, EXIM Bank, NABARD,

NHB, SIDBI and IIBI. Of these, four FIs (EXIM Bank, NABARD, NHB and SIDBI) are under full-fledged regulation and supervision of the Reserve Bank. IIBI is under the process of voluntary winding up as on March 31, 2011. In September 2010, Reserve Bank transferred its 71.5 per cent capital stake-holding in NABARD to the Government of India (Table VI.1). In April 2010, the Government of India (GoI) agreed to transfer ownership and shareholding of NHB from the Reserve Bank to GoI and also to transfer the registration and regulatory functions in respect of Housing Finance Companies from NHB to the Reserve Bank and retention of supervisory function with the NHB.

6.7 During 2010-11, in view of the difficulties faced by NHB and EXIM Bank in meeting their overall lending requirements, their 'aggregate borrowing limit' has been enhanced from 10 times of net owned funds (NOF) to 11 times of NOF for one year (for NHB up to September 30, 2011 and for EXIM Bank up to March 31, 2012), subject to review. Further, in view of the difficulties faced by NHB, SIDBI and EXIM Bank in meeting short term lending requirements, their borrowing under 'umbrella limit' has been enhanced from 100 per cent of NOF to 150 per cent of NOF for a period of one year *i.e.*, up to June 30, 2012, subject to review. The guidelines regarding prudential norms on income recognition, asset classification and

Table VI.1 Ownership Pattern of Financial Institutions
(As on March 31, 2011)

Institution	Ownership	Per cent
1	2	3
EXIM Bank	Government of India	100
NABARD *	Government of India	99
	Reserve Bank of India	1
NHB	Reserve Bank of India	100
SIDBI **	Public Sector Banks	72.2
	Insurance Companies	21.4
	Financial Institutions	6.4

* In terms of GOI notification dated September 16, 2010, with effect from September 16, 2010, the share of GOI and RBI in NABARD equity stands at 99 per cent and 1 per cent respectively.

** IDBI Bank Ltd. (19.2 per cent), State Bank of India (15.2 per cent) and Life Insurance Corporation of India (14.4 per cent) are the three major shareholders in respect of SIDBI.

provisioning pertaining to advances, restructuring of advances, investments portfolio, etc. issued to banks are also made applicable to the select FIs.

Operations of Financial Institutions

6.8 The financial assistance sanctioned and disbursed by FIs declined marginally during 2010-11. This was mainly due to the decline in sanctions and disbursements made by investment institutions especially LIC (Table VI.2 and Appendix Table VI.1).

Assets and Liabilities of Financial Institutions

6.9 The combined balance sheet of FIs expanded during 2010-11. On the liabilities side, deposits along with 'bonds and debentures' remain the major source of borrowings. However, resources raised from 'other sources' witnessed a decline. On the assets side, loans and advances continued to be the single largest component contributing more than four-fifth of the total assets of FIs and witnessed growth of 16.6 per cent during 2010-11 (Table VI.3).

Resources Mobilised by FIs

6.10 Resources mobilised by FIs during 2010-11 were considerably higher than the previous year. All the components, the long-term, short-term and foreign currency resources raised witnessed a sharp rise during 2010-11 as compared with the previous year. Among the

four FIs, NHB mobilised the largest amount of resources, followed by NABARD, EXIM Bank and SIDBI (Table VI.4).

6.11 FIs raise resources from the money market through various instruments such as Commercial Paper (CP), Certificates of Deposit (CDs), and term deposits. During 2010-11, there was a significant increase in the resources raised by FIs through CP (Table VI.5). As a result, CP emerged as the single most important channel accounting for more than 70 per cent of the total resources mobilised by FIs from the money market in 2010-11. FIs are mandated to raise resources from the money market within the sanctioned umbrella limit. Though, gross resources raised by SIDBI from money market during 2010-11 were ₹ 8,137 crore, at no point of time during the year amount outstanding under the above instruments exceeded the umbrella limit. As CP is a short-term money market instrument, FIs kept resorting frequently to this instrument during the year taking the cumulative amount raised through CP to a higher level.

Sources and Uses of Funds

6.12 Total sources/deployment of funds by FIs declined modestly during 2010-11. The major part of the funds of FIs was raised internally followed by external sources. 'Other sources' formed only a small part of the funds of FIs. While the funds raised from internal sources rose, external sources witnessed decline mainly

Table VI.2: Financial Assistance Sanctioned and Disbursed by Financial Institutions

(Amount in ₹ crore)

Category	Amount				Percentage Variation	
	2009-10		2010-11		2010-11	
	S	D	S	D	S	D
1	2	3	4	5	6	7
(i) All-India Term- lending Institutions*	42,552	37,987	55,432	47,224	30.3	24.3
(ii) Specialised Financial Institutions#	590	320	882	509	49.5	59.1
(iii) Investment Institutions @	63,637	53,762	45,155	40,231	-29.0	-25.2
Total Assistance by FIs (i+ii+iii)	106,779	92,069	101,469	87,964	-5.0	-4.5

S: Sanctions. D: Disbursements.

*: Relating to IFCI, SIDBI and IIBI.

#: Relating to IVCF, ICICI Venture and TFCL.

@: Relating to LIC and GIC & erstwhile subsidiaries (NIA, UIIC and OIC).

Note: All data are provisional.

Source: Respective Financial Institution.

Table VI.3 Liabilities and Assets of Financial Institutions
(As at end-March)

Item	(Amount in ₹ crore)		
	2010	2011	Percentage Variation
1	2	3	4
Liabilities			
1. Capital	4,600 (1.8)	4,900 (1.7)	6.5
2. Reserves	39,556 (15.9)	42,612 (14.7)	7.7
3. Bonds & Debentures	71,011 (28.5)	90,097 (31.0)	26.9
4. Deposits	79,472 (31.9)	92,782 (31.9)	16.7
5. Borrowings	35,307 (14.2)	42,681 (14.7)	20.9
6. Other Liabilities	19,037 (7.6)	17,544 (6.0)	-7.8
Total Liabilities/Assets	2,48,983	2,90,616	16.7
Assets			
1. Cash & Bank Balances	3,694 (1.5)	5,814 (2.0)	57.4
2. Investments	8,676 (3.5)	11,802 (4.1)	36.0
3. Loans & Advances	2,14,671 (86.2)	2,50,238 (86.1)	16.6
4. Bills Discounted/ Rediscounted	2,668 (1.1)	3,542 (1.2)	32.8
5. Fixed Assets	553 (0.2)	537 (0.2)	-2.7
6. Other Assets	18,722 (7.5)	18,682 (6.4)	-0.2

Notes: i. Data pertains to four FIs, viz., EXIM Bank, NABARD, NHB and SIDBI.

ii. Figures in parentheses are percentages to total Liabilities/Assets.

Source: Balance Sheets of respective FIs. (ii) Unaudited Off-site returns for NHB as on June 30, 2011.

due to uncertainty in the global financial markets during 2010-11. A large part of the funds raised were used for fresh deployments, followed by repayment of past borrowings.

Table VI.5: Resources Raised by Financial Institutions from Money Market
(As at end-March 2011)

Instrument	(Amount in ₹ crore)				
	NABARD	SIDBI@	NHB	EXIM	Total
1	2	3	4	5	6
A. Total	7,103	8,137	2,621	1,538	19,398
i) Term Deposits	48	2,179	249	71	2,548
ii) Term Money	110	-	-	-	110
iii) Inter-corporate Deposits	-	-	-	-	-
iv) Certificate of Deposits	137	-	-	4	141
v) Commercial Paper	6,448	5,958	0.0	1,462	13,867
vi) Short term loans from banks	360	-	2,372	-	2,732
B. Umbrella Limit	12,675	5,610	3,277	4,408	
C. Utilisation of Umbrella limit (A as percentage of B)	56.0	145.1	7.6	60.1	

- : Nil/Negligible.

Source: Fortnightly return of resources mobilised by financial institutions.

Interest payments formed only a small part of the utilisation of funds by FIs. Other deployments recorded a sharp increase, while repayment of past borrowings registered a decline over the year (Table VI.6).

Maturity and Cost of Borrowings and Lending

6.13 The weighted average cost of Rupee resources raised went up across the board (Table VI.7). The weighted average maturity of Rupee resources raised by financial institutions, barring NHB has also gone up over the year.

Table VI.4: Resources Mobilised by Financial Institutions

Institution	(Amount in ₹ crore)								Total Outstanding (As at end-March)	
	Total Resources Raised				Total					
	Long-Term		Short-Term		Foreign Currency		Total		2009-10	2010-11
2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	8,150	11,132	5,052	1,538	5,193	11,083	18,395	23,752	40,509	47,192
NABARD	16	9,741	12,330	18,532	-	-	12,346	28,273	24,922	33,891
NHB	7,518	7,538	10,306	29,458	-	-	17,824	36,996	10,598	10,918
SIDBI	13,253	9,977	11,500	2,285	987	1,226	25,740	13,489	30,186	34,090
Total	28,937	38,388	39,188	51,813	6,180	12,309	74,305	1,02,510	1,06,215	1,26,091

-: Nil/Negligible.

Note: Long-term rupee resources comprise of borrowings by way of bonds/debentures; and short-term resources comprise of CP, term deposits, ICDs, CDs and borrowing from the term money. Foreign currency resources comprise of largely bonds and borrowings in the international market.

Source: Respective FIs.

NHB raised its Prime Lending Rate during the year, while EXIM Bank and SIDBI kept it unchanged (Table VI.8).

Financial Performance of FIs

6.14 The financial performance of the FIs deteriorated during 2010-11 due to decrease in operating profit and net profit. There was a sharp rise in operating expenses during the year mainly on account of wage revision. However, the interest income of FIs increased by 15.4 per cent (Table VI.9). Among the four FIs, return on assets (ROA) is highest in case of EXIM Bank followed by NHB and SIDBI (Table VI.10).

Soundness Indicators: Asset Quality

6.15 At the aggregate level, there was an increase in the amount of net NPAs for FIs in 2010-11 as compared to the previous year. The increase in net NPAs, however, was attributable mainly to SIDBI, whereas, in case of NABARD it

Table VI.6: Pattern of Sources and Deployment of Funds of Financial Institutions
(As at end-March)

(Amount in ₹ crore)			
Item	2010	2011	Percentage Variation
1	2	3	4
A. Sources of Funds (i+ii+iii)	3,02,610	2,97,784	-1.6
	(100)	(100)	
(i) Internal	1,56,733 (51.8)	1,63,197 (54.8)	4.1
(ii) External	1,26,813 (41.9)	1,19,072 (40.0)	-6.1
(iii) Others@	19,065 (6.3)	15,515 (5.2)	-18.6
B. Deployment of Funds (i+ii+iii)	3,02,610	2,97,784	-1.6
	(100)	(100)	
(i) Fresh Deployment	1,71,922 (56.8)	1,74,674 (58.7)	1.6
(ii) Repayment of past borrowings	1,15,015 (38.0)	83,971 (28.2)	-27.0
(iii) Other Deployment	15,673 (5.2)	39,139 (13.1)	149.7
<i>Of which</i>			
Interest Payments	16,561 (5.5)	14,227 (4.8)	-14.1

Note: EXIM Bank, NABARD, NHB and SIDBI.
 @: Includes cash and balances with banks, balances with the Reserve Bank and other banks.
 Figures in parentheses are percentages to the totals.
Source: Respective FIs.

