

Non-Banking Financial Institutions

During 2012-13, the non-banking financial sector witnessed further consolidation as the number of Non-Banking Financial Companies (NBFCs) operating in the economy declined. On the whole, Non-Banking Financial Institutions (NBFIs) had a comfortable capital adequacy position. Several regulatory guidelines were issued by the Reserve Bank to increase the resilience of the sector. From time to time, the Reserve Bank has also been carrying outreach and sensitisation programmes, besides issuing public notices, cautioning the general public not to fall prey to fictitious offers promising unsustainable returns by individuals, unincorporated bodies and companies.

1. Introduction

6.1 Non-Banking Financial Institutions (NBFIs) are a heterogeneous group of institutions that cater to a wide range of financial requirements and can broadly be grouped as financial institutions (FIs), non-banking financial companies (NBFCs) and primary dealers (PDs). This chapter provides an analysis of financial performance and soundness indicators related to each segment of NBFIs during 2012-13 and is organised as follows. Section 2 analyses the financial performance of FIs, while Section 3 discusses the financial performance of NBFCs accepting public deposits (NBFCs-D), Non-Deposit taking Systemically Important NBFCs (NBFCs-ND-SI) and residuary non-banking companies (RNBCs). Section 4 provides an analysis of the performance of PDs in primary and secondary markets, which is followed by an overall assessment in the last section.

2. Financial Institutions

6.2 As at end-March 2013, there were four financial institutions (FIs) under the regulation and supervision of the Reserve Bank viz., the Export-Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI) (Table VI.1). The Industrial

Table VI.1: Ownership Pattern of Financial Institutions
(As at end-March 2013)

Institution	Ownership	Per cent
1	2	3
EXIM Bank	Government of India	100
NABARD	Government of India	99.3
	Reserve Bank of India	0.7
NHB	Reserve Bank of India	100
SIDBI*	Public Sector Banks	62.5
	Insurance Companies	21.9
	Financial Institutions	5.3
	Others	10.3

*: Three major shareholders of SIDBI are - IDBI Bank Ltd. (19.2%), State Bank of India (15.5%) and Life Insurance Corporation of India (14.4%).

Investment Bank of India (IIBI), the fifth FI, is in the process of voluntary winding-up. The Ministry of Finance had issued a gazette notification to this effect on September 16, 2012.

Operations of Financial Institutions

Decline in the financial assistance sanctioned and disbursed by Financial Institutions

6.3 The financial assistance sanctioned and disbursed by FIs decreased during 2012-13 (Table VI.2).

Assets and Liabilities of FIs

6.4 The combined balance sheet of all the four FIs expanded by 15.9 per cent during 2012-13 (Table VI.3). On the liability side, “deposits” along with “bonds and debentures” constituted more

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

(Amount in ₹ billion)

Category	Amount				Percentage Variation	
	2011-12		2012-13 P		2012-13	
	S	D	S	D	S	D
1	2	3	4	5	6	7
(i) All-India Term-lending Institutions*	480.1	474.9	433.4	421.8	-9.7	-11.2
(ii) Specialised Financial Institutions [#]	10.9	8.5	7.1	6.2	-34.9	-27.1
(iii) Investment Institutions [@]	544.1	519.7	447.8	466.6	-17.7	-10.2
Total Assistance by FIs (i+ii+iii)	1,035.1	1,003.1	888.3	894.6	-14.2	-10.8

P: Provisional; S: Sanctions; D: Disbursements.

*: Relating to IFCI, SIDBI and IIBI.

#: Relating to IVCF, ICICI Venture and TFCL.

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

Source: Respective Financial Institutions.

than 60 per cent of total liabilities. On the assets side, “loans and advances” continued to be the single largest component, accounting for 88.8 per cent of total assets.

Resources Mobilised by FIs

Lower resources raised, but increased dependence on foreign currency resources

6.5 Total resources raised by FIs during 2012-13 were lower than the previous year. Both

short-term and long-term resources raised declined, while those raised through foreign currency recorded a sharp increase (Table VI.4). Rise in foreign currency borrowings was mainly with respect to EXIM Bank as it more than doubled its external borrowings during the year.

6.6 In the money market, among the four FIs, NABARD raised the largest amount of resources followed by EXIM Bank, SIDBI and NHB (Table VI.5). Commercial papers (CPs) were the

Table VI.3: Liabilities and Assets of Financial Institutions

(As at end-March)

(Amount in ₹ million)

Item	2012	2013	Percentage Variation	Item	2012	2013	Percentage Variation
1	2	3	4	1	2	3	4
Liabilities				Assets			
1. Capital	62,000 (1.8)	79,594 (2.0)	28.4	1. Cash & Bank Balances	67,398 (2.0)	91,802 (2.4)	36.2
2. Reserves	4,65,243 (13.8)	4,89,948 (12.6)	5.3	2. Investments	1,25,589 (3.7)	1,17,610 (3.0)	-6.4
3. Bonds & Debentures	10,72,973 (31.9)	12,33,408 (31.6)	15.0	3. Loans & Advances	29,81,996 (88.7)	34,59,842 (88.8)	16.0
4. Deposits	10,90,780 (32.4)	13,09,191 (33.6)	20.0	4. Bills Discounted/ Rediscounted	29,636 (0.9)	42,733 (1.1)	44.2
5. Borrowings	4,95,207 (14.7)	5,65,741 (14.5)	14.2	5. Fixed Assets	5,364 (0.2)	6,258 (0.2)	16.7
6. Other Liabilities	1,77,085 (5.3)	2,20,384 (5.7)	24.5	6. Other Assets	1,53,306 (4.6)	1,80,020 (4.6)	17.4
Total Liabilities/Assets	33,63,288	38,98,265	15.9				

Notes: 1. Data pertain to four FIs - EXIM Bank, NABARD, NHB and SIDBI.

2. Figures in parentheses are percentages to total liabilities/assets.

Source: Audited OSMOS returns of EXIM Bank, NABARD & SIDBI (for end-March) and NHB (for end-June) of respective years.

Table VI.4: Resources Mobilised by Financial Institutions

(Amount in ₹ billion)

Institution	Total Resources Raised								Total Outstanding (As at end-March)	
	Long-Term		Short-Term		Foreign Currency		Total			
	2011-12	2012-13 P	2011-12	2012-13 P	2011-12	2012-13 P	2011-12	2012-13 P	2011-12	2012-13 P
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	88	111	55	59	84	194	227	364	547	645
NABARD	179	174	90	85	-	-	269	259	423	447
NHB*	555	87	827	466	-	-	1,382	553	607	341
SIDBI	139	98	80	49	20	7	239	154	440	480
Total	961	470	1052	659	104	201	2,117	1,330	2,016	1,913

P: Provisional.

-: Indicates nil/ negligible.

*: Position as at end-June.

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

Source: Respective FIs.

major instruments for raising funds from the money market for all the four FIs during 2012-13.

Sources and Uses of Funds

Sharp rise in external sources of funds raised by FIs

6.7 During 2012-13, funds raised by FIs from external sources increased by 73.4 per cent, while that from internal sources decreased by 9.3 per

cent (Table VI.6). Share of “other” sources of funds for the FIs more than doubled to 8.1 per cent. In case of deployment of funds, the share of fresh deployments declined sharply to 43.8 per cent, whereas the funds used in other deployments surged significantly to 28.2 per cent.

Table VI.6: Pattern of Sources and Deployment of Funds of Financial Institutions

(As at end-March)

(Amount in ₹ billion)

Table VI.5: Resources Raised by Financial Institutions from Money Market

(As at end-March 2013)

(Amount in ₹ billion)

Instrument	EXIM	NABARD	NHB	SIDBI	Total
1	2	3	4	5	6
A. Total	65.2	85.0	11.0	27.3	188.5
i) Term Deposits	6.1	0	0.7	6.7	13.5
ii) Term Money	0	3.1	0	0	3.1
iii) Inter-Corporate Deposits (ICDs)	0	0	0	0	0
iv) Certificate of Deposits (CDs)	6.3	0	0	0	6.3
v) Commercial Paper (CPs)	52.8	81.9	10.3	20.6	165.6
vi) Short-term loans from banks	0	0	38.3	0	38.3
<i>Memo:</i>					
B. Umbrella Limit	85.8	164.1	47.3	64.0	361.1
C. Utilisation of Umbrella limit*	76.0	51.8	23.3	42.6	52.2
(A as percentage of B)					

#: Resources raised under the Umbrella Limit include A (i) through A (v).

Source: Data submitted by Financial Institutions.

Item	2012	2013 P	Percentage Variation
1	2	3	4
A. Sources of Funds (i+ii+iii)	4,252 (100)	5,406 (100)	27.1
i. Internal	2,623 (61.7)	2,378 (44.0)	-9.3
ii. External	1,495 (35.2)	2,592 (48.0)	73.4
iii. Others@	134 (3.2)	436 (8.1)	225.4
B. Deployment of Funds (i+ii+iii)	4,252 (100)	5,406 (100)	27.1
i. Fresh Deployment	2,739 (64.4)	2,365 (43.8)	-13.6
ii. Repayment of Past Borrowings	1,292 (30.4)	1,517 (28.1)	17.6
iii. Other Deployment	221 (5.2)	1,524 (28.2)	586.5
of which: Interest Payments	145 (3.4)	183 (3.4)	26.2

P: Provisional.

@: Includes cash and balances with banks and the Reserve Bank of India

Notes: 1. Data pertain to EXIM Bank, NABARD, NHB and SIDBI.

2. Figures in parentheses are percentages to total.

Source: Respective FIs.

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

Institution	Weighted Average Cost (Per cent)		Weighted Average Maturity (Years)	
	2011-12	2012-13 P	2011-12	2012-13 P
1	2	3	4	5
EXIM Bank	9.0	9.0	2.8	3.5
SIDBI	7.5	7.6	4.9	4.9
NABARD	9.5	9.3	1.9	1.8
NHB*	8.8	7.7	0.9	2.9

P: Provisional.

*: Position as at end-June.

Source: Respective FIs.

