Chapter V

Non-Banking Financial Companies

The role of Non-Banking Financial Companies (NBFCs) has gained focused attention in recent years following the Report of the Khan Working Group, the release of the RBI Discussion Paper on Harmonisation of the Role and Operations of DFIs and Banks, and the Report of the Working Group on Money Supply (Chairman: Dr.Y.V.Reddy). The growing concerns about financial stability point to the need for evolving safe and sound functioning of the NBFCs which, in the Indian context, are varied as they perform a wide range of tasks (Chart V.1).

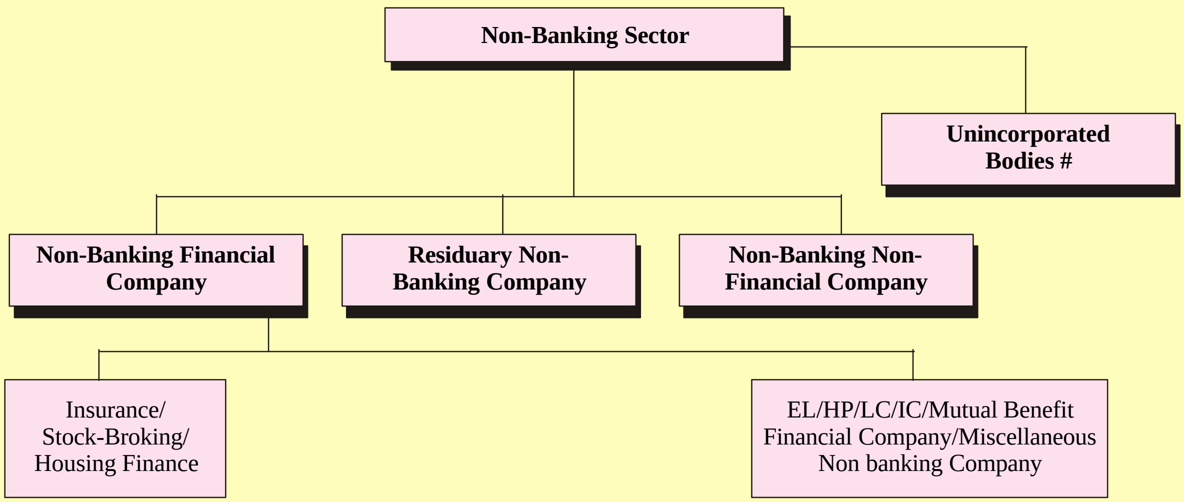
5.2 The growth of NBFCs has been rapid, especially in the 1990s owing to the high degree of their orientation towards customers and simplification of sanction requirements. NBFCs have created a large clientele base by offering relatively attractive rates of return although in the process, some of them became unsustainable. NBFCs have also displayed flexibility in meeting the credit needs of specific sectors like equipment leasing, hire purchase, housing finance and consumer finance, where gaps between the demand and supply of funds have been high and where established financial entities are not easily accessible to borrowers. As a result, the distinction between banks and NBFCs is narrowing, both offering almost the same spectrum of services; the only difference being the exclusive privilege that commercial banks wield in issuance of cheques.

1. Regulatory and Supervisory Framework

5.3 In view of the need for the continued existence and growth of NBFCs keeping in mind depositors' interests, it has become essential to develop a framework of prudential regulations and a supervisory system that can instil confidence in the functioning of the NBFC sector. Although the experience the worldover during the last three decades or so had revealed that setting in place an effective and efficient regulatory and supervisory mechanism for NBFCs is not easy, it has to be attempted keeping in view the need for minimisation of systemic and other risks.

5.4 The RBI (Amendment) Act, 1997 has been the most recent effort to address the issue of laying down a comprehensive framework for regulating the NBFCs. Exercising the powers derived under the amended Act, a set of regulatory and supervisory measures was announced by the Reserve Bank in January 1998. The broad thrust of the new Act has been to provide a greater degree of comfort and safety to depositors, while, at the same time, fostering the development of a healthy and diversified financial sector. Accordingly, entry-level norms for new and existing NBFCs have been laid down. Among the various measures introduced were compulsory registration of NBFCs engaged in financial intermediation, prescription of minimum level of Net Owned Funds (NOF), maintenance of certain percentage of liquid assets, creation of reserve fund and transfer thereto every year a certain percentage of profits to reserve fund. The regulations also provide for measures like credit rating for deposits, capital adequacy, income recognition, asset classification,compulsory credit rating provision for bad and doubtful debts, exposure norms and other measures to keep

Chart V.1: Components of the Non-Banking Sector



Non-Banking Financial Companies	Principal Business
Non-Banking Financial Company	In terms of the Section 45-I(f) of the RBI Act, 1934 as amended in 1997, their principal business is that of a financial institution as defined in Section 45 I(c) or that of receiving deposits under any scheme or lending in any manner.
Equipment leasing company (EL)	Equipment leasing or financing of such activity.
Hire purchase finance company (HP)	Hire purchase transaction or financing of such transactions.
Investment company (IC)	Acquisition of securities and trading in such securities to earn a profit.
Loan company (LC)	Providing finance by making loans or advances, or otherwise for any activity other than its own; excludes EL/HP/HFCs.
Mutual benefit financial company (MBFC) i.e. *Nidhi Company*	Means any company which is notified by the Central Government under Section 620A of the Companies Act 1956 (1 of 1956).
Miscellaneous non-banking company (MNBC) i.e. *Chit Fund Company*	Managing, conducting or supervising as a promoter, foreman or agent of any transaction or arrangement by which the company enters into an agreement with a specified number of subscribers that every one of them shall subscribe a certain sum in instalments over a definite period and that every one of such subscribers shall in turn, as determined by lot or by auction or by tender or in such manner as may be provided for in the agreement, be entitled to the prize amount.

Residuary non-banking company (RNBC)	Company which receives deposits under any scheme or arrangement, by whatever name called, in one lump-sum or in instalments by way of contributions or subscriptions or by sale of units or certificates or other instruments, or in any manner. These companies are NBFCs but do not belong to any of the categories as stated above.
Non-banking non-financial company (NBNFC)	Means an industrial concern as defined in the Industrial Development Bank of India Act, 1964, or a company whose principal activity is agricultural operations or trading in goods and services or construction/sale of real estate and which is not classified as financial or miscellaneous or residuary non-banking company.
Housing finance company (HFC)	The financing of the acquisition or construction of houses including the acquisition or development of plots of land. These companies are supervised by the National Housing Bank.