Table VI.7: Weighted Average Cost and Maturity of Rupee Resources Raised by Select Financial Institutions

Institutions	Weighted Average Cost (per cent)		Weighted Average Maturity (years)	
	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5
EXIM Bank	7.1	8.4	1.9	2.9
SIDBI	6.0	7.0	2.4	2.5
NABARD	4.4	7.1	0.3	1.1
NHB	6.2	7.2	4.7	2.5

Note: Data are provisional.
Source: Respective FIs.

was declined marginally. If the four FIs were ranked in ascending order of the amount of their net NPAs, SIDBI appeared at the top having the largest quantum of net NPAs, while NHB was at the bottom with no NPAs. Moreover, the NPA ratio (NPAs as per cent of net loans) was the highest for SIDBI followed by EXIM Bank (Table VI.11 and Chart VI.1).

6.16 There was a substantial increase in the Sub-standard assets of EXIM Bank. However, Doubtful and Loss assets had decreased during the year. In case of NABARD, Sub-standard assets have come to zero level, but doubtful assets have increased. In case of SIDBI, Sub-standard and Doubtful assets had increased substantially during the year. During 2010-11, sub-standard assets of all the four FIs taken together have increased sharply (Table VI.12).

Capital Adequacy

6.17 During 2010-11, the capital adequacy as measured by CRAR has increased for NHB and SIDBI, whereas, EXIM Bank and NABARD showed decline. It may be noted that, the CRAR was way above stipulated minimum norm of 9 per cent for each of the FIs (Table VI.13).

Table VI.8 Long-term PLR Structure of Select Financial Institutions

(Per cent)			
Effective	NHB	EXIM Bank	SIDBI
1	2	3	4
March 2010	10.25	14.00	11.00
March 2011	10.50	14.00	11.00

Source: Respective FIs.

Table VI.9: Financial Performance of Select All India Financial Institutions

1	(Amount in ₹ crore)			
	2009-10	2010-11	Variation	
	Total	Total	Amount	Percentage
1	2	3	4	5
A) Income	15,624	17,965	2,340	15.0
a) Interest Income	15,147 (96.9)	17,485 (97.3)	2,338	15.4
b) Non Interest Income	478 (3.1)	480 (2.7)	2.4	0.5
B) Expenditure	10,492	13,337	2,846	27.1
a) Interest Expenditure	9,611 (91.6)	11,862 (88.9)	2,251	23.4
b) Operating Expenses	880 (8.4)	1,475 (11.1)	595	67.6
<i>of which Wage Bill</i>	468	1,095	627	134.1
C) Provisions for Taxation	1,559	1,255	-304	-19.5
D) Profit				
Operating Profit (PBT)	4,332	3,808	-524	-12.1
Net Profit (PAT)	2,773	2,554	-219	-7.9
E) Financial Ratios @				
Operating Profit	1.9	1.4		
Net Profit	1.2	0.9		
Income	6.7	6.7		
Interest Income	6.5	6.5		
Other Income	0.2	0.2		
Expenditure	4.5	4.9		
Interest Expenditure	4.1	4.4		
Other Operating Expenses	0.4	0.5		
Wage Bill	0.2	0.4		
Provisions	0.7	0.5		
Spread (Net Interest Income)	2.4	2.1		

@: As percentage of total average assets.

Note: 1. Figures in parentheses are percentage shares to total Income/Expenditure.

Source: i) Annual Accounts of respective FIs.

ii) Audited/Unaudited OSMOS Returns of EXIM Bank, NABARD & SIDBI as at March 31, 2011.

iii) Unaudited OSMOS returns of NHB as at June 30, 2011.

Particularly higher CRAR for SIDBI indicates the scope for utilisation of capital for further credit expansion.

Table VI.11 Net Non-Performing Assets of Financial Institutions

Institution	(Amount in ₹ crore)	
	Net NPAs	
	2010	2011
1	2	3
EXIM Bank	78	93
NABARD	33	30
NHB*	-	-
SIDBI	69	132
All FIs	180	255

- : Nil/Negligible.

*: Position as at end-June as per OSMOS returns.

Source: Audited OSMOS Returns of EXIM Bank, NABARD & SIDBI as at March 31, 2011 and Unaudited OSMOS Returns of NHB as at June 30, 2011.

3. Non-Banking Financial Companies

6.18 NBFCs are classified on the basis of the kind of liabilities they access, the type of activities they pursue, and of their perceived systemic importance. On the basis of liabilities, there are two categories, (i) Category 'A' companies (NBFCs holding and accepting public deposits or NBFCs-D), and (ii) Category 'B' companies (NBFCs not having public deposits or NBFCs-ND). NBFCs-D are subject to requirements of capital adequacy, liquid assets maintenance, exposure norms (including restrictions on exposure to investments in land, building and unquoted shares), ALM discipline and reporting requirements. NBFCs-ND are subject to minimal regulation as they were non-deposit taking bodies and considered as posing little threat to financial stability. However, recognising the growing importance of this segment and its inter-linkages with banks and

Table VI.10: Select Financial Parameters of Financial Institutions

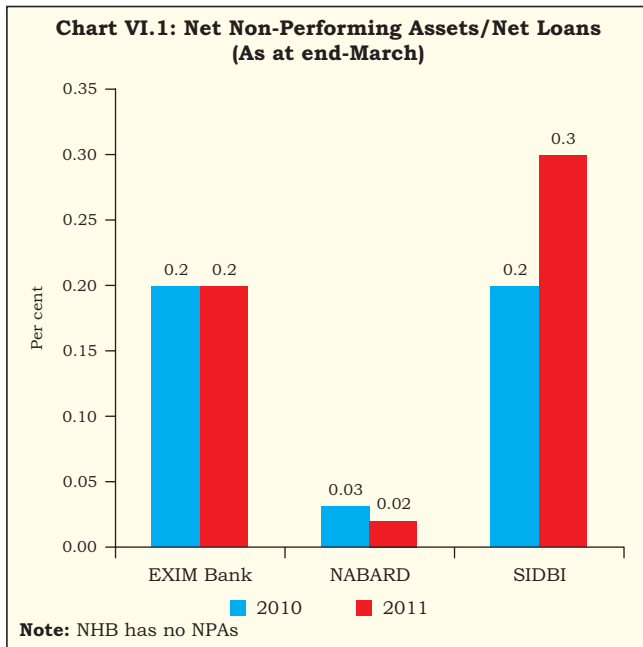
(As at end-March)

Institution	(Per cent)									
	Interest Income/Average Working Funds		Non-Interest Income/Average Working Funds		Operating Profit/Average Working Funds		Return on Average Assets		Net Profit per Employee (₹ Crore)	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	6.28	6.54	0.29	0.46	1.75	2.21	1.13	1.15	2.21	2.39
NABARD	6.19	6.22	0.10	0.10	1.80	1.25	1.23	0.88	0.33	0.27
NHB *	7.27	7.74	0.17	0.04	2.14	1.72	1.35	1.11	3.15	3.21
SIDBI	8.42	8.11	0.62	0.35	4.32	3.00	1.15	1.09	0.41	0.50

*: Position as at end-June 2011.

Source: Statements furnished by the FIs.

Chart VI.1: Net Non-Performing Assets/Net Loans (As at end-March)



other financial institutions (Box VI.1), capital adequacy, exposure norms, ALM discipline and reporting requirement have been made applicable to NBFCs-ND that are large and systemically important since April 1, 2007; such entities are referred to as NBFCs-ND-Systemically Important.

6.19 On activity-based classification, NBFCs are classified into five categories: (i) Loan Companies (LCs), (ii) Investment Companies (ICs), (iii) Asset Finance Companies (AFCs), (iv) Infrastructure Finance Companies (IFCs), and (v) Systemically Important Core Investment Companies (CICs-ND-SI). A new category of CIC-ND-SI was created in August 2010 for those companies with an asset size of ₹100 crore and above that was only in the business of investment for the sole

Table VI.13: Capital to Risk (Weighted) Assets Ratio of Select Financial Institutions (As at end-March)

Institution	(Per cent)	
	2010	2011
1	2	3
EXIM Bank	18.5	17.2
NABARD	24.9	21.8
NHB *	19.6	20.5
SIDBI	30.2	31.6

*: Position as at end-June as per OSMOS returns.

Source: Audited OSMOS Returns of EXIM Bank, NABARD and SIDBI as at March 31, 2011 and Unaudited OSMOS Returns of NHB as at June 30, 2011.

purpose of holding stakes in group concerns, but not trading in these securities and accepting public funds. A regulatory framework in the form of adjusted Net Worth and leverage limits was put in place for CIC-ND-SIs and they were given exemption from NOF, capital adequacy and exposure norms.

6.20 The ownership pattern of NBFCs-ND-SI as well as deposit taking NBFCs suggests that these companies were predominantly non-government companies (Public Limited Companies in nature). The percentage of non-government companies were 97.2 per cent and 97.0 per cent, respectively, in NBFCs-ND-SI and deposit taking NBFCs as against government companies having a share of 2.8 per cent and 3.0 per cent, respectively at end-March 2011 (Table VI.14).

Profile of NBFCs (including RNBCs)

6.21 The total number of NBFCs registered with the Reserve Bank declined marginally to 12,409

Table VI.12: Asset Classification of Financial Institutions

(Amount in ₹ crore)

Institution	Standard		Sub-Standard		Doubtful		Loss	
	2010	2011	2010	2011	2010	2011	2010	2011
1	2	3	4	5	6	7	8	9
EXIM Bank	38,958	45,563	62	197	301	246	50	36
NABARD	1,20,487	1,39,459	7	-	44	68	-	1
NHB *	19,837	22,582	-	-	-	-	-	-
SIDBI	37,892	45,922	75	143	2	136	-	-
All FIs	2,17,173	2,53,525	144	339	347	450	50	37

- : Nil/Negligible.

*: Position as at end-June 2011 as per OSMOS returns.

Source: Audited OSMOS Returns of EXIM Bank, NABARD and SIDBI for March 31, 2011 and Unaudited OSMOS Returns of NHB at June 30, 2011.

Box VI.1: Inter-connectedness of NBFCs and Banks in India

Over a period, both banks and non-bank financial companies have become key elements of India's financial system. In the wake of recent global financial crisis (2007-09), the role of non-bank financial intermediaries had been highlighted for the nexus between the banking system and the NBFIs. NBFIs, in general, were known for taking higher risks than the banking system. Traditionally, the debate regarding the banks expansion into non-banking financial areas veered around certain activities, viz., insurance, investment banking etc. However, the recent global crisis has extended the debate to the inter-connectedness of the banking system with the NBFIs as excessive inter-institutional exposure tends to make the financial system vulnerable.

Banks' Exposure to Deposit taking NBFCs

For the deposit taking NBFCs, it is pertinent to note that, the proportion of public deposits outstanding to their total liabilities has decreased to just around 3.5 per cent at the end-March 2011 from 20.9 per cent as at the end-March 2001. With tightening of the prudential regulatory norms in respect of deposit taking companies, the public deposit is increasingly being substituted with their reliance mainly on borrowings. A closer analysis of the sources of funds revealed that their total borrowings as at the end of March 2011 constituted as much as 66.2 per cent of their total liabilities (which increased from 31.8 per cent as at the end of March 2001). Understandably, (nearly half of the total borrowings) are from banks and financial institutions, which demonstrates the close financial inter-connectedness within the financial system, as well as underscores higher systemic risks of the financial system.