Maturity and Cost of Borrowings and Lending

6.8 During 2012-13, while the weighted average cost (WAC) of rupee resources raised by NHB and NABARD decreased, that for SIDBI increased marginally and for EXIM Bank, it remained at the previous level of 9 per cent (Table VI.7). NABARD had the highest WAC of rupee resources raised and SIDBI had the least. Insofar as weighted average maturity (WAM) is concerned, while SIDBI had the longest WAM of 4.9 years, NABARD had the shortest WAM of 1.8 years. During 2012-13, while NHB lowered its long-term prime lending rate (PLR), EXIM Bank and SIDBI kept their PLRs unchanged (Table VI.8).

Financial Performance of FIs**Rise in profitability due to increase in non-interest income**

6.9 Financial performance of FIs improved during 2012-13 as both their operating and net

Table VI.9: Financial Performance of Financial Institutions

(Amount in ₹ million)

Items	2011-12	2012-13	Variation	
			Amount	Percentage
A) Income (a+b)	2,26,650	2,75,010	48,360	21.34
a) Interest Income	2,16,887 (95.7)	2,60,884 (94.9)	43,997	20.3
b) Non-Interest Income	9,764 (4.3)	14,126 (5.1)	4,362	44.7
B) Expenditure (a+b)	1,62,933	1,99,626	36,693	22.50
a) Interest Expenditure	1,48,850 (91.4)	1,83,811 (92.1)	34,961	23.5
b) Operating Expenses	14,082 (8.6)	15,815 (7.9)	1,733	12.3
of which:				
Wage Bill	10,193	11,154	961	9.4
C) Provisions for Taxation	16,170	17,486	1,316	8.1
D) Profit				
Operating Profit (PBT)	48,810	55,863	7,053	14.5
Net Profit (PAT)	32,640	38,377	5,737	17.6
E) Financial Ratios[@]				
Operating Profit	1.8	1.5	-	-
Net Profit	1.0	1.1	-	-
Income	7.1	7.6	-	-
Interest Income	6.8	7.2	-	-
Other Income	0.3	0.4	-	-
Expenditure	5.1	5.5	-	-
Interest Expenditure	4.0	5.1	-	-
Other Operating Expenses	0.4	0.4	-	-
Wage Bill	0.3	0.3	-	-
Provisions	0.5	0.5	-	-
Spread (Net Interest Income)	2.1	2.1	-	-

PBT: Profit Before Tax; PAT: Profit After Tax.

@: As per cent of total average assets.

Note: Figures in parentheses are percentages to total income/expenditure.**Source:** Audited OSMOS returns of EXIM Bank, NABARD & SIDBI (for end-March) and NHB (for end-June) of respective years.**Table VI.8: Long-term PLR Structure of Select Financial Institutions**

(Per cent)

Effective	EXIM Bank	SIDBI	NHB
1	2	3	4
March 2012	15.0	12.75	10.50
March 2013	15.0	12.75	9.75

Source: Respective FIs.

profits increased. Increase in FIs' operating expenses during 2012-13 was mainly led by higher wage bill (Table VI.9). Return on assets (RoA) in respect of all the FIs remained almost stable during 2012-13. Amongst the FIs, SIDBI had the highest RoA followed by NHB, EXIM Bank and NABARD (Table VI.10).

Table VI.10: Select Financial Parameters of Financial Institutions
(As at end-March)

Institution	Interest Income/ Average Working Funds (Per cent)		Non-Interest Income/ Average Working Funds (Per cent)		Operating Profit/ Average Working Funds (Per cent)		Return on Average Assets (Per cent)		Net Profit per Employee (₹ million)	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	7.1	7.9	0.6	0.5	2.5	2.4	1.1	1.1	26.7	27.0
NABARD	6.5	6.9	0.1	0.1	1.4	1.5	1.0	0.9	3.6	4.1
NHB*	8.6	8.5	0.04	0.05	2.1	2.2	1.4	1.1	40.7	48.4
SIDBI	8.5	8.6	0.2	0.3	3.4	3.4	2.0	2.0	5.5	7.9

*: Position as at end-June.

Source: Statements furnished by the FIs.**Soundness Indicators****Asset Quality****Impaired assets increased during the year**

6.10 As compared to last year, net NPAs of FIs at aggregate level increased mainly on account of higher net NPAs in respect of EXIM Bank, SIDBI and NHB. The largest quantum of net NPAs was held by SIDBI, followed by EXIM Bank, and NHB. NABARD had the least NPAs among the FIs and its NPA position, in fact, improved during the year (Table VI.11). The rise in net NPAs of NHB was on account of restructured loan accounts being classified as “sub-standard” asset (Table VI.12).

6.11 During 2012-13, while the FIs’ total loss assets declined, the quantum of sub-standard

Table VI.11: Net Non-Performing Assets of Financial Institutions
(As at end-March)

(Amount in ₹ million)

Institution	Net NPAs		Net NPAs/Net Loans (Per cent)	
	2012	2013	2012	2013
1	2	3	4	5
EXIM Bank	1,558	3,047	0.29	0.47
NABARD	371	237	0.02	0.01
NHB*	0	1,561	0.00	0.45
SIDBI	1,847	3,073	0.36	0.55
All FIs	3,776	7,917	0.13	0.23

*: Position as at end-June.

Source: Audited OSMOS returns of EXIM Bank, NABARD & SIDBI (for end-March) and NHB (for end-June) of respective years.

and doubtful assets increased. EXIM Bank and SIDBI’s sub-standard assets increased, whereas those of NABARD declined substantially.

Table VI.12: Asset Classification of Financial Institutions
(As at end-March)

(Amount in ₹ million)

Institution	Standard		Sub-standard		Doubtful		Loss	
	2012	2013	2012	2013	2012	2013	2012	2013
1	2	3	4	5	6	7	8	9
EXIM Bank	5,37,340	6,40,483	4,044	8,545	3,871	6,559	44	44
NABARD	16,49,324	19,51,980	221	8	682	1,093	10	10
NHB*	2,85,159	3,44,671	0	1,806	0	34	0	0
SIDBI	5,36,034	5,57,606	2,123	4,477	385	352	1,227	713
All FIs	30,07,857	34,94,740	6,388	14,836	4,938	8,038	1,281	767

*: Position as at end-June.

Source: Audited OSMOS returns of EXIM Bank, NABARD & SIDBI (for end-March) and NHB (for end-June) of respective years.

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

(Per cent)		
Institution	2012	2013
1	2	3
EXIM Bank	16.4	15.3
NABARD	20.6	18.3
NHB*	19.7	16.7
SIDBI	29.2	28.2

*: Position as at end-June.

Source: Audited OSMOS returns of EXIM Bank, NABARD & SIDBI (for end-March) and NHB (for end-June) of respective years.

Capital Adequacy

Capital adequacy position of FIs remains comfortable

6.12 The CRAR of all the FIs was lower during 2012-13 than the previous year. However, all the four FIs maintained a CRAR higher than the minimum stipulated norm of 9 per cent (Table VI.13).

3. Non-Banking Financial Companies

6.13 Based on liabilities, NBFCs are classified into two categories - Category "A" companies (NBFCs-D), and Category "B" companies (NBFCs not raising public deposits or NBFCs-ND). NBFCs-D are subject to requirements of capital adequacy, maintaining liquid assets, exposure norms (including restrictions on exposure to investments in land, building and unquoted shares), ALM discipline and reporting requirements. Category "B" companies, in contrast, were subject to minimal regulation till 2006. However, since April 1, 2007, non-deposit taking NBFCs with assets of ₹1 billion and above have been classified as NBFCs-ND-SI and prudential regulations such as capital adequacy requirements and exposure norms along with reporting requirements have been made applicable to them. Capital market exposure (CME) and asset liability management (ALM) reporting and disclosure norms were also made applicable to them at different points of time.

6.14 In terms of activities undertaken, NBFCs are classified into eight categories, viz., Asset Finance

Companies (AFCs), Investment Companies (ICs), Loan Companies (LCs), Infrastructure Finance Companies (IFCs), Core Investment Companies (CICs), Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs), Non-Banking Financial Company - Micro Finance Institutions (NBFC-MFIs) and NBFC-Factors.

6.15 During 2012-13, various policy measures were introduced to improve the regulation and supervision of NBFCs (see Chapter III). The Reserve Bank has been carrying outreach and sensitisation programmes, besides issuing public notices, from time to time, cautioning the general public not to fall prey to fictitious offers promising unsustainable returns by individuals, unincorporated bodies and companies. Further, the Reserve Bank has also advised the public to evaluate their investment decisions carefully, including making deposit with NBFCs. The Reserve Bank also clarified that it does not regulate chit fund activities or Collective Investment Schemes (CIS). It regulates only those NBFCs that conduct financial activity as their principal business and that it has authorised only a few of them to accept deposits and such entities do not enjoy DICGC's deposit insurance facility.

6.16 In the aftermath of recent global financial crisis, the operations of shadow banking system have come under scrutiny of regulators in large number of economies. The form of shadow banking prevalent in developed economies and other EMEs is very different from what prevails in India. In India, NBFCs, which remain outside the regulatory framework as applicable to banks, in essence, are referred to as shadow banking (Box VI.1).

6.17 As per the ownership structure of NBFCs-ND-SI and deposit-taking NBFCs as at end-March 2013, it is found that a majority of them were non-government Public Limited Companies (Table VI.14).

Box VI.1: Shadow Banking in India: Some Issues

The recent global financial crisis brought to fore the role of 'shadow banking' and the related issues. Shadow banking essentially refers to a system wherein financial entities (such as money market entities, private equity funds, hedge funds, securitisation companies, structured investment vehicles, etc.) undertake credit intermediation activities akin to banks, while remaining outside the traditional regulatory regime, which are otherwise applicable to banks. In 2007, Paul McCulley had coined the term "shadow bank" mainly referring to US-based non-bank financial institutions engaging in maturity transformation (use of short-term deposits to finance long-term loans). The Financial Stability Board (FSB) has defined "shadow banking" as "credit intermediation involving entities and activities (fully or partially) outside the regular banking system". It is estimated that the global shadow banking system could have been running to \$67 trillion at the end of 2011, which is 25 per cent of the total financial intermediation (FSB, 2012). According to a report by FSB (2012), the largest relative presence of a shadow banking system (NBFIs/OFIs) is in Netherlands (45 per cent), followed by USA (35 per cent), Hong Kong (around 35 per cent), the euro area (30 per cent), Switzerland, UK, Singapore, and Korea (all around 25 per cent).