Unincorporated Bodies: After the RBI (Amendment) Act, 1997, they cannot receive deposits except from relatives as specified in Section 45-S of RBI Act, if such bodies are engaged, wholly or partly in any of the activities specified in clause (c) of Section 45-I of the Act, *ibid* or principal business is that of receiving deposits or lending.

a check on their financial solvency and financial reporting. While the regulatory framework has been dovetailed primarily towards NBFCs accepting/holding public deposits, the supervisory mechanism for NBFCs is based on three criteria, *viz*., (a) the size of the NBFC, (b) the type of activity performed, and (c) the acceptance or otherwise of public deposits. Towards this end, a four-pronged supervisory setup consisting of on-site examination, off-site surveillance, exception reporting by NBFCs' statutory auditors and market intelligence system has been instituted.

5.5 The amended Act, by introducing comprehensive changes in Chapter III-B, III-C and V of the Act, provides for an entry point norm of Rs.25 lakh as minimum capital fund. Subsequently, in the Monetary and Credit Policy for the year 1999-2000, it was proposed that in respect of new NBFCs, which seek registration with the Reserve Bank and commence the business on or after April 21, 1999, the requirement of minimum level of NOF will be Rs.2 crore.

5.6 In so far as accepting public deposits is concerned, NBFCs are akin to banks, except that NBFCs cannot accept deposits payable on demand. But it needs to be recognised that as public deposits are unsecured, the accepted global practice is that only banks which are regulated and supervised should be the main institutions that could be permitted to seek public deposits. It is against this background, public deposit taking activities of NBFCs would need to be regulated in the same manner as banks. This is the underlying element of the regulatory regime presently being put in place in respect of NBFCs in India.

2. Policy Developments Relating to NBFCs

5.7 With the introduction of comprehensive regulatory framework for NBFCs during 1997 and 1998, as many as 37,400 companies which were carrying on the financial business were eligible for registration with the Reserve Bank for continuation of business. Subsequently, several policy guidelines were issued for the

NBFC sector. In May 1999, the Reserve Bank removed the ceiling on bank credit prescribed for all registered NBFCs engaged in the principal business of equipment leasing, hire purchase, loan and investment activities. In November 1999, NBFCs were advised to give at least 3 months public notice prior to the date of closure of any of its branches/offices and sale/transfer of ownership by an NBFC in at least one leading national newspaper and a leading local vernacular language newspaper indicating therein the purpose and arrangement being made to service the depositors.

5.8 In January 2000, the Reserve Bank effected several amendments to NBFC regulations. First, NBFCs, which are (a) engaged in micro-financing activities, (b) licensed under Section 25 of the Companies Act, 1956 and (c) not accepting public deposits, were exempted from the purview of registration, maintenance of liquid assets and transfer of profits to reserve fund. Secondly, the mutual benefit companies (MBCs) in existence as on January 9, 1997 and having NOF of Rs.10 lakh were exempted from the requirement of registration, maintenance of liquid assets, creation of reserve fund and also from certain provisions of NBFC Directions on acceptance of public deposits and prudential norms as applicable in the case of notified *Nidhi* companies. Thirdly, the Reserve Bank introduced certain regulations in respect of opening and closing of branches, with an obligation of the auditors to report non-compliance of these Directions. NBFCs have also been directed to constitute Audit Committees, consisting of not less than three members of their Boards of Directors, if they have assets of more than Rs.50 crore, as per the last audited balance sheet. NBFCs would be required to follow a uniform accounting year of March 31 every year with effect from the accounting year ending March 31, 2001. NBFCs not holding public deposits were exempted from submitting returns on liquid assets. NBFCs which are required to maintain liquid assets at 15 per cent of public deposits in the form of Government securities, were permitted in January 2000 to maintain a part (upto 5 per cent) in the form of unencumbered bank term-deposits with scheduled commercial banks. In accordance with the announcement in the Monetary and Credit Policy of April 2000 regarding entry/ participation of NBFCs in insurance business, final guidelines for NBFCs specifying certain eligibility criteria to be fulfilled for undertaking insurance business as a joint venture participant, act as agent of insurance companies on fee basis, without any risk participation and invest in equity of insurance companies, were issued in June 2000. The regulations for NBFCs and Residuary Non-Banking Companies (RNBCs) were further rationalised in June 2000 with the following amendments: (a) rationalisation of provisioning norms in respect of lease and hire purchase assets, (b) obtaining and keeping on their records a copy of the passport, ration card, Election ID card, identification by an existing depositor, etc., as an evidence for identification of new depositors, (c) permission to RNBC to make investment in the schemes of mutual funds approved by the Securities and Exchange Board of India along with the schemes of Unit Trust of India and the lowering of the ceiling on interest rates payable by these companies by two percentage points, (d) permission to NBFCs to accept deposits from the relatives of their Directors subject to adequate disclosure to the depositors, and (e) rationalisation of the formats of all the statutory returns to be submitted by the non-banking financial companies, *nidhis*, RNBCs and *chit fund* companies, as applicable with a view to facilitating electronic processing and to use them as effective off-site monitoring tools.

3. Size of the Target Group

5.9 The introduction of comprehensive regulatory framework for NBFCs during 1997 and 1998 implied that as many as 37,400 financial companies which were carrying on the financial business were required to register with the Reserve Bank for continuation of their business. As on June 30, 2000, the Reserve Bank had received application for Certificate of Registration (COR) from as many as 37,274 companies, of which 679 companies were approved for registration with permission to accept public deposits, 8,451 were approved for registration without authorisation to accept deposits and 14,986 were rejected for issue of COR. Application of 13,158 companies are at various stages of consideration as some of them have not achieved the Net Owned Fund of Rs.25 lakh. The NBFCs have been broadly categorised into three major groups on the basis of their regulatory status and deposit acceptance activities, *viz.*, companies holding/ accepting public deposits, companies not holding/accepting public deposits and core investment companies.

4. Business of NBFC Sector

5.10 On the basis of the regulatory returns submitted by the deposit-holding/accepting NBFCs, regardless of their status of registration, a broad profile of the NBFCs RNBCs sector for the last two years is delineated below in Table V.1. As may be seen from the table, the total deposits held by NBFCs and RNBCs together at Rs.23,820.45 crore as on March 31, 1998 constituted roughly 3.7 per cent of the deposits (Rs.6,44,068.17 crore) mobilised by the SCBs (except Regional Rural Banks) as a whole for the corresponding period. Of this, the public deposits of NBFCs and RNBCs accounted for 57 per cent and 43 per cent, respectively, of the total deposits of NBFCs and RNBCs taken together. However, as on March 31, 1999, the proportion of public deposits held by NBFCs in the total NBFC sector declined to 47.9 per cent, while the share of public deposits held by RNBCs correspondingly increased to 52.1 per cent. The aggregate deposits of the NBFC sector (including RNBCs) at Rs.20,428.93 crore as at end-March 1999 constituted approximately 2.6 per cent of the aggregate deposits (Rs.7,71,128.85 crore) mobilised by the SCBs (except Regional Rural Banks). As at end March 2000, the public deposits of large NBFCs (which includes NBFCs, MBFCs and RNBCs holding public deposits of Rs.20 crore or more) aggregated Rs.16,494.3 crore, accounting for about 45 per cent of the total liabilities of the NBFC sector as a whole. The aggregate public deposits of NBFCs declined from Rs.13,571.73 crore as on March 31, 1998 to Rs.9,784.66 crore as on March 31, 1999, despite the increase in the number of reporting companies from 1,420 to 1,536 in the interregnum. This can be attributed, among others, to reduced preference for deposits with NBFCs on the part of depositors, regulatory pressure for adherence to prudential norms for companies holding/accepting public deposits and the retiring of earlier high-cost deposits by companies holding public deposits. The RNBCs, however, showed a marginal growth in their public deposit portfolio.