Banking system seems to be the major source of funding for NBFCs, both directly and indirectly. Till recently, banks had the incentive of lending directly to NBFCs as such loans were permitted to be classified as 'priority sector' lending by the banks. Indirectly, banks fund NBFCs by subscribing to the debentures and the CP issued by them.

The higher borrowings of NBFCs, especially, from the banking system raise some concerns about their liquidity position. These concerns will be further accentuated in case the banks' own liquidity position becomes tight at the time of crisis or even at crisis like situation.

as at end-June 2011 (Chart VI.2). A similar trend was also observed in case of deposit taking NBFCs (NBFCs-D) during 2010-11 mainly due to cancellation of Certificates of Registration, exit of NBFCs from deposit taking activities resulting in conversion of NBFCs from deposit taking into non-deposit taking companies.

Non-Deposit taking Systemically Important NBFCs (NBFCs-ND-SI)

Among the NBFCs-ND, the large NBFCs with ₹100 crore and above assets size classified as systemically important (NBFC-ND-SI) are also found to depend on banking system for their resources. As these NBFCs are not deposits taking, they are regulated with somewhat less rigour compared with NBFCs-D. In the post global financial crisis, the regulators' attention world over has received increased attention towards the systemically important financial institutions (SIFIs). Accordingly, even in India the extant prudential regulation of NBFCs-ND-SI is in the process of convergence with that of the NBFCs-D.

In any case, it needs to be underlined that, high dependency of NBFCs on the banking system for their resources, not only will strain banks at the time of crisis but also place NBFCs themselves into vulnerable situation as banks can become over sensitive to a liquidity crisis or imminent crisis and they can either become too reluctant to lend to NBFCs or at the extreme case, they may completely refrain from lending to NBFCs which would further aggravate the precarious condition. The recent global crisis is a pointer in this direction.

Since the regulatory and cost-incentive structures are not identical for banks and NBFCs and that NBFCs borrow funds from banks to on-lend, it is necessary to establish adequate checks and balances to ensure that the banks' depositors are not indirectly exposed to the risks of a different cost-incentive structure.

NBFCs also do not have a ceiling on their capital market related activities unlike the banking system. Moreover compared with regulation of banking sector, NBFCs in general, are less stringently regulated, though there has been substantial progress over the period towards bringing the regulatory norms relating to NBFCs on par with the banking system.

In view of the above, NBFCs' increased swapping public deposits with borrowings from the banking system seems to be a concern from the point of view of systemic inter-connectedness.

6.22 Despite the decline in the number of NBFCs, their total assets as well as net owned funds registered an increase during 2010-11, while public deposits recorded a decline. The share of Residuary Non-Banking Companies (RNBCs) in total assets of NBFCs showed a declining trend. The same trend also witnessed

Table VI.14: Ownership Pattern of NBFCs
(As on March 31, 2011)

Ownership	(Number of Companies)	
	NBFCs ND-SI	Deposit taking NBFCs
1	2	3
A. Government Companies	9	9
	(2.8)	(3.0)
B. Non-Government Companies	310	288
	(97.2)	(97.0)
1. Public Ltd Companies	181	279
	(56.7)	(93.9)
2. Private Ltd Companies	129	9
	(40.4)	(3.0)
Total No. of Companies (A)+(B)	319	297

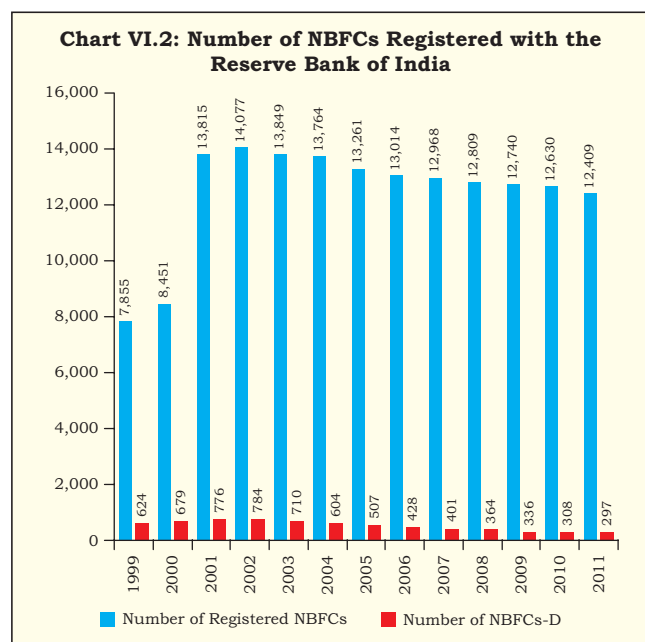
Note: Figure in parentheses are percentage share in total number of NBFCs.

in terms of net owned funds of RNBCs during 2010-11 (Table VI.15).

6.23 The ratio of public deposits of NBFCs to aggregate deposits of Scheduled Commercial Banks (SCBs) in 2010-11 indicated a decline. The ratio of deposits of NBFCs to the broad liquidity aggregate of L3 also declined during the year (Chart VI.3).

Operations of NBFCs-D (excluding RNBCs)

6.24 The balance sheet size of NBFCs-D expanded at the rate of 11.9 per cent in 2010-11 as compared with 22.2 per cent in the previous



year, mainly due to conversion of two major NBFCs-D into NBFCs-ND (Table VI.16). It may be mentioned that borrowings constituted around two-third of the total liabilities of NBFCs-D. The public deposits of NBFCs-D, which are subject to credit reating (Box VI.2), continued to show an increasing trend during 2010-11. On the assets side, loans and advances remained the most important category for NBFCs-D constituting about three-fourth of their total assets. The investment constituted second-most important category which witnessed a subdued growth during 2010-11 mainly due to decline in non-SLR investments.

6.25 Asset Finance Companies (AFCs) held the largest share in the total assets of NBFCs-D at end-March 2011 (Table VI.17).

Size-wise Classification of Deposits of NBFCs-D

6.26 A sharp increase was discernible in the share of NBFCs-D located at the upper-end having deposit size of ₹50 crore and above accounting for about 90.6 per cent of total deposits at end-March 2011. However, there were only 8 NBFCs-D belonging to this category constituting about 3.7 per cent of the total

Table VI.15: Profile of NBFCs

Item	(Amount in ₹ crore)			
	As at end-March			
	2009-10	2010-11P		
	NBFCs	of which: RNBCs	NBFCs	of which: RNBCs
1	2	3	4	5
Total Assets	1,12,131	17,919 (16.0)	1,16,897	11,466 (9.8)
Public Deposits	17,352	14,521 (83.7)	11,964	7,902 (66.0)
Net Owned Funds	16,424	2,921 (17.8)	17,975	2,988 (16.6)

P: Provisional

Note: 1) NBFCs comprise NBFCs-D and RNBCs.
2) Figures in parentheses are percentage shares in respective total.
3) Of the 297 deposit taking NBFCs, 217 NBFCs filed Annual Returns for the year ended March 2011 by the cut-off date September 8, 2011.

Source: Annual Returns.

Box VI.2: Credit Rating of NBFCs – Practices and Prospects

Non-Banking Finance Companies (NBFCs) being heterogeneous in their operations, they are broadly grouped under four heads (i) asset finance companies, (ii) loan companies, (iii) investment companies, and (iv) infrastructure finance companies for regulatory compliance by the Reserve Bank. Credit rating for deposit taking NBFCs was recommended by 'Working Group on Financial Companies (Chairman: A. C. Shah) in 1992. However, it was in January 1998 that the new regulatory framework for NBFCs by the Reserve Bank made it mandatory for NBFCs to get rated in order to protect the interest of the retail depositors.

The credit ratings assigned are a symbolic representation of current opinion on the relative credit risk associated with the instruments rated by credit rating agency(CRA). This opinion is arrived at after a detailed evaluation of the issuer's business and financial risks and on using such evaluation to project the level and stability of the future financial performance in various likely scenarios of the rated companies. Thus, conclusion derived from the analysis of the particular company based on the detailed information CRA received from within the company as well as from outside sources by the rating agency is reflected in a credit rating.

Rating Methodology

In rating an NBFC, the credit rating agency evaluates the company's business and financial risks, and uses this evaluation to project the level and stability of its future financial performance in various likely scenarios. The broad parameters for assessing the risks of NBFCs are based on **Business Risk:** (i) Operating Environment, (ii) Ownership Structure, (iii) Franchise and Size, (iv) Competitive position, (v) Management, Systems and Strategy, and (vi) Governance structure; **Financial Risk:** (i) Asset Quality, (ii) Liquidity, (iii) Profitability, and (iv) Capital Adequacy.

However, the relative importance of each of these parameters can vary across companies, depending on its potential to change the overall risk profile of the company concerned. Moreover, as many of these parameters are qualitative, the rating companies try to reduce the subjectivity by capturing and assessing information on defined sub-parameters and by comparison across various companies. One of the common practices among CRAs being that a careful evaluation of the risk management policies of the NBFC is done as it provides important guidance for assessing the impact of stress events on the liquidity, profitability, and capitalisation of the company concerned.

The CRA evaluates the quality of an NBFC's capital, apart from the level of capital. An NBFC's ability to meet regulatory capital adequacy requirement is also evaluated. A very high return on equity may not necessarily translate into a high credit rating, given that the underlying risk could be very high

as well, and being so it could be more volatile or difficult to predict.

All ratings are kept under continuous monitoring throughout the period of validity.

Regulatory Requirements for Credit Rating of NBFCs

Effective January 31, 1998 the Reserve Bank made credit rating mandatory to all deposit taking NBFCs with NoF of ₹ 25 lakh and above. Presently, NBFCs-D with NoF of ₹ 2 crore and above have to necessarily get rated by one of the approved CRAs at least once a year. It is also mandated that they cannot raise public deposits without the 'minimum investment grade' and the copy of the rating should be submitted to the Reserve Bank. Moreover, any upgradation or downgrading of the rating also need to be informed to the regulator immediately.

Agency	Minimum grade
The Credit Rating Information Services of India Ltd (CRISIL)	FA- (FA minus)
ICRA Ltd	MA- (MA minus)
Credit Analysis and Research Ltd (CARE)	CARE BBB (FD)
FITCH Ratings India Pvt. Ltd	[tA- (ind) (FD)]

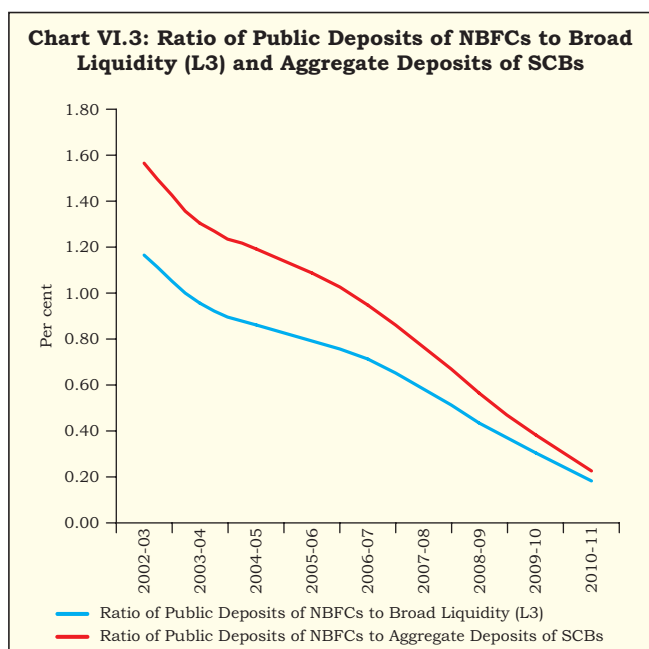
Prospects for Credit Ratings of NBFCs

The quantum of deposit raised by an NBFC is linked to the ratings. NBFCs have been incentivized to get rated by credit rating agencies through linking of their CRAR to the ratings. Accordingly, as of now a rated NBFC is required to maintain only 12 per cent of CRAR while unrated NBFCs need to maintain 15 per cent. Incidentally, the non-deposit taking NBFCs, though the rating is not mandatory by the regulator, get their instruments rated by the CRAs.