The modus operandi of shadow banking lacks transparency with respect to its business model, leverage position; ownership, etc. which leaves it less amenable to regulatory framework. Since shadow bank entities have no access to central bank funding or safety nets like deposit insurance, they remain vulnerable to shocks posing systemic risk depending on their size and inter-connectedness with the formal financial system. While the merits of the shadow banking system of providing quick, customised, cost-effective, and an alternate source of credit and liquidity remains undisputed, its capacity to precipitate systemic crisis, which was manifested in the recent global financial crisis, cannot be wished away.

In the years preceding the recent global financial crisis, these entities expanded into new vistas of financial activities/instruments, which, at times, also crossed borders to meet the growing risk appetite of various investors. The expansion of shadow banking activities was apathetic to the risks associated with them. The existence of shadow banking system was stated to have amplified the magnitude of the crisis owing to the following factors. Firstly, the inter-connection between the regular banking and shadow banking systems had increased as the banks were lenders to these entities. Products issued by the latter enhanced the leveraged position of the banks and put them to a higher risk position. Secondly, due to the near absence of regulation, the shadow banking system was able to operate without internalising the true cost of its risk and more entities (including banks) preferred to take the route of shadow banking that circumvented banking regulations. This type of regulatory arbitrage led to a system-wide build-up of huge leverage and risks. Thirdly, since shadow banks relied more on short-term deposit-like funding, which had no deposit insurance, loss of confidence resulted in "runs" on these unregulated institutions.

While the role of shadow banking generated apparent economic efficiencies through financial innovations, the crisis demonstrated that shadow banking also created new channels of contagion and systemic risk transmission between traditional banks and the capital markets. Therefore, globally a need was felt to bring such unregulated entities under the regulatory architecture. The United States passed the Dodd-Frank Act in 2010 that strengthened the arms of the Federal Reserve to regulate all institutions of systemic importance. In order to control burgeoning shadow banking activities, the European Union has put in place some measures, which *inter alia* include prudential rules concerning securitisation, regulation of credit rating agencies, etc. Further, at the request of the G-20 countries, FSB has been framing policies to strengthen the oversight and regulation of the shadow banking system at international level so that the risks emanating from them may be mitigated.

In India, NBFCs, which perform bank-like credit intermediation activities, while remaining outside the banking regulatory framework, essentially embody the shadow banking system (Sinha, 2013). The form of "shadow banking system" (for example, hedge funds, proprietary funds, special investment vehicles and leveraged funds) as it exists in much of the developed world is largely unrelated to the Indian context. India is essentially a bank-dominated financial system wherein banks account for about 60 per cent of the financial sector's assets. The assets of entire "other financial intermediaries" (OFIs) accounted for approximately 24 per cent of bank assets as on March 31, 2012, whereas the assets of the NBFC sector alone accounted for 12 per cent, which denotes the significance of NBFCs in the shadow banking system (Sinha, *op. cit.*). Thus, as compared to other advanced economies, the size and activities of shadow banking in India are relatively smaller. Furthermore, unlike many advanced countries, in India, there is a well-defined regulatory framework for NBFCs and overtime, progressive and prudent regulatory measures have brought consolidation in the sector. *Albeit*, the global financial crisis in 2008 put some pressure on the NBFC sector in the country due to funding inter-linkages among NBFCs, mutual funds and commercial banks, these were duly resolved. The crisis, however, brought to the fore certain regulatory issues concerning the NBFC sector, particularly risks arising from regulatory gaps, arbitrage and systemic inter-connectedness. These are being continually addressed through appropriate regulatory measures. Recently, the Reserve Bank of India also appointed a Working Group to macro-map the shadow banking sector in India. The Working Group is expected to submit the report in due course.

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Table VI.14: Ownership Pattern of NBFCs-ND-SI and NBFCs-D
(As at end-March 2013)

(Number of Companies)		
Ownership	NBFCs-ND-SI	NBFCs-D
1	2	3
A. Government Companies	9 (2.2)	7 (2.8)
B. Non-Government Companies (1+2)	409 (97.8)	247 (97.2)
1. Public Ltd. Companies	218 (52.2)	245 (96.5)
2. Private Ltd. Companies	191 (45.7)	2 (0.8)
Total No. of Companies (A+B)	418 (100.0)	254 (100.0)

Note: Figures in parentheses are percentages to total.

Profile of NBFCs (including RNBCs)

The NBFC segment is witnessing consolidation

6.18 The total number of NBFCs registered with the Reserve Bank declined marginally to 12,225 as at end-June 2013 (Chart VI.1). The number of

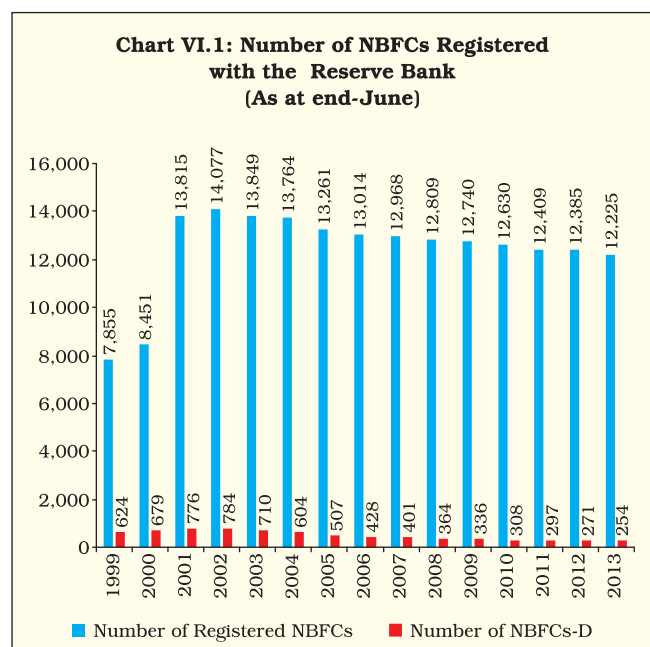


Table VI.15: Profile of Deposit-taking NBFCs
(Amount in ₹ billion)

Item	As at end-March			
	2012		2013 P	
	NBFCs	of which: RNBCs	NBFCs	of which: RNBCs
1	2	3	4	5
Total Assets	1,298	75 (5.8)	1,322	73 (5.5)
Public Deposits	100	43 (42.8)	106	35 (33.1)
Net Owned Funds	249	31 (12.4)	250	31 (12.3)

P: Provisional.

Notes: 1. Figures in parentheses are percentage shares in respective total.

2. Based on annual returns filed by 209 NBFCs-D and two RNBCs.

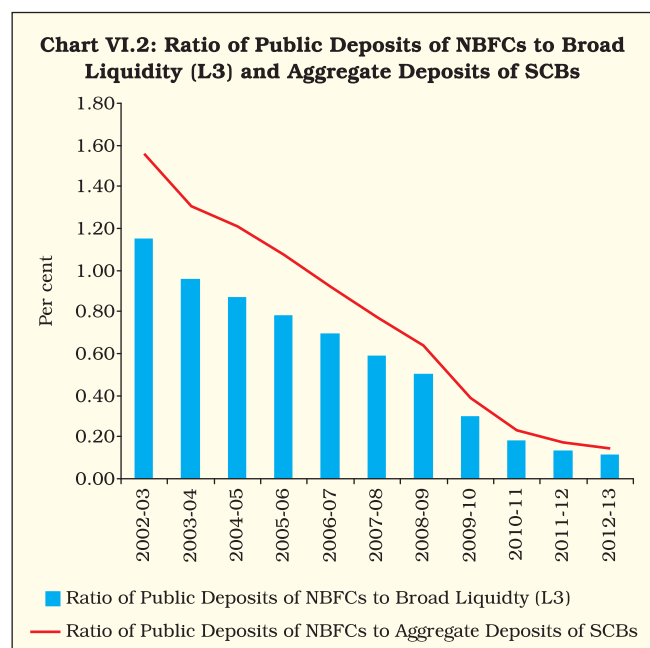
Source: Annual/Quarterly Returns.

NBFCs-D during 2012-13 declined mainly due to the cancellation of Certificates of Registration (CoR) and migration to non-deposit-taking category.

6.19 Though the number of NBFCs in business declined, their total assets, and net owned funds increased marginally. Public deposits mobilised by them also increased. Holding of public deposits by the Residuary Non-Banking Companies(RNBCs) contracted (Table VI.15).

6.20 Despite a rise in deposits mobilised by NBFCs, the ratio of NBFCs' public deposits to aggregate deposits of scheduled commercial banks (SCBs) continued to decline during 2012-13. The ratio of NBFCs' deposits to the broadest measure of liquidity aggregates, L3¹, also declined during the year (Chart VI.2).

¹ L3= NM3 + Postal Deposits + Term Money Borrowings + Certificates of Deposit + Term Deposits + Public Deposits with NBFCs.



Operations of NBFCs-D (excluding RNBCs)

The consolidated balance sheet of NBFCs-D expanded modestly

6.21 During the year, the consolidated balance sheet of NBFCs-D expanded marginally by 2.2 per cent (Table VI.16). On the liability side, during 2012-13, borrowings from banks, *albeit* declined, constituted the biggest source of funding for NBFCs-D. Debentures and public deposits were the next important sources of finance. Borrowings from FIs were relatively minimal but this picked up dramatically by 170 per cent during the year. On the contrary, borrowings from government and inter-corporate borrowings declined substantially. On the asset side, loans and advances of NBFCs-D constituted close to three-fourth of their assets. The investments declined during the year mainly on the back of a decline in investments in equity shares. The investments in commercial paper also declined substantially. Investment in government securities, debentures & bonds, and mutual funds schemes, however, showed an increase.