Table V.1: Broad Profile of the NBFC Sector (as at end-March)

(Amount in Rs. crore)

Year/ Item	1998 NBFCs {1,420}	1998 RNBCs {9}	1999 NBFCs {1,536}	1999 RNBCs {11}
1	2	3	4	5
Total Assets	34,789.74	10,718.32	35,968.00	11,080.50
	(76.4)	(23.6)	(76.4)	(23.6)
of which:				
Public Deposits	13,571.73	10,248.72	9,784.66	10,644.27
	(57.0)	(43.0)	(47.9)	(52.1)
Net Owned Funds	8,572.98	-1,085.3	8,026.59	-666.39

Notes: 1. Figures for 1999 are provisional.
2. Figures in brackets indicate percentages to total of the NBFC sector (i.e.,NBFCs+RNBCs).
3. Figures in curly brackets corresponding to the second row indicate number of reporting companies.

5.11 The total assets held by NBFCs and RNBCs together at Rs.45,508.06 crore constituted roughly 6 per cent of the assets (Rs.7,95,412.48 crore) of scheduled commercial banks (SCBs) as a whole as on March 31, 1998. The aggregate assets of the NBFC sector increased to Rs.47,048.50 crore as on March 31, 1999, constituting approximately 5 per cent of the total assets (Rs.9,50,717.74 crore) of SCBs for the corresponding period. It is important to note that the share of NBFCs in the total assets of NBFCs and RNBCs taken together has remained at around 76 per cent over the period. Provisional data on the asset position of large NBFCs (which includes NBFCs, MBFCs and RNBCs holding public deposits of Rs. 20 crore or more) reveals that, as at the end of March 2000, their assets aggregated Rs.36,505.9 crore.

5.12 The break-up of public deposits with the different categories of NBFCs and RNBCs is provided in Table V.2. It shows that investment and loan and hire purchase business form the major proportion of total business of NBFCs. Between March 1998 and March 1999, while the overall deposits declined by nearly 14 per cent, the sharpest drop was noticed in the case of equipment leasing companies (40.2 per cent), followed by investment and loan companies (32.8 per cent) and other non-banking companies (21.7 per cent) (Chart V.2).

Chart V.2:Activity wise Profile of NBFCs

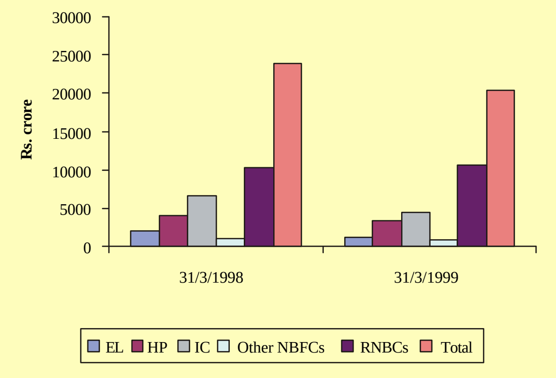


Table V.2: Activity-wise Profile of Public Deposits of NBFCs (as at end-March)

(Amount in Rs. crore)

Nature of Business	Public Deposits		Percentage Variation of Column (3) over Column(2)
	1998	1999	
1	2	3	4
1. Equipment Leasing	1,962.09 (8.2)	1,172.91 (5.7)	-40.2
2. Hire Purchase	3,937.75 (16.5)	3,339.78 (16.4)	-15.2
3. Investment and Loan	6,628.92 (27.8)	4,455.80 (21.8)	-32.8
4. Other NBFCs*	1,042.97 (4.5)	816.17 (4.0)	-21.7
I. Total (1 to 4)	13,571.73 (57.0)	9,784.66 (47.9)	-27.9
II. RNBCs	10,248.72 (43.0)	10,644.27 (52.1)	4.1
Total (I+II)	**23,820.45 (100.0)**	**20,428.93 (100.0)**	**-14.2**

Notes : 1. *includes Miscellaneous Non-Banking Companies, unregistered and unnotified *Nidhis* etc.
2. Figures in brackets indicate percentages to total.

Region-wise Composition of Deposits held by NBFCs and RNBCs

5.13 The region-wise break-up of public deposits held by registered and unregistered NBFCs and RNBCs for the reporting year ended March 31, 1998 and March 31, 1999 are presented in Table V.3 and Chart V.3.

5.14 Keeping in view the different number of deposit-holding/accepting NBFCs that have reported to the Reserve Bank for the years 1998 and 1999, the following broad features can be inferred from Table V.3. First, the number of NBFCs based in the Southern region accounted for the major share of the reporting NBFCs in both the years. In 1998, the NBFCs in this region accounted for about 45 per cent of the total public deposits. The share increased further to almost 50 per cent as on March 31, 1999. Within the Southern region, the majority of the public deposits was held by those based in Chennai. Secondly, the share of public deposits held by NBFCs based in the Western region accounted for roughly 30 per cent of the total deposits held in both these years (Chart V.3). Thirdly, the share of public deposits held by NBFCs based in the Northern region registered a decline from 8.3 per cent to 5.0 per cent, owing mainly to a decline in the share of public deposits held in New Delhi. The public deposits reported by NBFCs and RNBCs based in the jurisdiction of the four regional offices at Mumbai, New Delhi, Calcutta and Chennai alone accounted for Rs. 17,185.30 crore (72 per cent) and Rs.14,402.87 crore (70.5 per cent), respectively, of the total deposits for the years ended March 1998 and March 1999.