In the wake of the sub-prime financial crisis, there is a growing concern among the regulators about the potential gap between expectation and realization, *i.e.*, between reliance on credit ratings and the reliability of such ratings. The concern emanates mainly from the fact that inaccurate credit ratings could disturb the market allocation incentives, cost structures and competition. With growing competition among credit rating agencies commercial aspirations appear to be too high. The most oft repeated complaint against CRAs are that they lack accountability as credit rating agencies do not have a legal duty of accuracy and are often protected from liability in case of inaccurate ratings. This requires the attention of regulators and the government.

References:

RBI (1992): Report of the *Working Group on Financial Companies* (Chairman: Shri A. C. Shah), Reserve Bank of India, Mumbai.



number of NBFCs-D. Thus, only relatively bigger NBFCs-D were able to raise resources through deposits (Table VI.18 and Chart VI.4).

Region-wise Composition of Deposits held by NBFCs

6.27 There was a concentration of NBFCs-D in the northern region of the country, which accounted for 66.4 per cent of companies in the total number of NBFCs-D at end-March 2011. However, the deposit size of NBFCs-D in the northern region was considerably smaller in comparison with the NBFCs-D located in the southern region, which accounted for 72.4 per cent of deposits at end-March 2011. There was also an increase in the share of deposits held by NBFCs-D in the southern region during 2010-11 (Table VI.19 and Chart VI.5).

6.28 Among the metropolitan cities, New Delhi from the Northern region accounted for the largest number of NBFCs-D, while Chennai from the Southern region held the largest share of 73.9 per cent in total deposits of NBFCs-D.

Table VI.16: Consolidated Balance Sheet of NBFCs-D

(Amount in ₹ crore)

Item	As at end-March		Variation 2009-10		Variation 2010-11 P	
	2010	2011 P	Absolute	Per Cent	Absolute	Per Cent
1	2	3	4	5	6	7
1. Paid Up Capital+	3,892 (4.1)	3,643 (3.5)	75	2.0	-250	-6.4
2. Reserves Surplus	12,181 (12.9)	13,506 (12.8)	2,769	29.4	1,325	10.9
3. Public Deposits	2,831 (3.0)	4,062 (3.9)	860	43.6	1,231	43.5
4. Borrowings	64,078 (68.0)	69,816 (66.2)	8181	14.6	5,738	9.0
5. Other Liabilities	11,229 (11.9)	14,404 (13.7)	5,198	86.2	3,175	28.3
Total Liabilities/Assets	94,212 (100.0)	1,05,431 (100.0)	17,084	22.2	11,219	11.9
1. Investments	18,498	21,102	2,812	17.9	2,604	14.1
(i) SLR Investments@	9,634 (10.2)	13,487 (12.8)	222	2.4	3,854	40.0
(ii) Non-SLR Investments	8,864 (9.4)	7,614 (7.2)	2,590	41.3	-1,250	-14.1
2. Loans and Advances	71,119 (75.5)	77,901 (73.9)	13,108	22.6	6,782	9.5
3. Bill Business	45 (0.0)	89 (0.1)	21	87.9	44	97.4
4. Other Assets	4,550 (4.8)	6,339 (6.0)	1,143	33.6	1,789	39.3

P: Provisional

@ SLR investments comprises 'approved Securities' and 'unencumbered term deposits' in Scheduled Commercial Banks; Loans & advances includes Hire Purchase and Lease Assets

+ The fall in paid-up capital is on account of conversion of two major deposit taking NBFCs into non-deposit taking NBFCs.

Note: Figures in parentheses are percentage shares in respective total.

Source: Annual Returns.

Table VI.17: Major Components of Liabilities of NBFCs-D by Category of NBFCs

(Amount in ₹ Crore)

Classification of NBFCs	No. of NBFCs		Deposits		Borrowings		Liabilities	
	2009-10	2010-11 P	2009-10	2010-11 P	2009-10	2010-11 P	2009-10	2010-11 P
1	2	3	4	5	6	7	8	9
Asset Finance Companies	225	174	2,287 (80.8)	3,628 (89.3)	41,927 (65.4)	49,022 (70.2)	60,902 (64.6)	74,008 (70.2)
Loan Companies	65	43	544 (19.2)	434 (10.7)	22,151 (34.6)	20,795 (29.8)	33,310 (35.4)	31,424 (29.8)
Total	290	217	2,831	4,062	64,078	69,816	94,212	1,05,431

P: Provisional

Note: Figures in parentheses are percentage shares to total.

Source: Annual Returns.

Interest Rate on Public Deposits with NBFCs

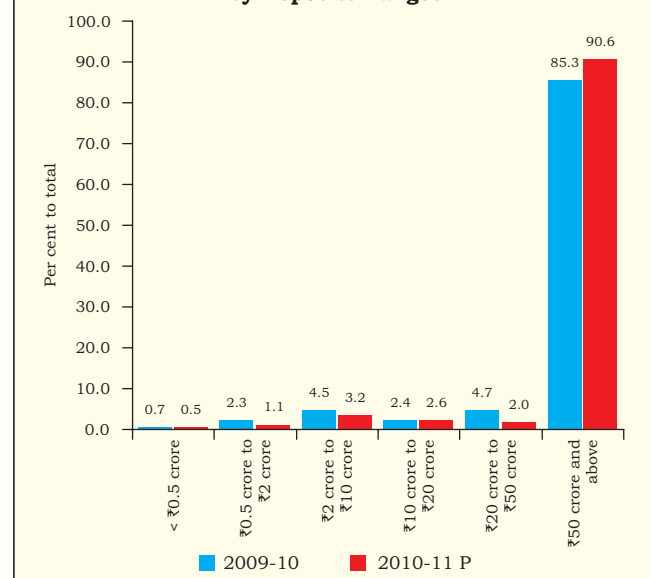
6.29 The largest amount of public deposits of NBFCs-D were raised at interest rates in the range of up to 10 per cent with the share accounting for about three-fourth as at end-March 2011 (Table VI. 20 and Chart VI.6).

Maturity Profile of Public Deposits

6.30 The largest proportion of public deposits raised by NBFCs-D belonged to the short to medium-term end of the maturity spectrum. At end-March 2011, the largest percentage of deposits had a maturity of more than two years and up to three years followed by less than 1

year maturity. In 2010-11, there was an increase in the shares of deposits belonging to more than 2 years and up to 3 years maturity category, while the shares of deposits belonging to almost all maturity categories showed a decline (Table VI.21 and Chart VI.7).

6.31 Banks and financial institutions were the dominant source of borrowings for NBFCs-D with a share of about 50 per cent at end-March 2011. The share of borrowings from the Government (extended only to Government Loan Companies) witnessed an increase, while there was a negligible amount from the external sources. Others (which include, *inter alia*, money borrowed from other companies, commercial paper, borrowings from mutual funds and any other type of funds, which were not treated as

Chart VI.4: Share of Public Deposits held by NBFCs-D by Deposits Ranges

Table VI.18: Public Deposits held by NBFCs-D by Deposit Ranges

(Amount in ₹ crore)

Deposit Range	As at end-March			
	No. of NBFCs		Amount of deposit	
	2009-10	2010-11P	2009-10	2010-11P
1	2	3	4	5
1. Less than Rs. 0.5 crore	184	134	21	19
2. More than Rs. 0.5 crore and up to Rs. 2 crore	60	38	64	44
3. More than Rs.2 crore and up to Rs.10 crore	27	28	128	129
4. More than Rs.10 crore and up to Rs.20 crore	5	7	69	108
5. More than Rs.20 crore and up to Rs.50 crore	4	2	133	81
6. Rs.50 crore and above	10	8	2,416	3,681
Total	290	217	2,831	4,062

P: Provisional

Source: Annual Returns.

Table VI.19: Public Deposits held by NBFCs-D - Region-wise

(Amount in ₹ crore)

Region	As at end-March			
	2010		2011 P	
	Number of NBFCs-D	Public Deposits	Number of NBFCs-D	Public Deposits
1	2	3	4	5
North	189	335	144	188
East	9	9	8	4
West	27	612	20	929
South	65	1,876	45	2,942
Total	290	2,831	217	4,062
Metropolitan cities:				
Kolkata	6	9	5	4
Chennai	37	1,812	26	2,864
Mumbai	11	592	6	907
New Delhi	55	207	50	98
Total	109	2,619	87	3,873

P: Provisional
Source: Annual Returns.

public deposits) registered a significant growth in 2010-11 resulting in a rise in its share in total borrowings of NBFCs-D (Table VI.22).

Assets of NBFCs

6.32 The total assets of deposit-taking NBFCs-D sector registered a moderate growth during 2010-11 mainly on account of increase in the assets of asset finance companies (Table VI.23).

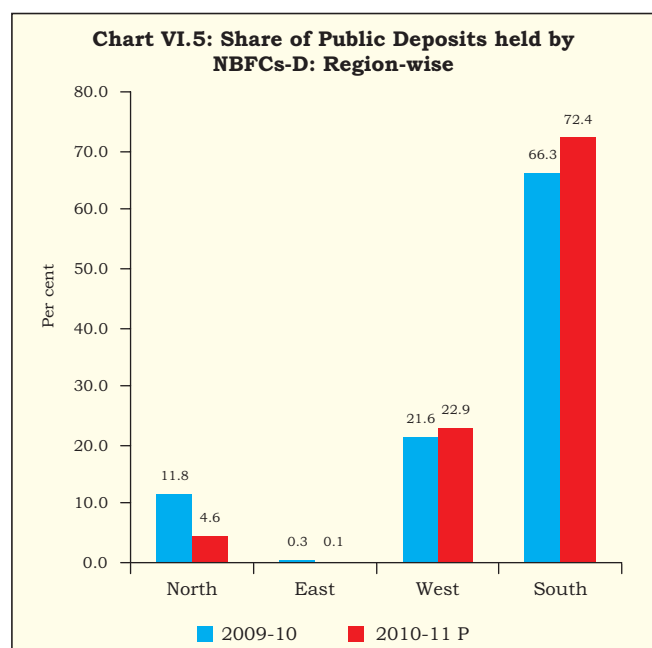


Table VI.20: Public Deposits held by NBFCs-D - Deposit Interest Rate Range-wise

(Amount in ₹ Crore)

Deposit Interest Rate Range	As at end-March	
	2010	2011 P
1	2	3
Up to 10 per cent	1,516 (53.6)	2,996 (73.8)
More than 10 per cent and up to 12 per cent	1,222 (43.2)	945 (23.3)
12 per cent and above	93 (3.3)	121 (3.0)
Total	2,831	4,062

P: Provisional
Note: The rate of interest on public deposits cannot however exceed 12.5 per cent.
 Figures in parentheses are percentage shares to total.
Source: Annual Returns.

As at end-March 2011, more than two-thirds of the total assets of the NBFCs-D sector were held by asset finance companies. Component-wise, advances accounted for predominant share of total assets followed by investment.