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

(Amount in ₹ billion)

Item	As at end-March		Variation	
	2012	2013 P	Absolute	Per cent
1	2	3	4	5
1. Share Capital	36	37	1	2.2
2. Reserves & Surplus	182	182	0	0.3
3. Public Deposits	57	71	14	24.2
4. Debentures	238	318	79	33.3
5. Bank Borrowings	404	343	-60	-15.0
6. Borrowings from FIs	5	15	9	170.0
7. Inter-Corporate Borrowings	4	3	-1	-19.1
8. Commercial Paper	29	29	0	1.4
9. Borrowings from Government	55	43	-11	-20.9
10. Sub-ordinated Debts	55	62	8	14.0
11. Other Borrowings	29	34	6	20.4
12. Current Liabilities	92	70	-22	-24.4
13. Provisions	37	41	4	11.1
Total Liabilities/Assets	1,222	1,249	26	2.2
1. Loans & Advances	841	918	77	9.1
2. Hire Purchase & Lease Assets	37	22	-15	-39.4
3. Investments	74	72	-2	-2.6
3.1. Government Securities	7	9	1	19.8
3.2. Equity Shares	18.4	17.9	-0.6	-3.1
3.3. Preference Shares	4.68	4.71	0.03	0.6
3.4. Debentures & Bonds	2	3	1	45.0
3.5. Mutual Funds	0.1	2.5	2.4	2617.2 [#]
3.6. Commercial Paper	0.5	0.2	-0.3	-59.2
3.7. Other Investments	41	35	-6	-14.4
4. Cash & Bank Balances	144	146	2	1.1
4.1. Cash in Hand	3	6	3	114.8
4.2. Deposits with Banks	142	140	-1	-1.0
5. Other Current Assets	103	70	-33	-31.9
6. Other Assets	23	20	-2	-10.5

P: Provisional.

[#]: Denominator is small.

Note: Variation in figures could be slightly different because amounts have been rounded-off to ₹ billion.

Source: Annual/Quarterly Returns.

6.22 The number of deposit-taking NBFCs declined during the year. Notwithstanding this, deposits mobilised and borrowings increased during the year. Among the NBFCs-D, while the balance sheet of Asset Finance Companies (AFCs) grew, that of Loan Companies (LCs) shrunk (Table VI.17).

Table VI.17: Major Components of Liabilities of NBFCs-D by Classification of NBFCs
(As at end-March)

(Amount in ₹ billion)

Classification of NBFCs	Number of Companies		Public Deposits		Total Borrowings		Total Liabilities	
	2012	2013 P	2012	2013 P	2012	2013 P	2012	2013 P
1	2	3	4	5	6	7	8	9
Asset Finance Companies	193	169	43 (76)	57 (80)	580 (71)	732 (86)	849 (69)	1047 (84)
Loan Companies	49	40	14 (24)	14 (20)	238 (29)	116 (14)	373 (31)	202 (16)
Total	242	209	57	71	818	848	1,222	1,249

P: Provisional.

Note: Figures in parentheses are percentage shares.

Size-wise Classification of Deposits of NBFCs-D

Larger NBFCs-D mobilised a large chunk of public deposits

6.23 Six larger companies, constituting just about 2.8 per cent of the total number of NBFCs-D, mobilised about 95 per cent of total deposits of the NBFCs-D at end-March 2013 (Table VI.18).

Regional Dispersion of Deposits Mobilised by NBFCs-D

Majority of public deposits were mobilised in the southern region

6.24 Region-wise, the northern zone had the highest number of deposit taking NBFCs followed

by the southern region. However, about 60 per cent of the public deposits were mobilised in the southern region. A similar pattern can be observed in the case of metropolitan cities. While New Delhi accounted for the largest number of NBFCs-D, Chennai held the largest share of 63.1 per cent in total public deposits of NBFCs-D (Table VI.19 and Chart VI.3). In the western zone, the amount of public deposits held by NBFCs-D increased significantly despite a decline in their numbers during 2012-13. This is particularly evident in Mumbai.

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

(Amount in ₹ million)

Deposit Range	As at end-March			
	No. of NBFCs		Amount of deposits	
	2012	2013 P	2012	2013 P
1	2	3	4	5
1. Less than ₹5 million	153	128	187 (0.3)	156 (0.2)
2. More than ₹5 million and up to ₹20 million	45	39	490 (0.9)	407 (0.6)
3. More than ₹20 million and up to ₹100 million	27	28	1,131 (2.0)	1,197 (1.7)
4. More than ₹100 million and up to ₹200 million	7	6	1,085 (1.9)	928 (1.3)
5. More than ₹200 million and up to ₹500 million	4	2	1,201 (2.1)	482 (0.7)
6. ₹500 million and above	6	6	52,951 (92.8)	67,682 (95.5)
Total	242	209	57,045 (100)	70,851 (100)

P: Provisional.

Note: Figures in parentheses are percentage shares.**Source:** Annual/Quarterly Returns.

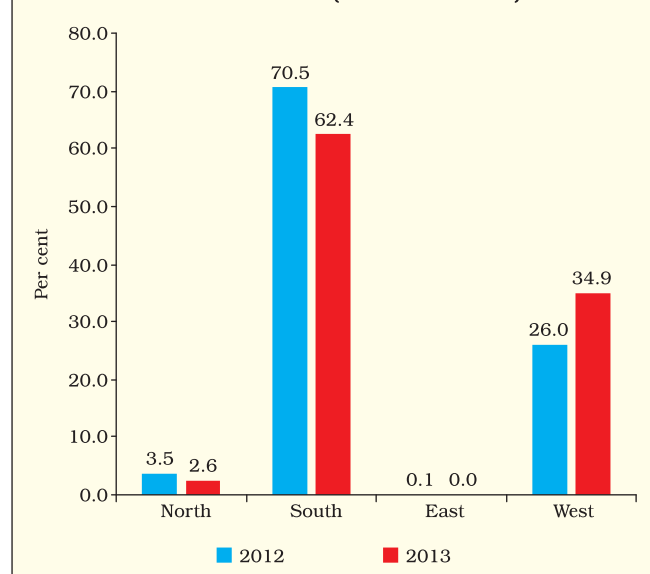
Table VI.19: Public Deposits held by NBFCs-D – Region-wise

(Amount in ₹ million)

Region	As at end-March			
	2012		2013 P	
	Number of NBFCs-D	Public Deposits	Number of NBFCs-D	Public Deposits
1	2	3	4	5
North	178	1,990	152	1,865
South	50	40,202	47	44,223
East	6	39	4	18
West	8	14,813	6	24,746
Total	242	57,045	209	70,851
Metropolitan Cities:				
Kolkata	4	39	3	18
Chennai	31	39,338	30	43,353
Mumbai	5	14,682	3	24,604
New Delhi	44	900	32	759
Total	84	54,960	68	68,733

P: Provisional.

Source: Annual Returns.

Chart VI.3: Region-wise Public Deposits held by NBFCs-D: Shares (As at end-March)

Interest Rate on Public Deposits with NBFCs-D

Public deposits in the interest range of 10 to 12 per cent grew sharply

6.25 In the wake of a tightened liquidity environment, a relatively large chunk of public deposits raised by NBFCs-D were in the interest rate range of 10 to 12 per cent. Accordingly, during 2012-13, the share of deposits having interest rate upto 10 per cent came down to 36.5 per cent from 56.9 per cent last year (Table VI. 20 and Chart VI.4).

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

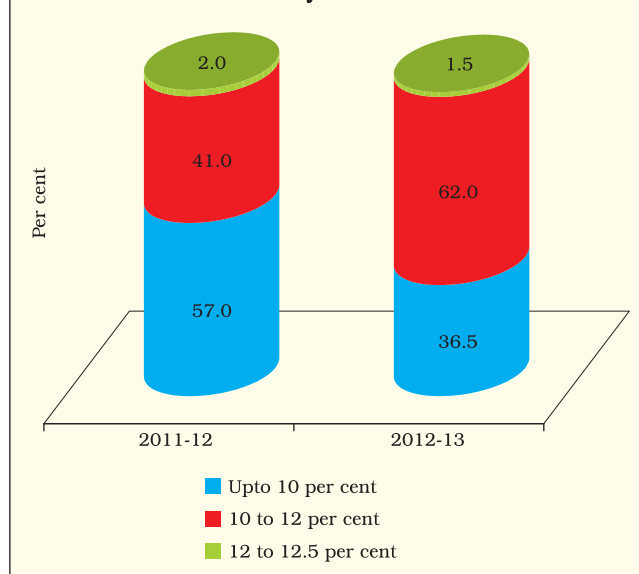
(Amount in ₹ million)

Deposit Interest Rate Range	As at end-March	
	2012	2013 P
1	2	3
Up to 10 per cent	32,473 (56.9)	25,885 (36.5)
More than 10 per cent and up to 12 per cent	23,750 (41.6)	43,816 (61.8)
12 to 12.5 per cent	821 (1.4)	1,150 (1.6)
Total	57,045 (100.0)	70,851 (100.0)

P: Provisional.

Notes: 1. The rate of interest on public deposits offered by NBFCs-D cannot exceed 12.5 per cent.

2. Figures in parentheses are percentages to total.

Source: Annual Returns.**Chart VI.4: Interest Rate Range-wise Public Deposits held by NBFCs-D**

Maturity Profile of Public Deposits of NBFCs-D

6.26 During the year, a large proportion of public deposits raised by NBFCs-D belonged to the short to medium-term of the maturity spectrum. There was a notable rise in the share of short-term deposits (less than a year) as also long-term deposits with tenure of five years and above (Table VI.21 and Chart VI.5).

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

(Amount in ₹ million)

Maturity Period	As at end-March	
	2012	2013 P
1	2	3
1. Less than 1 year	10,775 (18.9)	18,379 (25.9)
2. More than 1 and up to 2 years	15,133 (26.5)	12,917 (18.2)
3. More than 2 and up to 3 years	24,940 (43.7)	31,858 (45.0)
4. More than 3 and up to 5 years	6,191 (10.9)	6,550 (9.2)
5. 5 years and above [@]	6 (0.0)	1,148 (1.6)
Total	57,045 (100.0)	70,851 (100.0)

P: Provisional.

[@]: Includes unclaimed public deposits.**Note:** Figures in brackets are percentages to respective total.**Source:** Annual Returns.