5.15 One interesting aspect is that, in the

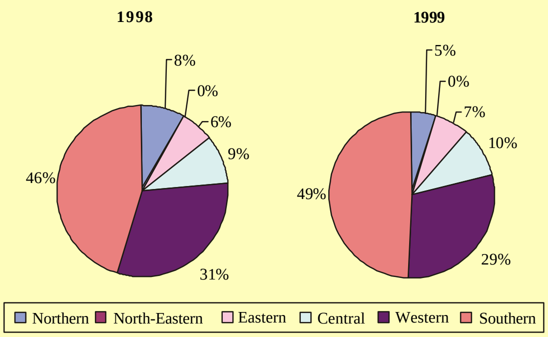
Table V.3: Region-wise break-up of Public Deposits held by Registered and Unregistered NBFCs and RNBCs (as at end-March)

(Amount in Rs. crore)

Name of the Region	1998								1999							
	NBFC				RNBC				NBFC				RNBC			
			Public Deposits				Public Deposits				Public Deposits				Public Deposits	
	No.	Per cent	Amount	Per cent	No.	Per cent	Amount	Per cent	No.	Per cent	Amount	Per cent	No.	Per cent	Amount	Per cent
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Northern	253	17.8	1,126.19	8.3	–	–	–	–	204	13.3	484.96	5.0	–	–	–	–
North–Eastern	30	2.1	12.56	0.1	–	–	–	–	30	2.0	0*	0.0	–	–	–	–
Eastern	62	4.4	835.36	6.2	3	33.3	7,162.03	69.9	59	3.8	643.65	6.6	5	45.5	7,068.26	66.4
Central	225	15.8	1,236.5	9.1	5	55.6	3,086.69	30.1	240	15.6	959.21	9.9	4	36.4	3,574.73	33.59
Western	132	9.3	4,223.85	31.1	–	–	–	–	179	11.7	2,850.81	29.2	1	9.1	0.27	0.0
Southern	718	50.6	6,137.27	45.2	1	11.1	–	–	824	53.6	4,846.03	49.4	1	9.1	1.01	0.01
Total	**1,420**	**100.0**	**13,571.73**	**100.0**	**9**	**100.0**	**10,248.72**	**100.0**	**1,536**	**100.0**	**9,784.66**	**100.0**	**11**	**100.0**	**10,644.27**	**100.0**
Memorandum Items :																
Mumbai	88	6.2	3,505.22	25.8	–	–	–	–	131	8.5	2,405.04	24.6	–	–	–	–
Chennai	466	32.8	4,715.54	34.7	–	–	–	–	489	31.8	3,843.13	39.2	–	–	–	–
Calcutta	45	3.2	824.62	6.1	3	33.3	7,162.03	69.9	42	2.7	634.27	6.5	5	45.5	7,068.26	66.4
New Delhi	109	7.7	977.89	7.2	–	–	–	–	93	6.1	452.17	4.7	–	–	–	–

Note : * Figures awaited.

Chart V.3: Region-wise break-up of Public Deposits held by Registered and Unregistered NBFCs



Eastern and Central regions, RNBCs were predominant in 1998 and 1999. Secondly, RNBCs hardly exist in both these years in the Southern region. In the Western region, only one RNBC reported in 1999. In Northern and North Eastern region, they were conspicuously absent.

Interest Rate and Maturity Pattern of Deposits with NBFCs

5.16 The duration-wise analysis of deposits held by NBFCs, the interest rate range on the deposits together with the account-wise size of the deposits held by NBFCs are presented in Tables V.4, V.5 and V.6.

5.17 It may be seen from Table V.4 that nearly 50 per cent of the deposits contracted by the NBFCs as at the end of March 1998 had a maturity period ranging upto 2 years, while the remaining were contracted for more than 2 years, which was more or less maintained in the year 1999 as well. The amount of deposits contracted was highest in the case of maturity period 1–2 years for 1998 (29.8 per cent) as well as 1999 (29.7 per cent) (Chart V.4).

5.18 Table V.5 shows that approximately 88 per cent of the deposits outstanding in the books of the reporting companies were paid interest rates exceeding 14 per cent during the year 1998 largely due to the fact that quite a few companies, especially relatively large-sized entities in the NBFCs sector were free to determine the rate of interest payable on deposits as they had registered with the Reserve Bank under the *optional scheme* which was in vogue during the years 1996 and 1997 (Chart V.5). The amount of deposit in the range of 14 per cent and above, which constituted 88 per cent of the total deposit during 1998, declined to about 75 per cent in 1999. It is also observed from the table that between March 1998 and March 1999, the absolute amount of deposits outstanding in the interest rate range of 12-14 per cent increased from Rs.1,296.64 crore in 1998 to Rs.2,336.67 crore in 1999. Clearly, the high rate of interest paid by NBFCs has been instrumental in mobilising large amounts of deposits. In terms of the new regulatory framework put in place in January 1998, NBFCs cannot pay interest at a rate exceeding 16 per cent. The interest paid on deposits with rates above 16 per cent should, therefore be in respect of deposits accepted prior to January 1998.

5.19 From Table V.6 it may be seen that the quantum of deposits received from the public in small magnitude (ranging upto Rs.10,000) registered a decline, in absolute terms from

Table V.4: Maturity Pattern of Deposits held by NBFCs$
(as at end-March)

(Amount in Rs. crore)

Maturity Period (Years)	Amount of Deposits 1998	1999
1	2	3
Payable on demand*	21.17 (0.2)	77.89 (6.0)
Less than 1	2,672.50 (19.7)	1,616.70 (16.5)
1-2	4,048.09 (29.8)	2,904.34 (29.7)
2-3	3,731.59 (27.5)	2,895.80 (29.6)
3-5	2,875.84 (21.2)	2,122.16 (21.7)
Exceeding 5	222.54 (1.6)	167.77 (1.7)
Total	**13,571.73 (100.0)**	**9,784.66 (100.0)**

Notes: 1.$ On the basis of outstanding maturities
* includes matured deposits.
2.Figures in brackets indicate percentages to total.

Table V.5: Distribution of NBFCs Deposits according to Rate of Interest
(as at end-March)

(Amount in Rs. crore)

Interest Rate range (per cent)	Amount of Deposits 1998	1999
1	2	3
Upto 10	142.84 (1.1)	52.38 (0.5)
10-12	172.53 (1.3)	87.49 (0.9)
12-14	1,296.64 (9.6)	2,336.67 (23.9)
14-16	6,641.35 (48.8)	3,662.74 (37.4)
More than 16	5,318.37 (39.2)	3,645.38 (37.3)
Total	**13,571.73 (100.0)**	**9,784.66 (100.0)**

Note: Figures in brackets indicate percentage to total.

Table V.6: Size-wise Classification of Deposits of NBFCs (as at end-March)

(Rs. crore)

Deposit size range (per deposit account)	Amount of Deposits 1998	1999
1	2	3
Upto Rs. 10,000	3898.54 (28.7)	2503.12 (25.6)
Rs.10,001 - Rs.25,000	5124.14 (37.8)	3988.93 (40.8)
Over Rs.25,000	4549.05 (33.5)	3292.61 (33.7)
Total	**13,571.73 (100.0)**	**9,784.66 (100.0)**

Note : Figures in brackets indicate percentage to total.