Distribution of NBFCs-D According to Asset Size

6.33 Based on their deposit taking capacity, only bigger NBFCs-D had larger asset base. At end-March 2011, only 7 per cent of NBFCs-D had an asset size of more than ₹ 500 crore, which

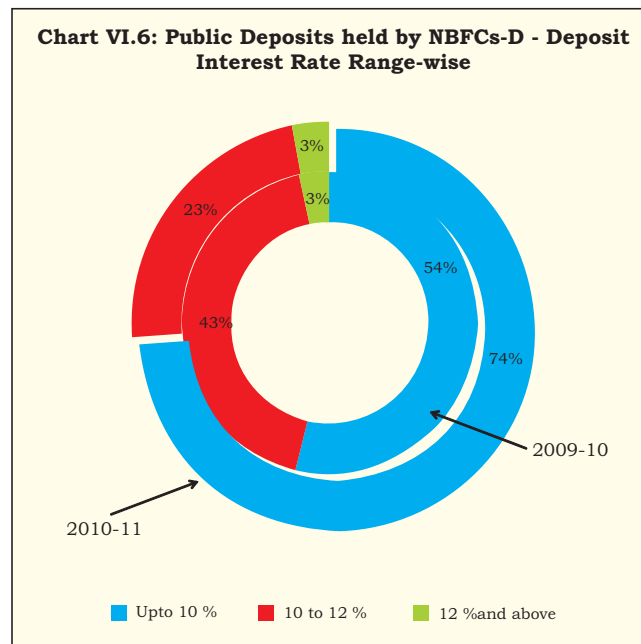


Table VI.21: Maturity Pattern of Public Deposits held by NBFCs-D

Maturity Period	As at end-March	
	2010	2011 P
1	2	3
1. Less than 1 year	1,034 (36.5)	982 (24.2)
2. More than 1 and up to 2 years	595 (21.0)	794 (19.6)
3. More than 2 and up to 3 years	1,031 (36.4)	1,988 (48.9)
4. More than 3 and up to 5 years	81 (2.9)	222 (5.5)
5. 5 years and above@	90 (3.2)	77 (1.9)
Total	2,831	4,062

P: Provisional

Note: Figures in parentheses are percentages to respective total.

@ Includes unclaimed public deposits of Rs.33 crore as on Mar 31, 2011 (Rs.58 crore in the previous year).

Source: Annual Returns.

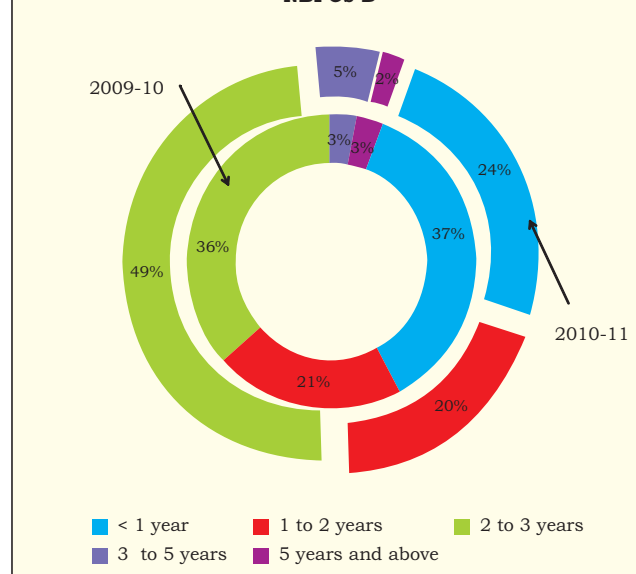
had a share of 97.5 per cent in total assets of all NBFCs-D (Table VI.24).

Distribution of Assets of NBFCs – Type of Activity

6.34 During 2010-11, assets held in the form of loans and inter corporate deposits and investments of NBFCs-D witnessed a significant growth. These two categories of activities constituted 93.9 per cent share in total assets of the NBFCs-D sector (Table VI.25).

Financial Performance of NBFCs-D

6.35 The financial performance of NBFCs-D witnessed improvement as reflected in the

Chart VI.7: Maturity Pattern of Public Deposits held by NBFCs-D


increase in their operating profits during 2010-11. This increase in profit was mainly on account of growth in income (fund based) while expenditure declined marginally. The operating profit along with an increase in tax provision resulted in almost doubling of net profit during 2010-11 (Table VI.26).

6.36 Expenditure as a percentage to average total assets witnessed a marginal decline during 2010-11, while income as a percentage to average total assets more or less remain same resulting in an increase in net profit to total average assets (Return on Assets) ratio of NBFCs-D (Chart VI.8).

Table VI.22: Sources of Borrowings by NBFCs-D by Classification of NBFCs

Classification	Government		External Sources @		Banks and Financial Institutions		Debentures		Others		Total Borrowings	
	2009-10	2010-11 P	2009-10	2010-11 P	2009-10	2010-11 P	2009-10	2010-11 P	2009-10	2010-11 P	2009-10	2010-11 P
	1	2	3	4	5	6	7	8	9	10	11	12
Asset Finance	0 (0.0)	0 (0.0)	757 (100.0)	3 (100.0)	24,159 (75.8)	28,329 (80.2)	12,030 (80.3)	12,285 (85.7)	4,980 (42.3)	8,405 (59.0)	41,927 (65.4)	49,022 (70.2)
Loan Companies	4,710 (100.0)	5,908 (100.0)	0 (0.0)	0 (0.0)	7,693 (24.2)	6,991 (19.8)	2,943 (19.7)	2,045 (14.3)	6,805 (57.7)	5,850 (41.0)	22,151 (34.6)	20,795 (29.8)
Total	4,710	5,908	757	3	31,853	35,320	14,973	14,330	11,785	14,256	64,078	69,816

P: Provisional; @ : Comprises (i) Foreign Government, (ii) Foreign Authority, and (iii) Foreign Citizen or Person.

Note: Figures in parentheses are percentages to respective total.

Source: Annual Returns.

Table VI.23 : Major Components of Assets of NBFCs-D by Classification of NBFCs

(Amount in ₹ crore)

Classification	As at end-March					
	Assets		Advances		Investment	
	2010	2011 P	2010	2011 P	2010	2011 P
1	2	3	4	5	6	7
Asset Finance Companies	60,902 (64.6)	74,008 (70.2)	46,651 (65.6)	55,724 (71.5)	10,688 (57.8)	12,630 (59.9)
Loan Companies	33,310 (35.4)	31,424 (29.8)	24,468 (34.4)	22,178 (28.5)	7,810 (42.2)	8,472 (40.1)
Total	94,212	1,05,431	71,119	77,901	18,498	21,102

P: Provisional

Figures in parentheses are percentages to respective totals.

Source: Annual Returns.

Soundness Indicators: Asset Quality of NBFCs-D

6.37 There was a significant decline in the gross NPAs to credit exposure ratio of NBFCs-D in 2010-11 in line with the trend observed in recent years. Net NPAs remained negative with provisions exceeding NPAs for last four consecutive years up to end-March 2011 (Table VI.27).

6.38 There was an improvement in the asset quality of asset finance and loan companies in 2009-10 as evident from a decline in the gross

NPAs to gross advances ratio for these companies (Table VI.28).

6.39 There was a decline in the shares of all three NPA categories of sub-standard, doubtful and loss assets of all companies in 2010-11 underlining the improvement in asset quality of these institutions. In case of loan companies, there was an improvement in share of standard assets at end-March 2011 to 98.7 per cent (Table VI.29).

Capital Adequacy Ratio

6.40 At end-March 2011, 199 out of 204 NBFCs had CRAR of more than 15 per cent or more (Table VI.30). This indicates that the NBFC sector is witnessing a consolidation process in the last few years, wherein the weaker NBFCs are gradually exiting and paving the way for

Table VI.24: Assets of NBFCs-D by Asset-Size Ranges

(Amount in ₹ crore)

	No. of Companies		Assets	
	2010	2011P	2010	2011P
1	2	3	4	5
1. Less than 0.25 Crore	3	2	0	0
2. More than 0.25 Crore and upto 0.50 Crore	20	9	8	3
3. More than 0.50 Crore and upto 2 Crore	105	70	125	80
4. More than 2 Crore and upto 10 Crore	91	73	416	347
5. More than 10 Crore and upto 50 Crore	37	34	831	822
6. More than 50 Crore and upto 100 Crore	10	8	702	508
7. More than 100 Crore and upto 500 Crore	7	6	1,377	831
8. Above 500 Crore	17	15	90,753	1,02,839
Total	290	217	94,212	1,05,431

P: Provisional.

Source: Annual Returns.

Table VI.25: Distribution of Assets of NBFCs-D by Activity

(Amount in ₹ crore)

Activity	As at end-March		Percentage Growth
	2010	2011 P	2011 P
1	2	3	4
Loans and Inter-corporate deposits	71,119 (75.5)	77,901 (73.9)	9.5
Investments	18,498 (19.6)	21,102 (20.0)	14.1
Bills	45 (0.1)	89 (0.1)	97.4
Other assets	4,550 (4.8)	6,339 (6.0)	39.3
Total	94,212	1,05,431	11.9

P: Provisional.

Note: Figures in parentheses are percentages to respective total.

Source: Annual Returns.

Table VI.26: Financial Performance of NBFCs-D

(Amount in ₹ crore)		
Item	As at end-March	
	2010	2011 P
1	2	3
A. Income (i+ii)	13,615	15,196
(i) Fund Based	13,388	15,069
	(98.3)	(99.2)
(ii) Fee-Based	227	127
	(1.7)	(0.8)
B. Expenditure (i+ii+iii)	11,038	10,934
(i) Financial	6,546	6,816
	(59.3)	(62.3)
of which Interest Payment	730	902
	(6.6)	(8.2)
(ii) Operating	2,666	2,968
	(24.2)	(27.1)
(iii) Others	1,825	1,150
	(16.5)	(10.5)
C. TAX Provisions	1,096	1,402
D. Operating Profit (PBT)	2,577	4,263
E. Net Profit (PAT)	1,482	2,861
F. Total Assets	94,212	1,05,431
G. Financial Ratios		
(as % to Total Assets)		
i) Income	14.5	14.4
ii) Fund Income	14.2	14.3
iii) Fee Income	0.0	0.0
iv) Expenditure	11.7	10.4
v) Financial Expenditure	0.1	0.1
vi) Operating Expenditure	2.8	2.8
vii) Tax Provision	1.2	1.3
viii) Net Profit	1.6	2.7
H. Cost to Income Ratio	81.1	72.0

P: Provisional.

Note : Figures in parentheses are percentage shares to total.

Source: Annual Returns.