Table VI.22: Category-wise Sources of Borrowings of NBFCs-D

(Amount in ₹ billion)

Classification	As at end-March											
	Government		Banks and Financial Institutions		Debentures		Commercial Paper		Others		Total Borrowings	
	2012	2013 P	2012	2013 P	2012	2013 P	2012	2013 P	2012	2013 P	2012	2013 P
1	2	3	4	5	6	7	8	9	10	11	12	13
Asset Finance Companies	0 (0.0)	0 (0.0)	299 (73.2)	328 (91.6)	198 (83.3)	298 (93.7)	6 (22.7)	19 (66.3)	75 (86.6)	87 (87.5)	580 (70.9)	732 (86.3)
Loan Companies	55 (100.0)	43 (100.0)	110 (26.8)	30 (8.4)	40 (16.7)	20 (6.3)	22 (77.3)	10 (33.7)	12 (13.4)	12 (12.5)	238 (29.1)	116 (13.7)
Total	55	43	409	358	238	318	29	29	87	100	818	848

P: Provisional.

Note: Figures in parentheses are percentages to respective total.**Source:** Annual Returns.

6.27 Total borrowings of NBFCs-D increased in 2012-13 due to a significant rise in the borrowings of AFCs, which offset the reduction in the borrowings of LCs (Table VI.22). NBFCs-D borrowed mainly from banks and financial institutions and through floating debentures.

Assets of NBFCs-D

Asset size of the NBFCs-D sector expanded moderately during the year

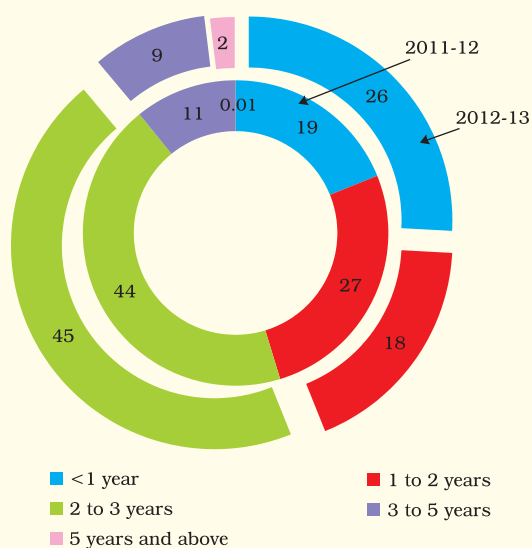
6.28 Notwithstanding a decline in the asset size of LCs, the total assets of the NBFCs-D sector

registered a marginal increase during 2012-13 mainly due to rise in assets of AFCs (Table VI.23). Component-wise, advances accounted for a predominant share in total assets followed by investment.

Asset Size-wise Distribution of NBFCs-D

Highly skewed distribution of assets of NBFCs-D

6.29 At end-March 2013, about 5 per cent of NBFCs-D had an asset size of more than ₹5,000 million and accounted for about 97 per cent of total assets of all NBFCs-D (Table VI.24).

Chart VI.5: Maturity Pattern of Public Deposits held by NBFCs-D (Per cent)**Table VI.23 : Major Components of Assets of NBFCs-D by Classification of NBFCs**

(Amount in ₹ billion)

Classification	As at end-March					
	Total Assets		Advances		Investment	
	2012	2013 P	2012	2013 P	2012	2013 P
1	2	3	4	5	6	7
Asset Finance Companies	849 (69.5)	1047 (83.9)	652 (74.2)	833 (88.5)	54 (73.2)	54 (75.2)
Loan Companies	373 (30.5)	202 (16.1)	226 (25.8)	108 (11.5)	20 (26.8)	18 (24.8)
Total	1,222	1,249	879	941	74	72

P: Provisional.

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

Table VI.24: Assets of NBFCs-D by Asset-Size Ranges
(As at end-March)

(Amount in ₹ million)

Item	No. of Companies		Assets	
	2012	2013 P	2012	2013 P
1	2	3	4	5
1. Less than ₹2.5 million	0	0	0	0
2. More than ₹2.5 million and up to ₹5.0 million	19	12	79	49
3. More than ₹5.0 million and up to ₹20 million	76	61	947	753
4. More than ₹20 million and up to ₹100 million	78	71	3,579	3,176
5. More than ₹100 million and up to ₹500 million	37	36	7,903	7,921
6. More than ₹500 million and up to ₹1,000 million	11	12	6,865	8,438
7. More than ₹1,000 million and up to ₹5,000 million	7	6	14,569	16,718
8. Above ₹5,000 million	14	11	11,88,518	12,11,897
Total	242	209	12,22,460	12,48,951

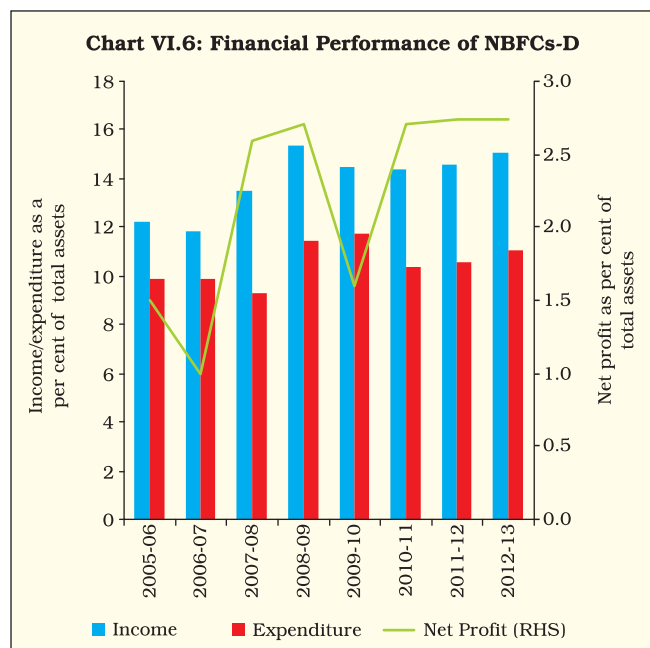
P: Provisional.

Source: Annual Returns.

Financial Performance of NBFCs-D

Financial performance of NBFCs-D sector showed marginal improvement.

6.30 During the year, though the net profit of NBFCs-D showed marginal improvement, RoA remained at the previous year's level at 2.7 per



cent (Chart VI.6). In view of increased costs, cost-to-income ratio of the NBFCs-D also rose during the year (Table VI.25).

Soundness Indicators: Asset Quality of NBFCs-D

Deterioration in asset quality of NBFCs-D

6.31 For the last couple of years, the asset quality of the NBFCs-D has been deteriorating. Continuing with last year's higher level of NPA, it further deteriorated during 2012-13 (Table VI.26). Weakening of the asset quality of NBFCs-D broadly followed the prevailing trend of rising NPAs in the banking sector and may, *inter alia*, be attributed to slackened economic activity.

6.32 A bulk of the NPAs of NBFCs-D were concentrated in AFCs. During 2012-13, the gross NPAs pertaining to AFCs increased by ₹7 billion,

Table VI.25: Financial Performance of NBFCs-D

(Amount in ₹ billion)

Item	As at end-March	
	2012	2013 P
A. Income (i+ii)	179	188
(i) Fund-Based	177	187
	(99.2)	(99.4)
(ii) Fee-Based	1	1
	(0.8)	(0.6)
B. Expenditure (i+ii+iii)	129	138
(i) Financial	78	86
	(60.4)	(62.2)
<i>of which: Interest Payment</i>	6	8
	(4.4)	(6.0)
(ii) Operating Expenses	35	37
	(27.0)	(27.0)
(iii) Others	16	15
	(12.6)	(10.8)
C. Tax Provisions	16	16
D. Operating Profit (PBT)	50	50
E. Net Profit (PAT)	33	34
F. Total Assets	1,222	1,249
G. Financial Ratios (as % of Total Assets)		
i) Income	14.6	15.0
ii) Fund Income	14.5	14.9
iii) Fee Income	0.1	0.1
iv) Expenditure	10.5	11.0
v) Financial Expenditure	6.4	6.9
vi) Operating Expenditure	2.8	3.0
vii) Tax Provision	1.3	1.2
viii) Net Profit	2.7	2.7
H. Cost to Income Ratio	72.2	73.4

P: Provisional.

Note: Figures in parentheses are percentages to total.

Source: Annual Returns.

Table VI.26: NPA Ratios of NBFCs-D

(Per cent)

As at end-March	Gross NPAs to Total Advances	Net NPAs to Net Advances
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	#
2010	1.3	#
2011	0.7	#
2012	2.2	0.5
2013 P	2.4	0.8

P: Provisional.

#: Provisions exceeded NPA.

Source: Half-yearly Returns of NBFCs-D.

whereas for LCs it went up only by ₹1 billion. The NPA ratios for both groups of NBFCs-D increased during the year on top of higher increase in NPAs in the previous year (Table VI.27).

6.33 Of the three NPA categories, the share of sub-standard assets increased during 2012-13, which reflected deterioration in asset quality. Sub-standard assets rose, both with respect to AFCs and LCs (Table VI.28).

Table VI.27: NPAs of NBFCs-D - Category-wise

(Amount in ₹ billion)

Item	Gross Advances	Gross NPAs	Net Advances	Net NPAs	NPA Ratios (as a per cent of Gross Advances)	
					Gross NPAs	Net NPAs
2011-12						
All Companies	875	19	861	5	2.2	0.5
Asset Finance Companies	665	16	652	4	2.4	0.5
Loan Companies	210	3	209	1	1.3	0.5
2012-13 P						
All Companies	1,105	27	1,087	9	2.4	0.8
Asset Finance Companies	844	23	828	7	2.7	0.8
Loan Companies	261	4	259	2	1.5	0.7

P: Provisional.

Source: Half-yearly Return of NBFCs-D.