Chart V.4: Duration-wise break-up of Deposits mobilised by NBFCs

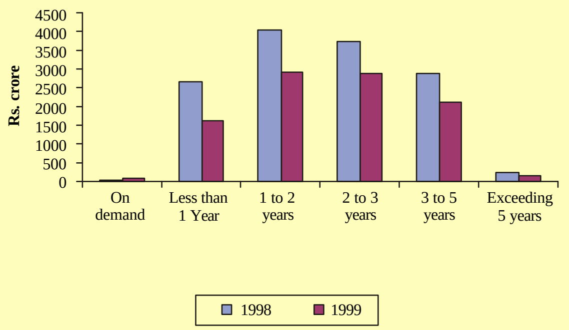


Chart V.5: Distribution of Interest Rate paid on Deposits by NBFCs

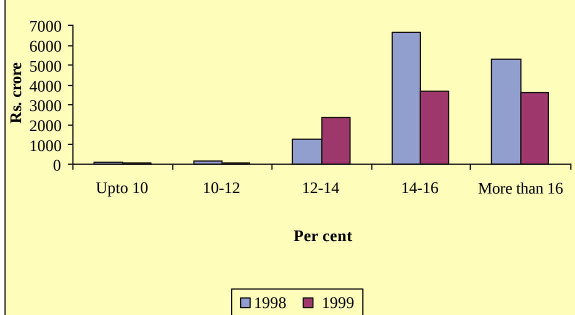
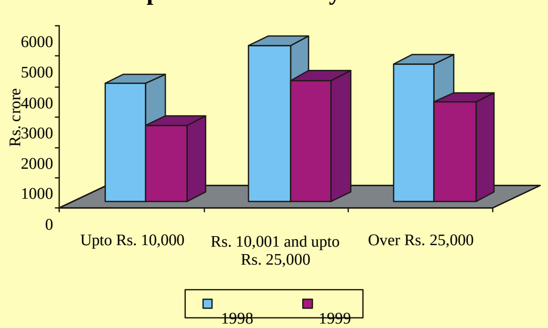


Chart V.6: Size-wise Classification of Deposits mobilised by NBFCs



Rs.3,898.54 crore (28.7 per cent of the total) to Rs.2,503.12 crore (25.6 per cent of the total) between end March 1998 and end March 1999. Deposits in the size category 'Rs.10,001 and above' comprised the dominant portion of the deposits received, constituting as high as 71.3 per cent in 1998 and 74.5 per cent in 1999 (Chart V.6). Within this broad category, deposits of over Rs.25,000 remained constant at around 34 per cent in both the years.

Classification of Other Borrowings by NBFCs

5.20 The statement of other borrowings by NBFCs during the years ended March 1998 and 1999 is given in Table V.7 and Chart V.7.

5.21 The quantum of funds borrowed by NBFCs through sources which are not subject to regulatory ceiling at Rs.16,553.62 crore exceeded the public deposits at Rs.13,571.73 crore as at end-March 1998. As at the end of March 1999, the money raised by NBFCs through borrowings was about three times their NOF, whereas it was about 2 times the NOF as at the end of March 1998. Between end-March 1998 and end-March 1999, total other borrowings by NBFCs increased by nearly 37 per cent from Rs. 16,553.62 crore to Rs.22,620.59 crore. Source-wise, money raised by NBFCs from banks was the single largest source of borrowings, being respectively, 33.6 per cent and 26.7 per cent of the total, for the years 1998 and 1999**.** NBFCs also raised resources through commercial paper which increased by more than 300 per cent from Rs.113.24 crore at end March 1998 to Rs.465.23 crore a year later. Money borrowed from foreign sources also increased sharply from Rs.287.22 crore to Rs.624.18 crore. NBFCs also raised resources through the issue of convertible or secured debentures which amounted to Rs.4,001.78 crore at end March 1999 as against Rs.1,993.40 crore a year earlier. Borrowings from financial institutions, on the other hand, registered a decline of nearly 25 per cent from Rs.2,044.87 crore at end-March 1998 to Rs.1,544.76 crore at end-March 1999.

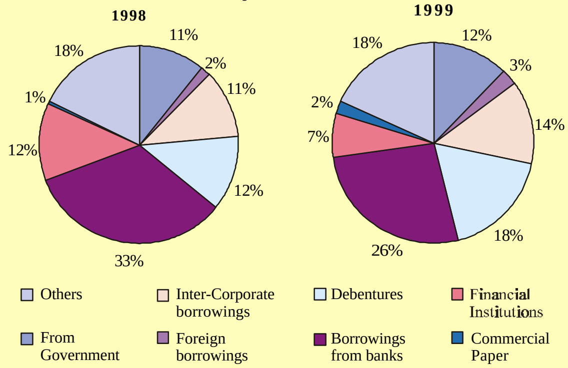
Table V.7: Classification of Other Borrowings by NBFCs (as at end-March)

(Amount in Rs. crore)

Item	1998	1999
1	2	3
Money borrowed from Central/State Government $	1,773.20 (10.7)	2,739.59 (12.1)
Money borrowed from foreign sources*	287.22 (1.7)	624.18 (2.8)
Inter-corporate borrowings	1,861.58 (11.2)	3,076.48 (13.6)
Money raised by issue of convertible or secured debentures, including those subscribed by banks	1,993.40 (12.0)	4,001.78 (17.6)
Borrowings from banks	5,554.27 (33.6)	6,038.10 (26.7)
Borrowings from Financial Institutions	2,044.87 (12.4)	1,544.76 (6.8)
Commercial Paper	113.24 (0.7)	465.23 (2.1)
Others #	2,925.84 (17.7)	4,130.47 (18.3)
Total	**16,553.62 (100.0)**	**22,620.59 (100.0)**

Notes: 1. $ mainly by State-Government owned companies.
* The amount received from foreign collaborators as well as from institutional investors (Asian Development Bank, International Finance Corporation etc.). The major amount is in infrastructure and leasing companies.
\# includes security deposits from employees and caution money etc.
2. 'Other Borrowings' denote borrowings other than public deposits.
3. Figures in brackets are percentages to total.

Chart V.7: Distribution of other Borrowings by NBFCs



5. Net Owned Funds of NBFCs

5.22 Net Owned Funds of NBFCs is the aggregate of paid-up capital and free reserves, netted by the amount of accumulated balance of loss, deferred revenue expenditure and other intangible assets, if any, and further reduced by investments in shares and loans and advances to subsidiaries, companies in the same group and other NBFCs in excess of 10 per cent of owned fund.