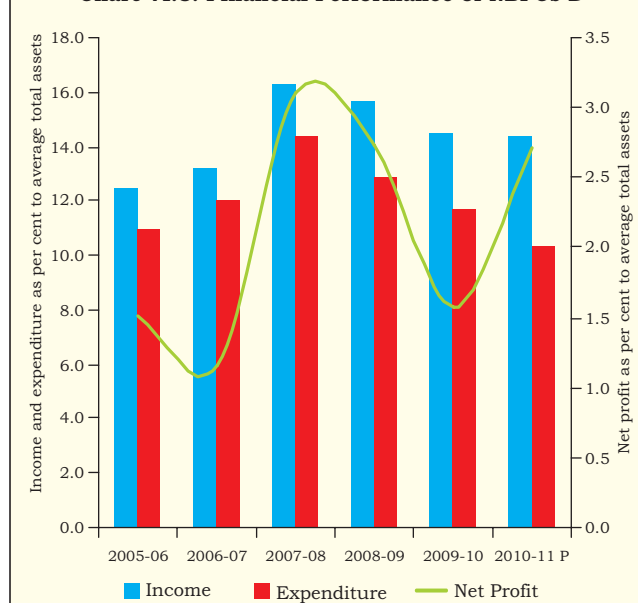
stronger ones. The ratio of public deposits to Net Owned Funds (NOF) of NBFCs taken together has increased marginally to 0.3 per cent at end-

Table VI.27: NPA Ratios of NBFCs-D

(per cent)		
End-March	Gross NPAs to Credit Exposure	Net NPAs to Credit Exposure
1	2	3
2002	10.6	3.9
2003	8.8	2.7
2004	8.2	2.4
2005	5.7	2.5
2006	3.6	0.5
2007	2.2	0.2
2008	2.1	#
2009	2.0	#
2010	1.3	#
2011P	0.7	#

#: Provision exceeds NPA.

Source: Half-Yearly return on NBFCs-D.

Chart VI.8: Financial Performance of NBFCs-D


March 2011 (Table VI.31). There was an increase in NOF and public deposits of NBFCs-D during 2010-11. This increase was mainly concentrated in the NOF size category of ₹ 500 crore and above (Table VI.32).

Residuary Non-Banking Companies (RNBCs)

6.41 Assets of the RNBCs declined by 36 per cent during the year ended March 2011. The assets mainly consist of investments in unencumbered approved securities, bonds/debentures and fixed deposits/certificates of

Table VI.28: NPAs of NBFCs-D by Category of NBFCs

(Amount in ₹ Crore)				
Classification/ End-March	Gross NPAs			
	Gross Advances	% to Gross Advances	Amount	Net Advances
1	2	3	4	5
Asset Finance				
2009-10	45,449	350	0.77	44,480
2010-11P	51,748	251	0.49	50,807
Loan Companies				
2009-10	20,529	541	2.63	19,913
2010-11P	18,295	243	1.33	18,046
All Companies				
2009-10	65,978	891	1.35	64,393
2010-11P	70,043	494	0.70	68,853

P: Provisional.

Source: Half-Yearly return on NBFCs-D.

Table VI.29: Classification of Assets of NBFCs-D by Category of NBFCs

(Amount in ₹ Crore)

Classification/ End-March	Standard Assets	Sub-standard Assets	Doubtful Assets	Loss Assets	Gross NPAs	Gross Advances
1	2	3	4	5	6	7
Asset Finance Companies						
2009-10	45,098 (99.2)	287 (0.6)	46 (0.1)	18 (0.0)	350 (0.8)	45,449 (100.0)
2010-11P	51,497 (99.5)	214 (0.4)	29 (0.1)	8 (0.0)	251 (0.5)	51,748 (100.0)
Loan Companies						
2009-10	19,989 (97.4)	298 (1.5)	169 (0.8)	74 (0.4)	541 (2.6)	20,529 (100.0)
2010-11P	18,053 (98.7)	102 (0.6)	140 (0.8)	0 (0.0)	243 (1.3)	18,295 (100.0)
All Companies						
2009-10	65,087 (98.6)	585 (0.9)	214 (0.3)	92 (0.1)	891 (1.4)	65,978 (100.0)
2010-11P	69,549 (99.3)	316 (0.5)	169 (0.1)	8 (0.0)	494 (0.7)	70,043 (100.0)

P: Provisional.

Note: Figures in parentheses are percentages to total credit Exposures.**Source:** Half-Yearly return on NBFCs-D.

deposit of SCBs. However, NOF of RNBCs increased marginally by 2.3 per cent in 2010-11 (Table VI.33).

6.42 The decline in the income of RNBCs during 2010-11 was more than the decline in expenditure, as a result of which the operating profits of RNBCs declined significantly during the year. Despite the decline in the provision for taxation, the net profits of RNBCs decreased sharply during 2010-11 compared to a significant increase in the previous year.

Regional Pattern of Deposits of RNBCs

6.43 At end-March 2011, there were two RNBC, of which, one was located in the eastern region

while the other was in the central region. RNBCs are in the process of migrating to other business models and the companies would reduce

Table VI.31: Net Owned Fund vis-à-vis Public Deposits of NBFCs-D by Category

(Amount in ₹ Crore)

Classification	Net Owned Fund		Public Deposits	
	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5
Asset Finance Companies	8,697	10,818	2,287 (0.3)	3,628 (0.3)
Loan Companies	4,806	4,170	545 (0.1)	434 (0.1)
Total	13,503	14,987	2,831 (0.2)	4,062 (0.3)

Note: Figures in parentheses are ratio of public deposits to net owned fund.**Source:** Annual Returns.**Table VI.30: Capital Adequacy Ratio of NBFCs-D**

(Number of companies)

CRAR Range	2009-10			2010-11P		
	AFC	LC	Total	AFC	LC	Total
1	2	3	4	5	6	7
1) Less than 12%	2	1	3	1	1	2
a) Less than 9%	2	0	2	1	1	2
b) More than 9% and up to 12%	0	1	1	0	0	0
2) More than 12% and up to 15%	1	0	1	1	2	3
3) More than 15% and up to 20%	5	3	8	5	3	8
4) More than 20% and up to 30%	21	7	28	19	3	22
5) Above 30%	182	53	235	142	27	169
Total	211	64	275	168	36	204

P: Provisional.

Note: AFC-Asset Finance Companies; LC-Loan Companies.**Source:** Half-yearly returns.

Table VI.32: Range of Net Owned Fund vis-à-vis Public Deposits of NBFCs-D

(Amount in ₹ Crore)

Range of NOF	2009-10			2010-11P		
	No. of Companies	Net Owned Fund	Public Deposits	No. of Companies	Net Owned Fund	Public Deposits
1	2	3	4	5	6	7
Up to 0.25 crore	4	-436	174	2	-200	32
More than 0.25 crore and up to 2 crore	172	130	46	113	84	32
More than 2 crore and up to 10 crore	70	265	134	65	266	136
More than 10 crore and up to 50 crore	27	538	189	20	453	113
More than 50 crore and up to 100 crore	1	66	52	2	120	104
More than 100 crore and up to 500 crore	6	1,405	480	7	1,712	453
Above 500 crore	10	11,535	1,754	8	12,553	3,192
Total	290	13,503	2,830	217	14,987	4,062

P: Provisional.

Source: Annual returns.

their deposit liabilities to 'nil' by 2015. Public deposits held by the two RNBCs registered a significant decline in 2010-11 mainly on account of a substantial decline in the deposits held by the RNBC located in the central region (Table VI.34).

Investment Pattern of RNBCs

6.44 Following the decline in deposits, there was a decline in the investments of RNBCs in 2010-11. The decline was noticeable in the

case of unencumbered approved securities (Table VI.35).

NBFCs-ND-SI

6.45 The assets of NBFCs-ND-SI for the year ended March 2011 showed an increase of 24 per cent over the year ended March 2010. Total borrowings (secured and unsecured) by NBFCs-ND-SI increased by 30 per cent during the year ended March 2011, constituting around two-thirds of the total liabilities (Table VI.36).

Table VI.33. Profile of RNBCs

(Amount in ₹ crore)

Item	As at end-March		Percentage Variation	
	2010	2011P	2009-10	2010-11P
1	2	3	4	5
A. Assets (i to v)	17,920	11,466	-11.6	-36.0
(i) Investment in Unencumbered Approved Securities	2,467	1,308	-53.0	-47.0
(ii) Investment in Fixed Deposits / Certificate of Deposits of Scheduled Comm. Banks/Public Fin. Institutions	4,860	2,652	-19.0	-45.4
(iii) Debentures / Bonds/ Commercial Papers of Govt. Companies/ Public Sector Banks/Public Fin. Institution/Corporation	5,860	2,876	-16.2	-50.9
(iv) Other Investments	710	49	137.4	-93.1
(v) Other Assets	4,022	4,582	130.9	13.9
B. Net Owned Fund	2,921	2,988	56.2	2.3
C. Total Income (i+ii)	1,946	1,159	-19.5	-40.4
(i) Fund Income	1,920	1,128	-17.1	-41.2
(ii) Fee Income	26	31	-74.2	18.8
D. Total Expenses (i+ii+iii)	1,400	1,006	-32.4	-28.1
(i) Financial Cost	974	631	-39.3	-35.2
(ii) Operating Cost	343	368	-9.5	7.3
(iii) Other Cost	83	7	-3.5	-91.4
E. Taxation	164	62	10.1	-62.2
F. Operating Profit(PBT)	546	153	57.5	-71.9
G. Net Profit(PAT)	382	91	93.1	-76.1

P: Provisional PBT: Profit Before Tax PAT: Profit After Tax

Source: Annual Returns.

Table VI.34: Public Deposits Held by RNBCs - Region-wise

(Amount in ₹ Crore)				
1	2009-10		2010-11P	
	No. of RNBCs	Public Deposits	No. of RNBCs	Public Deposits
1	2	3	4	5
Central	1	11,235 (77.4)	1	5,290 (66.9)
Eastern	1	3,285 (22.6)	1	2,612 (33.1)
Total	2	14,521	2	7,902
Metropolitan Cities				
Kolkata	1	3,285	1	2,612
Total	1	3,285	1	2,612

P: Provisional.
Note: Figures in parentheses are percentages to respective totals.
Source: Annual Returns.

Secured borrowings constitute the largest source of funds for NBFCs-ND-SI, followed by unsecured borrowings, and reserves and surplus.

Table VI.35. Investment Pattern of RNBCs

(Amount in ₹ Crores)		
	2009-10	2010-11P
1	2	3
Aggregate Liabilities to the Depositors (ALD)	14,521	7,902
(i) Unencumbered approved securities	2,467 (17.0)	1,308 (16.6)
(ii) Fixed Deposits with banks	4,860 (33.5)	2,652 (33.6)
(iii) Bonds or debentures or commercial papers of a Govt. Company/ public sector bank/public financial Institution/corporations	5,860 (40.4)	2,876 (36.4)
(iv) Other Investments	710 (4.9)	49 (0.6)

P: Provisional.
Note: Figures in parentheses as percentages to ALDs.
Source: Annual Returns.