6.34 Of the total 209 reporting NBFCs-D, 206 companies had maintained a CRAR in excess of 15 per cent as at end-March 2013 (Table VI.29). Further, 173 companies had CRAR above 30 per cent. The ratio of public deposits to net owned fund (NOF) of NBFCs-D increased marginally as at end-March 2013 (Table VI.30). Although the

Table VI.28: Classification of Assets of NBFCs-D by Category of NBFCs

(Amount in ₹ billion)

	Standard Assets	Sub-standard Assets	Doubtful Assets	Loss Assets	Gross NPAs	Total Credit Exposure
1	2	3	4	5	6	7
2011-12						
All Companies	856	12	5	2	19	875
	(97.8)	(1.4)	(0.5)	(0.3)	(2.2)	(100)
Asset Finance Companies	648	10	4	2	16	665
	(97.6)	(1.5)	(0.6)	(0.3)	(2.4)	(100)
Loan Companies	208	2	1	0	3	210
	(98.7)	(0.9)	(0.3)	(0.1)	(1.3)	(100)
2012-13 P						
All Companies	1,078	20	4	3	27	1,105
	(97.6)	(1.8)	(0.3)	(0.3)	(2.4)	(100)
Asset Finance Companies	821	17	3	3	23	844
	(97.3)	(2.0)	(0.3)	(0.3)	(2.7)	(100)
Loan Companies	257	3	1	0	4	261
	(98.5)	(1.2)	(0.3)	(0.0)	(1.5)	(100)

P: Provisional.

Note: 1. Figures in brackets are per cent to total advances.

2. Percentage figures are rounded-off.

Source: Half-yearly Return of NBFCs-D.

Table VI.29: Capital Adequacy Ratio of NBFCs-D

(Number of Companies)

CRAR Range	2011-12			2012-13 P		
	AFC	LC	Total	AFC	LC	Total
1	2	3	4	5	6	7
1) Less than 15 per cent	2	2	4	1	2	3
2) More than 15 per cent and up to 20 per cent	9	3	12	7	2	9
3) More than 20 per cent and up to 30 per cent	20	4	24	19	5	24
4) Above 30 per cent	166	40	206	144	29	173
Total	197	49	246	171	38	209

P: Provisional; AFC - Asset Finance Company; LC - Loan Company.
Source: Half-yearly Returns.

number of companies above the NOF of ₹5,000 million had reduced to seven, their total NOF rose marginally (Table VI.31).

Residuary Non-Banking Companies (RNBCs)

RNBCs are in the process of migrating to other business models

6.35 The assets of RNBCs declined marginally during the year ended-March 2013 (Table VI.32). Their assets mainly consisted of fixed deposits/certificates of deposits of SCBs followed by bonds/

Table VI.30: Net Owned Funds vis-à-vis Public Deposits of NBFCs-D by Classification

(Amount in ₹ billion)

Classification	Net Owned Funds		Public Deposits	
	2011-12	2012-13 P	2011-12	2012-13 P
1	2	3	4	5
Asset Finance Companies	137	170	43 (0.31)	57 (0.34)
Loan Companies	81	50	14 (0.17)	14 (0.28)
Total	218	219	57 (0.26)	71 (0.32)

P: Provisional.
Note: Figures in parentheses are ratio of public deposits to net owned funds.
Source: Annual Returns.

debentures and investments in unencumbered approved securities. The NOF of RNBCs during 2012-13 remained more or less at the same level as in the previous year. Both the income and expenses of RNBCs declined during 2012-13. As the decline in total income of RNBCs was less than the decline in total expenditure, their operating profits increased modestly. Furthermore, on account of lesser tax outgo as compared to the previous year, RNBCs' net profit (PAT) increased by 9.1 per cent during 2012-13.

Table VI.31: Range of Net Owned Funds vis-à-vis Public Deposits of NBFCs-D
(As at end-March)

(Amount in ₹ million)

Range of NoF	2012			2013 P		
	No. of Companies	Net Owned Funds	Public Deposits	No. of Companies	Net Owned Funds	Public Deposits
1	2	3	4	5	6	7
Range of NoF						
Up to ₹ 2.5 million	1	-0.93	1	1	-0.2	0.8
More than ₹ 2.5 million and up to ₹ 20 million	122	951	324	97	776	233
More than ₹ 20 million and up to ₹ 100 million	77	3,196	1,342	72	2,830	1,174
More than ₹ 100 million and up to ₹ 500 million	23	5,099	1,253	23	5,144	1,327
More than ₹ 500 million and up to ₹ 1,000 million	4	2,823	817	4	2,582	912
More than ₹ 1,000 million and up to ₹ 5,000 million	6	12,451	14,096	5	10,020	14,392
Above ₹ 5,000 million	9	1,93,461	39,212	7	1,97,907	52,812
Total	242	2,17,981	57,045	209	2,19,259	70,851

P: Provisional.
Source: Annual Returns.

Table VI.32: Profile of RNBCs

(Amount in ₹ million)

Item	As at end-March		Variation	
	2011-12	2012-13 P	Absolute	Per cent
1	2	3	4	5
A. Assets (i to v)	75,430	73,138	-2,292	-3.0
(i) Investment in Unencumbered Approved Securities	8,376	7,186	-1,190	-14.2
(ii) Investment in Fixed Deposits / Certificate of Deposits of Scheduled Comm. Banks/Public Fin. Institutions	13,897	13,113	-784	-5.6
(iii) Debentures / Bonds/ Commercial Papers of Govt. Companies/ Public Sector Banks/Public Fin. Institution/ Corporation	7,513	7,513	0	0.0
(iv) Other Investments	4,333	2,839	-1,494	-34.5
(v) Other Assets	41,312	42,490	1,178	2.9
B. Net Owned Fund	30,790	30,879	89	0.3
C. Total Income (i+ii)	3,324	3,140	-184	-5.5
(i) Fund Income	2,939	2,897	-42	-1.4
(ii) Fee Income	385	243	-142	-36.9
D. Total Expenses (i+ii+iii)	1,662	1,455	-207	-12.5
(i) Financial Cost	461	133	-328	-71.1
(ii) Operating Cost	518	658	140	27.1
(iii) Other Cost	684	661	-23	-3.4
E. Taxation	570	494	-76	-13.2
F. Operating Profit (PBT)	1,666	1,690	24	1.4
G. Net Profit (PAT)	1,096	1,196	100	9.1

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

Note: Variation in figures could be slightly different because amounts have been rounded-off to ₹ billion.**Source:** Annual Returns.**Regional Pattern of Deposits of RNBCs**

6.36 At end-March 2013, there were two RNBCs, located in eastern and northern regions. Given regulatory stipulations, RNBCs are in the process of migrating to other business models and these companies will have to reduce their aggregate liabilities to the depositors (ALDs) to “nil” by end-June 2015. Accordingly, public deposits held by the two RNBCs continued to decline during 2012-13. (Table VI.33).

Table VI.33: Public Deposits Held by RNBCs - Region-wise

(Amount in ₹ billion)

Region	As at end-March			
	2011-12		2012-13 P	
	No. of RNBCs	Public Deposits	No. of RNBCs	Public Deposits
1	2	3	4	5
Northern	1	21 (50.0)	1	17 (47.8)
Eastern	1	21 (50.0)	1	18 (52.2)
Total	2	42	2	35
Metropolitan City				
Kolkata	1	21	1	18

P: Provisional.

Note: Figures in parentheses are percentages to respective totals.**Source:** Annual Returns.**Investment Pattern of RNBCs**

6.37 During 2012-13, the investments of RNBCs declined, which is in line with the regulatory stipulations mentioned in previous paragraph (Table VI.34).

NBFCs-ND-SI**NBFCs-ND-SI raised more resources through debentures, borrowings from banks and FIs**

6.38 The consolidated balance sheet of NBFCs-ND-SI expanded by 19.5 per cent during 2012-13. On the liability side, borrowings (secured and unsecured) by NBFCs-ND-SI, which constituted more than two-thirds of total liabilities, increased

Table VI.34: Investment Pattern of RNBCs

(As at end-March)

(Amount in ₹ million)

Item	2011-12	2012-13 P
1	2	3
Aggregate Liabilities to the Depositors (ALDs)	42,650	35,014
(i) Unencumbered approved securities	8,376 (19.6)	7,186 (20.5)
(ii) Fixed deposits with banks	13,897 (32.6)	13,113 (37.5)
(iii) Bonds or debentures or commercial papers of a Govt. Company / public sector bank / public financial Institution / corporations	7,513 (17.6)	7,513 (21.5)
(iv) Other Investments	4,333 (10.2)	2,839 (8.1)

P: Provisional.

Note: Figures in parentheses are percentages to ALDs.**Source:** Annual Returns.

significantly by 22.2 per cent during the year (Table VI.35). The NBFCs-ND-SI borrowed mainly by floating debentures, followed by borrowings from banks and FIs, commercial paper, and inter-corporate borrowings. Unsecured borrowings of NBFCs-ND-SI, constituting slightly less than half the total borrowings, expanded significantly and outpaced the growth in secured borrowings during

Table VI.35: Consolidated Balance Sheet of NBFCs-ND-SI
(As at end-March)

(Amount in ₹ billion)			
Item	2012	2013 P	Variation (Per cent)
1	2	3	4
1. Share Capital	524	592	12.9
2. Reserves & Surplus	1,891	2,068	9.3
3. Total Borrowings	6,530	7,980	22.2
A. Secured Borrowings	3,627	4,332	19.4
A.1. Debentures	1,746	2,112	21.0
A.2. Borrowings from Banks	1,487	1,704	14.6
A.3. Borrowings from FIs	98	128	30.0
A.4. Interest Accrued	64	96	49.7
A.5. Others	232	292	25.7
B. Unsecured Borrowings	2,902	3,648	25.7
B.1. Debentures	1,221	1,614	32.2
B.2. Borrowings from Banks	456	460	0.9
B.3. Borrowings from FIs	28	63	126.4
B.4. Borrowings from Relatives	13	11	-13.0
B.5. Inter-Corporate Borrowings	242	247	1.8
B.6. Commercial Paper	353	441	25.1
B.7. Interest Accrued	71	99	39.8
B.8. Others	519	713	37.4
4. Current Liabilities & Provisions	408	537	31.6
Total Liabilities/Assets	9,353	11,177	19.5
Assets			
1. Loans & Advances	6,143	7,497	22.0
1.1. Secured	4,642	5,852	26.1
1.2. Unsecured	1,501	1,645	9.6
2. Hire-Purchase Assets	640	786	22.8
3. Investments	1,544	1,742	12.8
3.1. Long-Term Investments	1,170	1,284	9.7
3.2. Current Investments	374	458	22.4
4. Cash & Bank Balances	334	358	7.2
5. Other Current Assets	536	623	16.2
6. Other Assets	156	172	9.9
Memo Items			
1. Capital Market Exposure (CME)	833	907	8.9
of which: Equity Shares	267	275	2.9
2. CME as per cent of Total Assets	8.9	8.1	
3. Leverage Ratio	2.87	3.20	

P: Provisional.