5.23 The data on net owned funds of NBFCs for the years 1998 and 1999 are presented in Table V.8.

5.24 First, it may be observed that for the year 1998, out of the 1,420 companies, as many as 1,021 companies had NOF below Rs. 1 crore holding public deposits amounting to Rs.2,260.96 crore. In contrast, the NOF of as many as 339 companies were in the range of Rs. 1 crore to Rs.50 crore, accounting for public deposits aggregating

Table V.8: Net Owned Funds *vis-à-vis* Public Deposits of NBFCs (as at end-March)

(Amount in Rs. crore)

Range of NOF Amount	1998				1999			
	No. of reporting companies	Net Owned Fund	Public Deposits	Public Deposits as multiple of NOF	No. of reporting companies	Net Owned Fund	Public Deposits	Public Deposits as multiple of NOF
1	2	3	4	5	6	7	8	9
Upto 0.25	669	56.74	1,857.22	32.7	736	38.08	650.22	17.1
0.25 - 0 50	253	84.03	172.89	2.1	319	70.43	115.51	1.6
0.50 - 1.0	123	84.40	230.85	2.7	133	64.63	92.97	1.4
1- 5	197	471.21	523.63	1.1	199	378.11	974.58	2.6
5 –10	65	459.69	566.58	1.2	55	336.37	264.71	0.8
10-20	43	588.21	1,011.67	1.7	34	428.43	692.19	1.6
20-30	16	397.85	787.35	2.0	16	387.60	728.66	1.9
30-40	8	272.92	929.16	3.4	10	337.91	486.87	1.4
40-50	10	434.32	705.00	1.6	4	131.14	199.43	1.5
50-100	16	1,104.05	1,825.26	1.7	11	786.99	1,271.05	1.6
100-500	19	3,547.80	4,905.10	1.4	18	3,946.07	4,286.73	1.1
Above 1000	1	1,071.76	57.02	0.1	1	1,120.83	21.74	0.02
Total	**1,420**	**8,572.98**	**13,571.73**	**1.6**	**1,536**	**8,026.59**	**9,784.66**	**1.2**

Note: There were no reporting companies with NOF in the range of (a) above Rs.500 crore and upto Rs. 750 crore and (b) above Rs.750 crore and upto Rs. 1000 crore.

Rs.4,523.39 crore. During the year 1999, as many as 1,188 companies had NOF in the range of Rs. 1 crore and below. However, the public deposits held by these companies witnessed a decline compared to the previous year to Rs.858.70 crore. The number of companies whose NOF were in the range of Rs.1 crore to Rs.50 crore were only 318. The quantum of public deposits held by these NBFCs stood at Rs.3,346.44 crore and the same constituted 34.2 per cent of the total deposits held by NBFCs as at end-March 1999.

5.25 Secondly, as at the end of March 1998, the number of companies with NOF of Rs.50 crore and above, numbering 36 had public deposits to the tune of Rs.6,787.38 crore and this accounted for nearly 50 per cent of the public deposits of reporting NBFCs in that year. By contrast, as at the end of March 1999, public deposits of large companies with NOF of Rs. 50 crore and above aggregating Rs.5,579.52 crore accounted for roughly 57 per cent of total public deposits with NBFCs during that year. Thirdly, the NBFCs with NOF in the range of upto Rs.25 lakh were holding deposits to the tune of 32.7 times and 17.1 times of their NOF respectively, for the years 1998 and 1999.

Asset Profile of NBFCs

5.26 The available information on the asset profile of major NBFCs that had the asset base of Rs.100 crore and above during the years 1998 and 1999 gives some interesting features of the NBFC sector. 53 and 57 (both NBFCs and RNBCs) companies having assets of Rs.100 crore and above as on September 30, 1998 and March 31, 1999 have been selected for this analysis. As at the end of September 30, 1998, the NOF of the 53 companies stood at Rs.5,108.95 crore which constituted 69 per cent of NOF of NBFC sector, which stood at Rs.7,360.20 crore for the same period. As on March 31, 1999, the NOF of 57 companies at Rs.5,372.93 crore constituted 67 per cent of the NOF of the NBFC sector at Rs.8,026.59 crore for the same period. Some of the other important parameters reported in the prudential statements are provided in Table V.9.

5.27 The table shows that standard assets constituted 93 per cent and 91 per cent of the total credit assets as at the end of September 1998 and March 1999, respectively. The quantum of provisions required aggregated Rs.1,167.49 crore with the incidence of short provisioning at 38 per cent for the half-year ended September 1998, while the provisions required for the next half-year aggregated Rs.1,191.71 crore, with 31 per cent short provisioning. The gross NPA comprised 7.11 per cent of the total credit exposures for the first half-year, while it increased to 9.28 per cent for the next half year. Over the same period, the net NPA to total credit assets increased from 4.77 per cent to 6.11 per cent.

6. Capital Adequacy Ratio

5.28 Although the capital adequacy norms for scheduled commercial banks and other financial institutions were introduced in 1992-93 and 1993-94, respectively, they have been made applicable to NBFCs only recently (i.e., 1998). The norms relating to the capital adequacy ratio (CRAR) stipulate that every NBFC shall maintain a minimum capital ratio consisting of tier I and tier II capital that shall not be less than (a) 10 per cent on or before March 31, 1998; and (b) 12 per cent on or before March 31, 1999, of its aggregate risk weighted assets and of risk adjusted value of off-balance sheet items. Furthermore, The total of tier II capital, at any point of time, shall not exceed 100 per cent of tier I capital.

5.29 Tables V.10 presents the capital adequacy ratio of the reporting companies for

Table V.9: Important Parameters of NBFC$

(Rs. crore)

Item	30-9-1998 # (53 companies)	31-3-1999 (57 companies)
1	2	3
1. Aggregate of Net Owned Funds	5,108.95	5,372.93
2. Aggregate of Book Value of Assets	41,124.40	44,450.70
3. Aggregate of Risk-weighted Assets	31,720.74	33,801.99
4. Aggregate of Assets categorised as Standard	28,730.01	23,374.15
5. Aggregate of Assets categorised as sub-Standard	1,288.90	1,335.37
6. Aggregate of Assets categorised as Doubtful	612.08	650.46
7. Aggregate of Assets categorised as Loss	299.19	406.33
8. Gross NPAs (4+5+6)	2,200.17	2,392.16
9. Aggregate Credit/Assets (4+8)	30,930.18	25,766.31
10. Aggregate of Provisions Required	1,167.49	1,191.71
11. Aggregate of Provisions actually made	724.09	817.53
12. Net NPAs (8-11)	1,476.08	1,574.63
13. Percentage of Gross NPA to Total Credit Assets (8/9)	7.11	9.28
14. Percentage of Net NPA to Total Credit Assets (12/9)	4.77	6.11

Note : 1. $ With assets of Rs.100 crore and above.
Based on first set of prudential returns received for NBFCs/RNBCs.

the years ended September 1998 and March 1999, respectively (Charts V.8 and V.9).