6.46 NBFCs-ND-SI sector is growing rapidly and borrowings comprise their largest source of funds, mostly sourced from banks/FIs. Thus, they have a systemic linkage and need to be monitored closely to ensure that they do not pose

Table VI.36: Consolidated Balance Sheet of NBFCs-ND-SI

(Amount in ₹ Crore)			
Item	2009-10	2010-11P	Percentage Variation
1	2	3	4
1. Share Capital	36,462	40,591	11.3
2. Reserves & Surplus	1,27,131	1,45,177	14.2
3. Total Borrowings	3,85,779	5,00,938	29.9
A. Secured Borrowings	1,77,408	2,74,990	55.0
A.1. Debentures	58,590	98,292	67.8
A.2. Borrowings from Banks	45,850	92,698	102.2
A.3. Borrowings from FIs	7,971	7,769	-2.5
A.4. Interest Accrued	3,526	5,144	45.9
A.5. Others	61,471	71,086	15.6
B. Un-Secured Borrowings	2,08,371	2,25,948	8.4
B.1. Debentures	82,544	74,946	-9.2
B.2. Borrowings from Banks	43,575	45,129	3.6
B.3. Borrowings from FIs	2,471	2,923	18.3
B.4. Borrowings from Relatives	1,854	1,127	-39.2
B.5. Inter-Corporate Borrowings	22,153	24,883	12.3
B.6. Commercial Paper	31,049	32,321	4.1
B.7. Interest Accrued	3,696	4,355	17.8
B.8. Others	21,029	40,263	91.5
4. Current Liabilities & Provisions	39,433	43,648	10.7
Total Liabilities/ Total Assets	5,88,806	7,30,366	24.0
Assets			
1. Loans & Advances	3,48,517	4,58,173	31.5
1.1. Secured	2,48,655	3,32,544	33.7
1.2. Un-Secured	99,862	1,25,629	25.8
2. Hire Purchase Assets	41,685	50,019	20.0
3. Investments	1,19,788	1,36,143	13.7
3.1. Long Term Investments	82,944	95,662	15.3
3.2. Current Investments	36,844	40,481	9.9
4. Cash & Bank Balances	25,857	29,877	15.5
5. Other Current Assets	40,565	42,444	4.6
6. Other Assets	12,393	13,431	8.4
<i>Memo Items</i>			
1. Capital Market Exposure	59,905	78,399	30.9
<i>Of which</i>			
Equity Shares	27,772	31,743	14.3
2. CME as % to Total Assets	10.2	10.7	
3. Leverage Ratio	2.60	2.93	

P: Provisional.
Note: 1. Data presented above pertaining to ND-SIs which have consistently reported for time periods March 2010, March 2011 and June 2011. These ND-SIs constitutes 93.4 per cent of total assets of all reporting ND-SI.
 2. Capital market exposure (CME) includes: (i) investments in listed-instruments, and (ii) CME related loans & advances.
Source: Monthly Return on ND-SI.

any risk to the system. To the extent that they rely on bank financing, there is an indirect exposure to depositors. While the concentration of funding has risks, the caps on bank lending to NBFCs may constrain their growth. The leverage ratio of the entire NBFCs-ND-SI sector rose to 2.93 during 2010-11. This sector's exposure towards the sensitive sector that is prone to potential boom-bust cycles such as capital market also shows an increase. Rapid financial diversification has also posed new challenges for regulators, especially in devising appropriate regulatory safeguards for the highly complex NBFI sector (Box VI.3).

Borrowings of NBFCs-ND-SI by Region

6.47 The region-wise analysis of the total borrowings of the NBFCs-ND-SI reveals that the, Northern region along with the western region continued to account for more than 80 per cent of the total borrowings during the year ended March 2011 and March 2010; this trend continued during the quarter ended June 2011 also. All regions registered significant growth during the year ended March 2011 compared with the previous year. During the quarter ended June 2011, all regions continued with the same trend (Table VI.37).

Financial Performance

6.48 The financial performance of the NBFCs-ND-SI sector improved significantly as reflected in the increase in net profit during 2010-11 compared to the previous year. The ROA remained same during the same period (Table VI.38). Both the Gross and Net NPAs as a ratio to

Table VI.37: Borrowings of NBFCs-ND-SI (By Region)

(Amount in ₹ Crore)			
Region	March 2010	March 2011P	June 2011P
1	2	3	4
North	2,09,491	2,68,356	2,72,228
East	13,500	16,937	18,458
West	1,07,846	1,36,877	1,48,291
South	54,943	78,768	85,847
Total Borrowings	3,85,779	5,00,938	5,24,823

P: Provisional.
Source: Monthly Return on NBFCs-ND-SI.

Table VI.38: Financial Performance of NBFCs- ND-SI
(Amount in ₹ Crore)

Item	March 2010	March 2011P	June 2011P
1	2	3	4
1. Total Income	60,932	71,696	20,765
2. Total Expenses	43,609	50,118	14,842
3. Net Profit	12,231	15,619	4,667
4. Total Assets	5,88,806	7,30,366	7,61,805
Financial Ratios			
(i) Income as % to Total Assets	10.3	9.8	2.7
(ii) Expenditure as % to Total Assets	7.4	6.9	1.9
(iii) Net Profit to Total Income	20.1	21.8	22.5
(iv) Net Profit to Total Assets	2.1	2.1	0.6

P: Provisional.
Source: Monthly Return on ND-SI (₹ 100 Crore and above).

total asset of the entire NBFCs-ND-SI sector declined during the year ended March 2011. As on June 2011, there was marginal increase in NPA ratio (Table VI.39). At end-March 2011, 104 companies out of 253 NBFCs-ND-SI companies relied on owned fund to fund their assets. However, few companies showed their dependence on ICDs/commercial paper/banks to fund the significant portion of their assets (Table VI.40).

6.49 As on March 2011, the majority of reported companies maintained stipulated minimum norm of 15 per cent capital adequacy as measured by CRAR (Table VI.41). This indicates that there was considerable scope for NBFC-ND-SI to utilise its capital for further expansion. These companies were also largely dependent on the nationalised banks for their term loans, working capital loans, and debentures/CPs. New private banks have emerged as a second major bank group for these companies to raise term loans and working capital loans (Table VI.42).

Table VI.39: NPA Ratios of NBFCs-ND-SI

(Amount in ₹ Crore)			
Item	March 2010	March 2011P	June 2011P
1	2	3	4
1. Gross NPA to Gross Advances	2.8	1.8	2.3
2. Net NPA to Net Advances	1.2	0.7	1.2
3. Gross NPA to Total Assets	2.0	1.3	1.7
4. Net NPA to Total Assets	0.9	0.5	0.9

P: Provisional.
Source: Monthly Return on ND-SI (₹ 100 crore and above)

Box VI.3: Recommendations of the Working Group on the Issues and Concerns in the NBFC Sector

The Reserve Bank constituted a Working Group on the 'Issues and Concerns in the NBFC Sector' (Chairperson: Smt. Usha Thorat) to examine a range of emerging issues pertaining to the regulation of NBFC sector, *viz.*, (i) To review the concept of 'principal business' and to re-examine the need for separate regulatory categories of NBFCs; (ii) To re-assess the entry point norms for NBFCs; (iii) To revisit the current framework on exemptions to certain categories of NBFCs; (iv) To frame policy on multiple NBFCs within a single group and captive NBFCs floated by manufacturing or industrial houses; (v) To examine the need for convergence of regulation of NBFCs with that of best regulatory practices of banks; (vi) To recommend comprehensive 'Disclosure norms' for NBFCs; (vii) To examine the need to prescribe professional qualifications for Independent Directors on the Boards of NBFCs-ND-SI; (viii) To examine the need for monitoring assets in one or other type of NBFC; (ix) To arrive at a set of principles to guide the frequency and depth of supervision of NBFCs based on their size and interconnectedness with other institutions.

The Report was placed on the Reserve Bank website on August 23, 2011 for eliciting public comments. The key recommendations of the Working Group are as follows:

- (i) The minimum net owned fund (NOF) requirement for all new NBFCs wanting to register with the Reserve Bank could be retained at the present ₹2 crore till the Reserve Bank of India Act is amended. The Reserve Bank should, however, insist on a minimum asset size of more than ₹50 crore for registering any new NBFC. Existing NBFCs below this limit may deregister or be asked to seek a fresh certificate of registration at the end of two years;
- (ii) NBFCs not accessing public funds may be exempted from registration provided their assets are below ₹1,000 crore;
- (iii) Any transfer of shareholding, direct or indirect, of 25 per cent and above, change in control, merger or acquisition of any registered NBFC should have prior approval of the Reserve Bank;
- (iv) The twin criteria of assets and income for determining the principal business of an NBFC should be increased to 75 per cent of the total asset and 75 per cent of the total income, respectively. A time period of three years may be given to fulfill revised principal business criteria;
- (v) Tier I capital for Capital to Risk Weighted Assets Ratio (CRAR) purposes may be specified at 12 per cent to be achieved in three years for all registered deposit taking and non-deposit taking NBFCs;
- (vi) Liquidity ratio may be introduced for all registered NBFCs such that cash, bank balances and holdings of government securities fully cover the gaps, if any, between cumulative outflows and cumulative inflows for the first 30 days;
- (vii) Asset classification and provisioning norms similar to banks to be brought in phased manner for NBFCs. Suitable income tax deduction akin to banks may be allowed for provisions made under the regulations. Accounting norms applicable to banks may be applied to NBFCs;
- (viii) NBFCs may be subject to similar regulations as banks while lending to stock brokers and merchant banks and to similar regulation for stock brokers, as specified by the Securities and Exchange Board of India (SEBI), while undertaking margin financing;
- (ix) Financial conglomerate approach may be adopted for supervision of larger NBFCs that have stock brokers and merchant bankers in the group;
- (x) Government owned entities that qualify as NBFCs may comply with the regulatory framework applicable to NBFCs at the earliest.
- (xi) Board approved limits for bank's exposure to real estate may be made applicable for the bank group as a whole, where there is an NBFC in the group. The risk weights for NBFCs that are not sponsored by banks or that do not have any bank as part of the group may be raised to 150 per cent for capital market exposures (CME) and 125 per cent for commercial real estate (CRE) exposures. In case of bank sponsored NBFCs, the risk weights for CME and CRE may be the same as specified for banks;
- (xii) Captive NBFCs, the business models of which focus mainly (90 per cent and above) on financing parent company's products, may maintain Tier I capital at 12 per cent from the time of registration. Supervisory risk assessment of such companies should take into account the risk of the parent company;
- (xiii) For the purpose of applicability of registration and supervision, the total assets of all NBFCs in a group should be taken together to determine the cut off limit of ₹100 crore;
- (xiv) All NBFCs with assets of ₹100 crore and above, whether listed or not, should be required to comply with mandatory disclosures under Clause 49 of SEBI Listing Agreements.
- (xv) Disclosure for NBFCs with assets of ₹100 crore and above may include provision coverage ratio, liquidity ratio, asset liability profile, extent of financing of parent company products, movement of non-performing assets (NPAs), off-balance sheet exposures, structured products and securitizations/assignments.
- (xvi) NBFCs with assets of ₹1,000 crore and above should be inspected comprehensively on an annual basis and be subjected to annual stress testing to ascertain their vulnerability.

4. Primary Dealers

6.50 As on June 30, 2011, there were 21 Primary Dealers (PDs), of which 13 were banks

carrying on Primary Dealership business departmentally (Bank-PDs) and the remaining eight were non-bank entities, known as

Table VI.40: Dependence on Public Funds
 (As on Mar 31, 2011)

Dependence (per cent to Total Liabilities)	(Number of Companies)				
	Owned Fund	Banks	Deben- tures	Inter- Corporate Deposits	Comm- ercial Paper
1	2	3	4	5	6
0 per cent	0	179	187	182	216
0 to 20 per cent	46	30	35	49	23
20 to 40 per cent	47	24	18	10	8
40 to 60 per cent	27	15	9	7	3
60 to 80 per cent	29	5	4	2	3
80 to 100 per cent	104	0	0	3	0
Total Reporting Companies	253	253	253	253	253

standalone PDs, registered as NBFCs under Section 45 IA of the RBI Act, 1934. In April 2011, Goldman Sachs (India) Capital Markets Private Limited was given authorisation to undertake PD business on a standalone basis. Further, pursuant to the merger of IDBI Gilts Limited with its parent entity, IDBI Bank Limited was authorised to undertake PD business departmentally from April 2011.