Notes: 1. Data presented here pertain to 354 entities, which have consistently reported for end-March 2012 and 2013, respectively and accounted for more than 95 per cent of the total assets of the NBFCs-ND-SI sector.

2. Percentage figures are rounded-off.

Source: Monthly Returns of NBFCs-ND-SI.

2012-13. The unsecured borrowings were largely raised through debentures, followed by borrowings from banks, commercial paper, inter-corporate borrowings and borrowings from FIs. Amongst the unsecured modes, "borrowings from FIs" more than doubled (126.4 per cent) during 2012-13, while borrowings from unsecured debentures and commercial paper grew by 32.2 and 25.1 per cent, respectively. Unsecured borrowings from banks increased marginally during 2012-13.

6.39 The asset position of NBFCs-ND-SI further strengthened in 2012-13. Loans and advances, which formed a major part of the assets, increased by 22 per cent. The rise in hire-purchase assets and investment also propped up the asset position of NBFCs-ND-SI. The leverage ratio of the NBFCs-ND-SI sector had increased marginally to 3.20. Exposure of this segment to capital market as a per cent of total assets declined from 8.9 per cent to 8.1 per cent during the year.

Borrowings of NBFCs-ND-SI by Region

The northern region continued to be the main source of funds

6.40 Analysis of region-wise borrowings of the NBFCs-ND-SI reveals the dominance of northern and western regions; together they constituted more than 70 per cent of the total borrowings during the year ended-March 2013. Compared to other regions, the eastern and southern regions showed higher growth in borrowings (Table VI.36).

Table VI.36: Borrowings of NBFCs-ND-SI by Region

(Amount in ₹ billion)			
Region	As at end-March		Variation (Per cent)
	2012	2013 P	
1	2	3	4
North	3,169	3,767	18.9
East	340	432	26.9
West	1,734	2,145	23.7
South	1,287	1,637	27.2
Total Borrowings	6,530	7,980	22.2

P: Provisional.

Source: Monthly Returns of NBFCs-ND-SI.

Financial Performance

NBFCs-ND-SI showed improved financial position

6.41 The financial performance of the NBFCs-ND-SI sector improved as reflected in an increase in their net profit during 2012-13 (Table VI.37). Net profit as a per cent to total income as also to total assets increased marginally during the year.

6.42 While the ratio of gross NPAs of NBFCs-ND-SI to their total assets had increased marginally, the net NPAs to total assets declined during the year (Table VI.38).

Table VI.37: Financial Performance of NBFCs-ND-SI

(Amount in ₹ billion)

Item	As at end-March	
	2012	2013 P
1	2	3
1. Total Income	988	1,246
2. Total Expenditure	745	930
3. Net Profit	171	222
4. Total Assets	9,353	11,177
Financial Ratios (Per cent)		
(i) Income to Total Assets	10.6	11.2
(ii) Expenditure to Total Assets	8.0	8.3
(iii) Net Profit to Total Income	17.3	17.8
(iv) Net Profit to Total Assets	1.8	2.0

P: Provisional.

Source: Monthly Returns of NBFCs-ND-SI.

Table VI.38: NPA Ratios of NBFCs-ND-SI

(Per cent)

Item	As at end-March	
	2012	2013 P
1	2	3
(i) Gross NPAs to Gross Advances	2.12	2.20
(ii) Net NPAs to Net Advances	1.29	1.09
(iii) Gross NPAs to Total Assets	1.54	1.63
(iv) Net NPAs to Total Assets	0.93	0.80

P: Provisional.

Source: Monthly Returns of NBFCs-ND-SI.

6.43 As at end-March 2013, a majority of the reporting companies maintained the stipulated minimum norm of 15 per cent capital adequacy as measured by CRAR. Only 12 per cent of the total reporting companies had a CRAR of less than 15 per cent and almost all of them were either investment companies or loan companies (Table VI.39). NBFCs-ND-SI have adequate scope to utilise their capital for further expansion. The exposure of the banking system to the NBFCs-ND-SI sector was largely in the form of term and working capital loans; and most of these loans were extended by nationalised banks and the State Bank Group (Table VI.40). Debentures and commercial papers floated by NBFCs-ND-SI to the banking sector were, by and large, subscribed to by new private banks and foreign banks, respectively.

6.44 In the past few years, there has been a surge in gold loans in the country. While banks still dominate the business of lending against the

Table VI.39: Capital Adequacy Ratio of NBFCs-ND-SI – Category-wise

(Number of Companies)

CRAR Range	2011-12					2012-13 P					
	AFC	IC	IFC	LC	Total	AFC	IC	IDF	IFC	LC	Total
1) Less than 15%	-	30	-	18	48	1	34	-	-	15	50
2) More than 15% and up to 20%	5	8	1	23	37	5	7	-	1	24	37
3) More than 20% and up to 30%	4	12	2	20	38	4	10	-	2	30	46
4) Above 30%	7	178	1	88	274	6	182	1	1	95	285
Total	16	228	4	149	397	16	233	1	4	164	418

P: Provisional;

-: Indicates nil.

AFC - Asset Finance Company; LC - Loan Company; IC - Investment Company; IFC - Infrastructure Finance Company; IDF - Infrastructure Debt Fund.

Source: Half-yearly Returns.

Table VI.40: Bank Exposure of NBFCs-ND-SI Sector
(As at end-March 2013)

(Amount in ₹ billion)

Bank Group	Term Loans	Working Capital Loans	Debentures	Commercial Paper	Others	Total
1	2	3	4	5	6	7
A. Nationalised Banks	709.4	2.7	26.6	0.1	27.3	766.1
B. State Bank Group	250.3	136.3	0.2	0.0	0.2	386.9
C. Old Private Banks	212.6	8.2	0.1	0.0	0.0	221.0
D. New Private Banks	338.5	26.9	61.1	0.3	19.8	446.5
E. Foreign Banks	50.7	0.7	0.4	50.2	0.5	102.4
All Banks	1,561.4	174.6	88.4	50.6	47.8	1,922.9

Source: Monthly Returns of NBFCs-ND-SI.

collateral of gold, there has been a significant rise in lending against gold by NBFCs-ND-SI in recent years. The number of NBFCs-ND-SI engaged in the gold loan business also increased from six to eight during the year. In view of concerns relating to financial stability due to heavy concentration of portfolio, prudential guidelines were issued to

such NBFCs-ND-SI (gold-loan NBFCs) so that they disclosed the percentage of gold loans to the total assets in their balance sheet and maintained a loan-to-value (LTV) ratio not exceeding 60 per cent. Further, to address customer grievances and concerns, NBFCs were also asked to adhere to a revised fair practices code (Box VI.2).

Box VI.2:
Regulation of NBFCs Lending Against the Collateral of Gold

In recent years, gold-loan NBFCs have recorded significant growth, both in terms of the size of their balance sheets and geographic penetration across the country. As at end-March 2013, gold-loan NBFCs accounted for almost 5 per cent of the total assets of the NBFCs-ND-SI sector, and around 28.6 per cent of the total assets of loan companies (LCs). To fuel their business growth, these NBFCs, in turn, relied heavily on public funds raised through bank borrowings and issuance of non-convertible debentures to retail investors. The “single product” business model such as gold-loan NBFCs’ high reliance on bank funds entail concentration risk (arising from credit, market, liquidity and operational risks) and systemic concern. Accordingly, a Working Group was set up by the RBI to study issues related to gold imports and review extant regulatory norms relating to gold loans and recommend modifications, if any (Chairman: Shri K.U.B. Rao). The Working Group submitted its final report along with recommendations on February 6, 2013.

To address some of the concerns relating to financial stability, the segment of gold-loan NBFCs was advised to maintain a loan-to-value (LTV) ratio not exceeding 60 per cent and disclose the percentage of such loans to their total assets in their balance sheets. If the loans extended by an NBFC comprised 50 per cent or more of its financial assets, it would maintain a minimum Tier I capital of 12 per cent

by April 01, 2014. Further, all NBFCs were instructed not to lend against bullion/primary gold and gold coins.

Drawing from some of the recommendations of the afore-said Working Group, the extant guidelines issued on Fair Practices Code for such NBFCs were amended and revised guidelines were issued on February 18, 2013. Accordingly, such NBFCs should put in place a grievance redressal mechanism with due approval from their respective boards and the name of the grievance redressal officer should be displayed prominently at all branches. Such NBFCs were also advised to display the Fair Practices Code prominently in vernacular languages. Further, they were instructed to maintain transparency in loan pricing and follow KYC norms. NBFCs have also been exhorted to put in place adequate security and insurance on gold collateral and have a board-approved auction policy in place. They have been advised to disclose details regarding the auction procedure in the loan agreement itself and not to participate in their auctions. Further, in May 2013, it was clarified that no advances should be granted by NBFCs for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold Exchange Traded Funds (ETF) and units of gold Mutual Funds.

The guidelines were further refined on September 16, 2013. Accordingly, to ensure safety of gold and borrowers’ convenience, gold-loan NBFCs have been advised to put

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in place an appropriate safe and secure infrastructure for storage of gold ornaments accepted as collaterals by them. The gold-loan NBFCs that wish to open branches in excess of 1000 numbers have been mandated to seek prior approval from the Reserve Bank. No new branches would be allowed to be opened unless suitable arrangements for security and storage of gold jewellery, including safe deposit vault, is made. For eschewing arbitrariness and to ensure transparency in valuing gold jewelleries, NBFCs are required to follow a standard method for arriving at the value. Accordingly, the gold jewellery accepted as collateral will have to be valued at the average of the closing price of 22 carat gold for the preceding 30 days quoted by the Bombay Bullion Association Ltd. Furthermore, while accepting gold as collateral, the NBFC should give

a certificate to the borrower on its letterhead mentioning the purity and weight of collateralised gold. The gold-loan NBFCs have also been asked to put in place Board approved policies to satisfy the ownership of the gold jewellery and ensure that KYC norms are followed. Further refinement in the auction process has been advised. NBFCs have been advised to disburse high value loan (₹1 lakh and above) through cheques. They have been proscribed from issuing misleading advertisements like claiming the availability of loans in a matter of 2-3 minutes. Furthermore, NBFCs lending against the collateral of gold have been exhorted to insist on a copy of Pan card of the borrower for all transactions above ₹5 lakhs. Such NBFCs have also been asked to standardise the documentation across all their branches.