5.30 The following broad observations can be made from Table V.10. First, out of the 505 companies that had reported prudential statements as on September 30, 1998, as many as 347 companies (68.7 per cent) reported CRAR at 20 per cent and above, while the CRAR of 72 companies (14.3 per cent) were less than 10 per cent on the same date. Secondly, loan and investment companies constituted the majority of the reporting companies (55.2 per cent) and among these companies, around 70 per cent reported CRAR of 20 per cent and above and 38 companies (14 per cent) had CRAR of less than 10 per cent as on that date. The status of compliance reported for the next half year revealed that out of the 677 reporting companies, as many as 521 companies (about 77 per cent) had reported CRAR of 20 per cent and above, while the CRAR of 84 companies (12.4 per cent) were below the 10 per cent mark as on that date.

Chart V.8: Category-wise Distribution of CRAR of NBFCs as on 30/09/1998

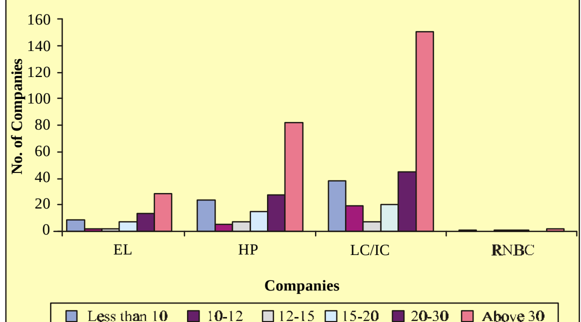


Chart V.9: Category-wise Distribution of CRAR of NBFCs as on 31/3/1999

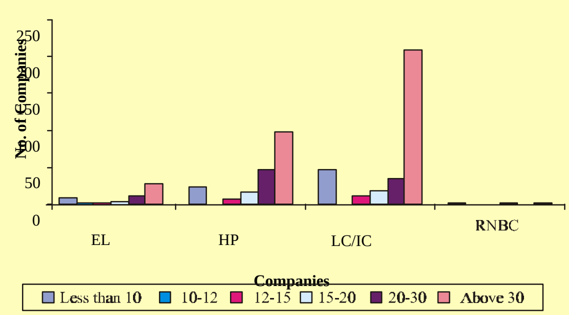


Table V.10: Distribution of CRAR-Number of Reporting Companies (As at the end of)

CRAR Range (per cent)	September 1998					March 1999				
	EL	HP	LC/IC	RNBC	**Total**	EL	HP	LC/IC	RNBC	**Total**
1	2	3	4	5	6	7	8	9	10	11
Less than 10	9	24	38	1	**72**	11	33	39	1	**84**
10-12	2	5	19		**26**	1	1	2		**4**
12-15	2	7	7	1	**17**	1	7	10		**18**
15-20	7	15	20	1	**43**	7	27	15	1	**50**
20-30	13	27	45		**85**	10	71	37		**118**
Above 30	28	82	150	2	**262**	27	144	230	2	**403**
Total	**61**	**160**	**279**	**5**	**505**	**57**	**283**	**333**	**4**	**677**

Note : EL/HP/LC/IC are as provided in Chart V.1.

5.31 The loan and investment companies constituted the majority of the reporting companies (49.2 per cent) for March 1999 and among these companies, around 80 per cent reported CRAR of 20 per cent and above and 39 companies (11.7 per cent) had CRAR of less than 10 per cent as on that date. There was also an increase in the proportion of reporting Hire Purchase (HP) companies from 31.7 per cent as on September 30, 1998 to 41.8 per cent as on March 31, 1999. The proportion of HP companies reporting a CRAR of 20 per cent and above also increased substantially from roughly 68 per cent to 76 per cent of the total HP companies between the two periods.

7. Public Deposits of Top NBFCs/ RNBCs

5.32 The region-wise distribution of public deposit of top NBFCs/RNBCs as at the end of March 1998, 1999 and 2000 is presented in Table V.11. The top NBFCs are those with public deposits of Rs.50 crore and above as at end-March 1998.

5.33 As mentioned earlier, deposits held by NBFCs/RNBCs remains concentrated in a few large companies. In 1998, the public deposits of top 53 NBFCs/RNBCs accounted for roughly 85 per cent of total deposits of NBFCs/RNBCs. The share of the top NBFCs/ RNBCs rose to 89 per cent in 1999. Secondly, the public deposits with the top NBFCs/ RNBCs has witnessed a decline of roughly 15.8 per cent between end-March 1998 and end-March 2000. Thirdly, the Eastern region accounted for around 35 per cent of the public deposits held by top 50 NBFCs/RNBCs as at end-March 1998. This proportion increased to 41 per cent as at the end of March 1999 and further to 45.8 per cent as at the end of March 2000, although the public deposits with the NBFCs/RNBCs witnessed a decline of around 7 per cent over the period. Among others, the share of deposits in the Southern Region witnessed a decline over the period from 24 per cent to 17.4 per cent, while that in the Central region increased from 20.2 per cent to 23.9 per cent over the same period. The public deposits held by RNBCs stood at Rs.9,543.49

crore, Rs.10,564.62 crore and Rs.11,029.22 crore, forming 47.5 per cent, 58.1 per cent and 65.2 per cent of the total public deposits of top NBFCs/RNBCs as at the end of March 1998, March 1999 and March 2000, respectively.

8. Other Developments

Informal Advisory Group on NBFCs

5.34 Consequent upon the implementation of the new regulatory framework for NBFCs, the Reserve Bank constituted an Informal Advisory Group for NBFCs in January 1998. The Group comprises one representative each from the Institute of Chartered Accountants of India, three national level Associations of NBFCs and Chief Executive Officers of two large NBFCs as well as the Chief General Manager-in-Charge of the Department overseeing the functioning of NBFCs and the Legal Adviser. The Group deliberates on various issues emanating from the difficulties in complying with the regulatory framework and is a forum for consulting professional bodies, experts, NBFC Associations and NBFCs themselves about the market practices and the inter-play of various statutes while framing regulations or designing supervisory framework for these companies.

Committee for Redesigning the Balance Sheet of NBFCs

5.35 A Committee was constituted by the Reserve Bank in 1997 to explore the possibility of re-designing the present formats of the financial statements being prepared by the NBFCs (Chairman: Shri V.S.N.Murty). The need for separate formats, besides being one of the recommendations of the Expert Group on Designing the Supervisory Framework for NBFCs (Khanna Committee in 1995) was being felt for a long time since the present formats under Schedule VI of the Companies Act, were designed essentially for non-financial companies and the risks associated with the activities of the financial companies were, as a result, not properly reflected therein. The Committee, in its Report submitted in September 1999 recommended revised formats for the balance sheet which essentially follows the existing formats prescribed under the Companies Act, with additional disclosures in respect of maturity profile of assets and liabilities, sector-wise concentration of assets and liabilities, details in respect of overdue loans and other credits, non-performing assets and provisioning thereagainst, valuation of investments, etc. as schedules to the main balance sheet as well as the formats for these additional schedules. In addition, the Committee recommended that (a) in respect of companies having non-financial business as part of their business activities, separate schedules in respect of such activities need to be annexed to the main balance sheet and profit and loss account, and (b) for the purpose of classifying a company as a financial company, companies having 40 per cent of the tangible assets as financial assets, will be recognised as NBFCs and will, therefore, be required to compile their financial statements in the proposed formats. The Reserve Bank decided to obtain the views of the Department of Company Affairs and the Government of India on the Report and also circulate the same among the members of the Informal Advisory Group on NBFCs for eliciting suggestions on the proposed formats. In line with the suggestions received, it was decided that NBFCs should prepare their balance sheets on a uniform date as on March 31 with effect from the year 2001 and every NBFC with asset size of Rs. 50 crore and above would need to constitute an Audit Committee from out of the members of its Board of Directors.