Operations and Performance of PDs

6.51 During the year 2010-11, the actual bids submitted by PDs collectively (including bank-PDs) in Treasury Bills (T-Bills) auctions were ₹6,87,416 crore compared to their bidding commitment of ₹3,66,320 crore. The success ratio, *i.e.*, the total amount of bids of the PDs accepted to the total commitment of the PDs increased to 62 per cent from 56 per cent during 2009-10. In Cash Management Bills (CMBs) auctions, as against the total notified amount of ₹12,000 crore, PDs submitted bids

Table VI.41. Capital Adequacy Ratio of NBFCs-ND-SI
 (As on March 31, 2011)

CRAR Range	(Number of Companies)				
	AFC	IFC	IC	LC	Total
1	2	3	4	5	6
Less than 12 per cent	-	-	4	2	6
More than 12 per cent and up to 15 per cent	-	-	3	1	4
More than 15 per cent and up to 20 per cent	7	1	3	22	33
More than 20 per cent and up to 30 per cent	4	1	9	19	33
Above 30 per cent	4	1	127	66	198
Total	15	3	146	110	274

Note: AFC-Asset Finance Companies; IFC-Infrastructure Finance Companies; IC-Investment Companies; LC-Loan Companies.

Source: Annual returns.

for ₹38,495 crore, out of which 68.1 per cent of total bids of the PDs were accepted. PDs are required to achieve a minimum success ratio of 40 per cent for T-Bills and CMBs put together on a half-yearly basis. All the PDs had achieved the stipulated minimum success ratio in both the first and second half of 2010-11.

6.52 During the year 2010-11, dated G-Sec were issued for ₹4,37,000 crore by the Government of India under the market borrowing programme. PDs (including bank-PDs), offered to underwrite dated G-Sec amounting to ₹7,97,545 crore against the notified amount of ₹4,37,000 crore. In the dated G-Sec auctions, the share of the PDs (bids accepted to the securities issued) increased to 49.6 per cent in 2010-11 from 42.0 per cent in 2009-10 (excluding devolvments) (Table VI. 43). Partial devolvement on the PDs took place on 6

Table VI.42: Bank Exposure of NBFCs-ND-SI
 (As on March 31, 2011)

Bank Group	(Amount in ₹ Crore)				
	Term Loans	Working Capital Loans	Debentures/CPs	Others	Total
1	2	3	4	5	6
A. Nationalized Banks	74,806	14,233	4,519	312	93,870
B. State Bank Group	8,634	5,089	1,120	25	14,868
C. Old Private Banks	4,892	1,081	653	85	6,712
D. New Private Banks	23,076	6,541	3,463	370	33,450
E. Foreign Banks	6,947	1,958	995	725	10,625
All Banks	1,18,356	28,902	10,750	1,517	1,59,525

Source: Monthly returns.

Table VI.43 Performance of the PDs in the Primary Market
(At end-March)

(Amount in ₹ Crore)		
	2010	2011
1	2	3
Treasury Bills		
Notified Amount	3,80,000	3,04,000
Bidding Commitment	4,17,060	3,66,320
Actual Bids Submitted	7,54,041	6,87,416
Bid to Cover Ratio	2.0	2.3
Bids Accepted	2,33,648	2,27,104
Success Ratio (in per cent)	56.0	62.0
Central Govt. Securities		
Notified Amount	4,18,000	4,37,000
Actual Bids submitted	5,35,722	6,23,939
Bid to Cover Ratio	1.3	1.4
Bids Accepted	1,75,609	2,16,535
Share of PDs (in per cent)	42.0	49.6

instances for ₹5,772.7 crore during 2010-11 as compared to 18 instances for ₹7,219.2 crore in 2009-10.

Performance of Standalone PDs

6.53 During 2010-11, in the secondary G-Sec market, the share of turnover of standalone PDs to the total turnover of market participants increased from 15.9 per cent to 19 per cent with respect to outright transactions and from 7 per cent to 14 per cent in the case of repo transactions. Overall, the share of standalone PDs increased from 8.7 per cent to 16 per cent (Table VI.44).

Sources and Application of Funds of Standalone PDs

6.54 During the year 2010-11, IDBI Gilts Ltd. and Nomura Fixed Income Securities Ltd. had infused fresh capital. However, on account of partial buy-back of its capital by SBI DFHI Ltd., the capital as also reserves and surplus of the PDs put together declined marginally. While the unsecured loans of the PDs declined by 24 per cent, secured loans increased by 152 per cent.

6.55 As regards application of funds, investments in G-Sec increased by 38 per cent in 2010-11 compared to a decline of 14 per cent in

Table VI.44: Performance of Standalone PDs in the Secondary Market
(At end-March)

(Amount in ₹ Crore)		
	2010	2011
1	2	3
Outright		
Turnover of standalone PDs	9,02,093	10,89,956
Turnover of market participants	56,84,838	57,41,904
Share of PDs (per cent)	15.9	19.0
Repo		
Turnover of standalone PDs	17,00,382	11,45,970
Turnover of market participants	2,41,83,229	81,98,568
Share of PDs (per cent)	7.0	14.0
Total		
Turnover of standalone PDs	26,02,475	22,35,926
Turnover of market participants	2,98,68,067	1,39,40,472
Share of PDs (per cent)	8.7	16.0

Source: CCIL.

2009-10. However, investments in corporate bonds increased by 32 per cent as compared with 77 per cent in 2009-10 (Table VI.45).

Financial Performance of Standalone PDs

6.56 Notwithstanding the turnaround in the trading income, net profit of the PDs declined by about 22 per cent in 2010-11 mainly on account of increase in interest expenses and decline in other income. Hardening of G-Sec yields during the year impacted the treasury profits of standalone PDs (Table VI.46 and Appendix Table VI.2).

6.57 Overall, Return on Assets (ROA) decreased from 1.8 per cent in 2009-10 to 1.1 per cent in 2010-11 following the decline in net profit by 22 per cent while average assets rose by 30 per cent (Table VI.47). Stand-alone PDs continued to be well capitalised. The CRAR of individual stand-alone PDs remained above the prescribed minimum of 15 per cent as at end-March 2011. The CRAR of the stand-alone PDs as a group worked out to 46.2 per cent as at end-March 2011 (Table VI.48 and Appendix Table VI.3). The Government securities held by primary dealers as percentage to total assets has gone up to 66 per cent as at end-March 2011 from 61 per cent in the previous year (Table VI. 49).

Table VI.45: Sources and Applications of Funds of Standalone Primary Dealers

Item	End-March			Percentage Variation	
	2009	2010	2011	2010	2011
	2	3	4	5	6
Sources of Funds	10,307	10,308	13,030	0.01	26.40
1 Capital	1,121	1,541	1,521	37.47	-1.30
2 Reserves and Surplus	2,213	1,925	1,886	-13.01	-2.01
3 Loans (a+b)	6,973	6,842	9,622	-1.88	40.64
a) Secured	2,945	2,522	6,352	-14.36	151.85
b) Unsecured	4,028	4,320	3,271	7.25	-24.29
Application of Funds	10,307	10,308	13,030	0.01	26.40
1 Fixed Assets	13	14	38	7.69	169.86
2 Investments (a+b+c)	7,891	7,280	9,817	-7.74	34.86
a) Government Securities	7,305	6,258	8,648	-14.33	38.19
b) Commercial Papers	88	142	10	61.36	-93.08
c) Corporate Bonds	498	880	1,160	76.71	31.76
3 Loans and Advances	959	741	429	-22.73	-42.12
4 Non-current Assets	0	0	0		
5 Equity, Mutual Funds, etc.	22	68	25	209.09	-63.59
6 Others*	1,422	2,205	2,721	55.07	23.38

*: Others include cash + CDs + bank balances + accrued income + deferred tax assets – current liabilities and provisions.

Source: Annual Reports of the PDs.

5. Conclusions

6.58 The resources raised by FIs during 2010-11 were significantly higher over the previous year. All resource raising components, short-term, long-term and foreign currency resources witnessed a sharp rise. However, the weighted average cost of Rupee resources raised went up across the board. The financial performance of the FIs deteriorated during 2010-11 due to decrease in operating profit and net profit. There was a sharp rise in operating expenses during

the year mainly on account of wage revision. There was an increase in the amount of net NPAs of the FIs in 2010-11. The CRAR of all the FIs were above the stipulated minimum norm of 9 per cent indicating the scope for utilisation of capital for further credit expansion.

6.59 The financial performance of NBFCs-D showed improvement as reflected in an increase in the ratio of net profit to total assets during 2010-11. There was a decline in the shares of all three NPA categories such as sub-standard, doubtful and loss assets of NBFCs-D underlining the improvement in asset quality. Most of the NBFCs-D had CRAR of more than 15 per cent indicating the consolidation process in the sector. The size of balance sheet of NBFCs-D has expanded. On the asset side, loans and advances remain the most important source

Table VI.46: Financial Performance of Standalone Primary Dealers

Item	(Amount in ₹ crore)			
	2009-10	2010-11	Variation over 2009-10	
			Amount	Percentage
1	2	3	4	5
A. Income (i + ii + iii)	804	1,079	275	25.5
i) Interest and discount	690	970	280	28.8
ii) Trading Profit	-30	58	88	151.9
iii) Other income	144	51	-93	-181.3
B. Expenses (i + ii)	452	811	359	44.3
i) Interest	302	653	351	53.8
ii) Administrative Costs	150	158	8	4.9
Profit Before Tax	343	272	-71	-26.2
Profit After Tax	227	178	-49	-27.4

Source: Annual Reports of the PDs.

Table VI.47: Financial Indicators of Primary Dealers

Indicator	(Amount in ₹ crore)	
	2009-10	2010-11
1	2	3
i) Net profit	227	178
ii) Average Assets	12,815	16,697
iii) Return on Average Assets (in per cent)	1.8	1.1

Source: Returns submitted by PDs.

Table VI.48: CRAR of the Standalone Primary Dealers
(At end-March)

Particulars	(Amount in ₹ crore)	
	2010	2011
1	2	3
1. Total Net Capital Funds	3,610	3,626
2. Total Risk Weighted Assets	8,308	7,858
a) Credit Risk	2,803	3,350
b) Market Risk	5,505	4,508
3. CRAR (per cent)	43.5	46.2

Source: Returns submitted by PDs.

followed by investment. There was an increase in the share of deposits ranging more than two years and up to three years maturity category. More than two-thirds of total assets of the NBFCs-D sector were held by asset finance companies.

6.60 The financial performance of the NBFCs-ND-SI sector also improved significantly as reflected in the increase in net profit. But, the net profit as a ratio to total assets remained same during 2010-11. This sector is growing rapidly and borrowings comprise their largest source of funds mostly sourced from banks/FIs. Thus, they have systemic financial linkage that need to

Table VI. 49: Select Indicators of Primary Dealers
(At end-March)

Item	(Amount in ₹ crore)	
	2010	2011
1	2	3
Total Assets	10,308	13,030
<i>of which:</i> Government securities	6,258	8,648
Government securities as percentage of total assets	61	66
Liquidity Support Limit	3,000	3,000

Source: Returns submitted by PDs.

be monitored closely to ensure that they do not pose any risk.

6.61 The net profit of the PDs declined in 2010-11 mainly due to disproportionate increase in interest expenses and decline in other income. The hardening of G-Sec yields during the year had impact on the profits of stand-alone PDs.

6.62 The existing supervisory framework relating to NBFCs sector has to be enhanced to reflect the ongoing changes in perception of risk due to existence of regulatory arbitrage, rapid asset growth, extent of interconnectedness with the financial sector.