4. Primary Dealers

6.45 As at end-June 2013, there were 21 Primary Dealers (PDs) operating in financial markets, of which 13 were run by banks and were called as bank-PDs and the remaining eight were non-bank entities, which are known as standalone PDs and registered as NBFCs under Section 45 IA of the RBI Act, 1934.

Operations and Performance of PDs

6.46 During 2012-13, the bid-to-cover ratio in both dated Government of India (GoI) securities and treasury bills of PDs were marginally higher than they were in the previous year. All the PDs achieved the stipulated minimum success ratio (bids accepted to the bidding commitment) of 40 per cent for treasury bills (T-Bills) and cash management bills (CMBs) put together, both in the first and second half of the year. As compared to last year, the success ratio in T-Bill auctions was marginally higher (Table VI.41).

6.47 During 2012-13, dated securities worth ₹5,580 billion were issued under the GoI's normal market borrowing programme as compared to the issuance of ₹ 5,100 billion in the previous year. In

the auctions of dated securities, the share of PDs (bids accepted to the securities issued) increased from 47.7 per cent in 2011-12 to 51.1 per cent in 2012-13. As compared to 14 instances of partial devolvement for ₹121.1 billion on the PDs in 2011-12, there were only two such instances for ₹18.3 billion during 2012-13, which reflected favourable bond market conditions during the year.

Table VI.41: Performance of PDs in the Primary Market
(As at end-March)

(Amount in ₹ billion)		
Item	2012	2013
1	2	3
Treasury Bills & CMBs*		
Bidding Commitment	7,296	7,346
Actual Bids Submitted	13,506	15,887
Bid to Cover Ratio	2.2	2.6
Bids Accepted	4,271	4,350
Success Ratio (Per cent)	58.6	59.2
Central Govt. Securities		
Notified Amount	5,100	5,580
Actual Bids submitted	6,932	8,795
Bid to Cover Ratio	1.3	1.5
Bids of PDs Accepted	2,432	2,852
Share of PDs (Per cent)	47.7	51.1

*: CMBs issued in 2011-12 were ₹930 billion.

Source: Returns filed by PDs.

Performance of Standalone PDs

Share of trading activity of PDs in the secondary market shrank

6.48 In the secondary market, PDs individually achieved the required minimum annual total turnover² (outright and repo transactions) ratio of 5 times in G-Secs and 10 times in T-Bills. PDs also achieved the minimum annual outright turnover ratio of 3 times in G-Secs and 6 times in T-Bills. Notwithstanding a higher turnover in the secondary G-Sec market during 2012-13, the share of standalone PDs in the total market volume shrank on account of an increase in trading activities of other financial entities such as banks and insurance companies. The share of standalone PDs declined, from 26.3 to 16.4 per cent in outright transactions and from 20.3 to 19.2 per cent in repo transactions, respectively during the year (Table VI.42).

Sources and Application of Funds of Standalone PDs

Investment by PDs in CPs, the corporate bond market and equities increased significantly

6.49 Though the capital of PDs declined by 2.2 per cent in 2012-13, it was more than compensated by a sharp rise in reserves and surplus resulting in an increase in the net owned funds (NOF) to the tune of 5.8 per cent. Borrowings remained the major source of funds, accounting for 84 per cent of the total funds. Both secured and unsecured loans availed by PDs increased but their growth remained lower than that of the preceding year. As per their application of funds, there was a significant increase in investments in commercial papers (CPs), bonds and equities (Table VI.43).

Table VI.42: Performance of Standalone PDs in the Secondary G-Sec Market
(As at end-March)

(Amount in ₹ billion)		
Item	2012	2013
1	2	3
Outright		
Turnover of standalone PDs	18,381	21,643
Turnover of market participants	69,764	1,31,841
Share of PDs (Per cent)	26.3	16.4
Repo		
Turnover of standalone PDs	15,245	20,724
Turnover of market participants	75,278	1,08,055
Share of PDs (Per cent)	20.3	19.2
Total		
Turnover of standalone PDs	33,625	42,367
Turnover of market participants	1,45,042	2,39,896
Share of PDs (Per cent)	23.2	17.7
Notes: 1. Percentage variation could be slightly different because absolute numbers have been rounded-off to ₹ billion.		
2. Components may not add up to the whole due to rounding-off.		
Source: Clearing Corporation of India Limited.		

Financial Performance of Standalone PDs

Sharp increase in income led to an increase in profit

6.50 The profit after tax of standalone PDs showed a significant increase of 146 per cent during 2012-13 on account of huge growth in trading profits on the back of declining interest rate scenario for the later part of 2012-13 (Table VI.44). Mirroring the improvement in PAT, the return on net worth (RoNW) and the return on average assets (RoAA) also showed a healthy rise (Table VI.45). Reflecting the increased efficiency of PDs, cost to income ratio for PDs declined from 44.1 in 2011-12 to 27.2 in 2012-13.

6.51 There was a significant rise in the holding of risk-weighted assets by PDs, which more than outweighed the modest rise in their net capital funds. This resulted in a decline in their

² Turnover ratio is computed as the ratio of total purchases and sales during the year in the secondary market to average month-end stocks.

Table VI.43: Sources and Applications of Funds of Standalone PDs

(Amount in ₹ million)

Item	As at end-March			Percentage Variation	
	2011	2012	2013	2012	2013
1	2	3	4	5	6
Sources of Funds	1,30,320	2,03,810	2,43,232	56.4	19.3
1 Capital	15,210	15,080	14,743	-0.8	-2.2
2 Reserves and Surplus	18,890	20,490	22,832	8.4	11.4
3 Loans (a + b)	96,220	1,68,240	2,05,657	74.9	22.2
a) Secured	63,520	1,13,970	1,36,325	79.4	19.6
b) Unsecured	32,700	54,260	69,331	66.0	27.8
Application of Funds	1,30,320	2,03,810	2,43,232	56.4	19.3
1 Fixed Assets	380	370	325	-1.8	-12.2
2 Investments (a + b + c)	98,520	1,45,080	2,13,576	47.3	47.2
a) Government Securities	86,430	1,33,320	1,77,403	54.2	33.1
b) Commercial Papers	100	250	2,442	149.4	876.8
c) Corporate Bonds	11,990	11,510	33,730	-4.0	193.0
3 Loans and Advances	4,260	19,380	9,911	354.9	-48.9
4 Non-current Assets	0	2,970	2,214	-	-25.5
5 Equity, Mutual Funds, etc.	250	160	1,241	-34.7	675.6
6 Others*	26,910	35,850	15,965	33.2	-55.5

* Others = cash + certificate of deposits + bank balances + accrued interest + deferred tax assets – current liabilities and provisions.

Notes: 1. Percentage variation could be slightly different because of rounding-off.

2. Components may not add upto whole due to rounding-off.

Source: Annual Reports of PDs.

CRAR from 53.8 per cent (as at end-March 2012) to 39.4 per cent (as at end-March 2013) (Table VI.46). The ratio, however, was comfortably

Table VI.44: Financial Performance of Standalone PDs

(Amount in ₹ million)

Item	2011-12	2012-13	Variation	
			Amount	Percentage
1	2	3	4	5
A. Income (i to iii)	15,470	22,742	7,272	47.0
i) Interest and Discount	13,820	17,912	4,092	29.6
ii) Trading Profit	640	4,276	3,636	568.1
iii) Other Income	1,010	553	-457	-45.2
B. Expenses (i+ii)	13,070	17,023	3,953	30.2
i) Interest	11,180	14,883	3,703	33.1
ii) Other Expenses including Establishment & Administrative Costs	1,890	2,140	250	13.2
Profit Before Tax	2,400	5,542	3,142	130.9
Profit After Tax	1,540	3,795	2,255	146.4

Notes: 1. Percentage variation could be slightly different because of rounding-off.

2. Components may not add upto whole due to rounding-off.

Source: Returns submitted by PDs.**Table VI.45: Financial Indicators of Standalone PDs**

(Amount in ₹ million)

Indicator	2011-12	2012-13
1	2	3
i) Net profit	1,540	3,790
ii) Average Assets	1,97,460	2,52,170
iii) Return on Average Assets (RoAA) (in Per cent)	0.8	1.5
iv) Return on Net Worth (RoNW) (in Per cent)	4.4	10.1
v) Cost-Income Ratio	44.1	27.2

above the regulatory stipulation of 15 per cent for all standalone PDs.

Table VI.46: CRAR of Standalone PDs

(Amount in ₹ million)

Particulars	As at end-March	
	2012	2013
1	2	3
1. Total Net Capital Funds	39,290	42,280
2. Total Risk Weighted Assets	72,980	1,07,401
a) Credit Risk	37,420	49,570
b) Market Risk	35,560	57,831
3. CRAR (Per cent)	53.8	39.4

5. Overall Assessment

6.52 The non-banking financial sector as a whole witnessed a significant expansion in its balance sheet; though there was consolidation as some companies exited and migrated to other business models. The net profits of FIs and NBFCs also increased during 2012-13. The overall asset quality of a large part of the NBFI sector deteriorated during the year, partly reflecting a slowdown in the overall economy. With regard to capital adequacy, the entire NBFI sector was

comfortably placed. The net profit of standalone PDs showed a significant increase. Regulatory interventions for the sector were guided by concerns relating to financial stability as also for promoting healthy growth of the sector. Besides issuing public notices, the Reserve Bank has been carrying out outreach and sensitisation programmes, cautioning the general public not to fall prey to fictitious offers by individuals, unincorporated bodies and companies promising unsustainable returns.