NBFCs foray into Insurance Business

5.36 The Monetary and Credit Policy of April

Table V.11: Public Deposits of top NBFCs/RNBCs-1998 to 2000 (as at end-March)

(Amount in Rs. crore)

Region	NBFCs/RNBCs						Public Deposits					
	1998		1999		2000		1998		1999		2000	
	Number	Per cent	Number	Per cent	Number	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
1	2	3	4	5	6	7	8	9	10	11	12	13
Northern	**3**	**5.7**	**3**	**6.0**	**3**	**6.0**	**506.93**	**2.5**	**385.78**	**2.1**	**306.69**	**1.8**
Chandigarh												
Jaipur												
Jammu												
New Delhi	3	5.7	3	6.0	3	6.0	506.93	2.5	385.78	2.1	306.69	1.8
North-Eastern	**0**	**0.0**	**0**	**0.0**	**0**	**0.0**	**0.00**	**0.0**	**0.00**	**0.0**	**0.00**	**0.0**
Guwahati												
Eastern	**4**	**7.5**	**3**	**6.0**	**3**	**6.0**	**7,016.90**	**34.9**	**7,434.25**	**40.8**	**7,747.29**	**45.8**
Bhubaneshwar												
Calcutta	4	7.5	3	6.0	3	6.0	7,016.90	34.9	7,434.25	40.8	7,747.29	45.8
Patna												
Central	**3**	**5.7**	**2**	**4.0**	**2**	**4.0**	**4,056.88**	**20.2**	**4,244.54**	**23.3**	**4,045.96**	**23.9**
Bhopal												
Lucknow	3	5.7	2	4.0	2	4.0	4,056.88	20.2	4,244.54	23.3	4,045.96	23.9
Western	**14**	**26.4**	**13**	**27.0**	**13**	**28.0**	**3,697.42**	**18.4**	**2,623.09**	**14.5**	**1,884.66**	**11.1**
Ahmedabad	4	7.4	4	8.0	4	9.0	650.56	3.2	411.62	2.3	136.26	0.8
Mumbai	10	19.0	9	19.0	9	19.0	3,046.86	15.2	2,211.47	12.2	1,748.40	10.3
Southern	**29**	**54.7**	**27**	**57.0**	**26**	**56.0**	**4,823.48**	**24.0**	**3,492.22**	**19.3**	**2,940.00**	**17.4**
Bangalore	4	7.5	4	8.0	4	9.0	702.69	3.5	491.38	2.7	358.80	2.1
Chennai	24	45.2	22	47.0	21	45.0	3,868.05	19.2	2,845.98	15.7	2,497.92	14.8
Hyderabad	1	2.0	1	2.0	1	2.0	252.74	1.3	154.86	0.9	83.28	0.5
Thiruvananthapuram												
Total	**53**	**100.0**	**48**	**100.0**	**47**	**100.0**	**20,101.61**	**100.0**	**18,179.88**	**100.0**	**16,924.60**	**100.0**

2000 announced that the Reserve Bank was considering formulation of guidelines for NBFCs for entry/participation into the insurance business. Such guidelines for NBFC assume importance in view of the approach to universal banking which envisages that, in due course, there should ultimately be only banks and restructured NBFCs. The guidelines for entry of NBFCs into insurance business were issued in June 2000.

5.37 The guidelines stipulate that any NBFC, registered with the Reserve Bank and having net owned fund of Rs. 2 crore, as per the last audited balance sheet, would be permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation. All NBFCs registered with the Reserve Bank that satisfy certain eligibility criteria will be permitted to set up joint venture company for undertaking insurance business with risk participation, subject to safeguards. As per the latest audited balance sheet of NBFCs, the eligibility criteria for joint venture participant will be as under: (a) owned funds (as defined in Section 45IA of the 1934 Reserve Bank Act) of the NBFC should be not less than Rs.500 crore, (b) the CRAR of the NBFC engaged in loan and investment activities holding public deposits should not be less than 15 per cent and for other NBFCs at 12 per cent, irrespective of their holding public deposits or not, (c) the level of net non-performing assets should not be more than 5 per cent of the total outstanding leased/hire purchase assets and advances, taken together, (d) net profit for the last three continuous years, (e) the track record of the performance of the subsidiaries, if any, of the concerned NBFC, should be satisfactory, and (f) regulatory compliance and servicing of public deposits, if held. The provisions of the RBI Act would be applicable for such investments while computing the net owned fund of the NBFC.

5.38 NBFCs registered with the Reserve Bank which are not eligible as joint venture participants, can make investments upto 10 per cent of the owned fund of the NBFC or Rs.50 crore, whichever is lower, in the insurance company. Such participation shall be treated as an investment and should be without any contingent liability for the NBFC. The eligibility criteria for these NBFCs will be as under: (a) the CRAR of the NBFC (applicable only to those holding public deposits) should not be less than 12 per cent if engaged in equipment leasing/hire purchase finance activities and 15 per cent, if it is a loan or investment company, (b) the level of net NPA should not be more than 5 per cent of the total outstanding leased/hire purchase assets and advances, taken together and (c) the NBFC should have had net profit for the last three continuous years.

5.39 All NBFCs registered with the Reserve Bank and entering into insurance business will be required to obtain prior approval of the Reserve Bank. The permission will be granted on a case-by-case basis, keeping in view all relevant factors. It should be ensured that risks involved in insurance business do not get transferred to the NBFC and that the NBFC business does not get contaminated by any risks which may arise from insurance business.

5.40 With regard to applications received during the financial year 2000-01, any fresh capital infused after the audited balance sheet would also be taken into account. The unaudited and certified balance sheet as on a latest date may be reckoned for determining the eligibility criteria and the audited balance sheet for the above date should be submitted to the Reserve Bank as soon as possible.

New Act for Financial Companies

5.41 The Union Budget 2000-01 proposed to introduce a new Bill to strengthen the hands of depositors in situations of malafide or fraudulent actions of NBFCs. In line with the above, the draft of Financial Companies Regulation Bill, 2000 was forwarded to the Government after a discussion at a High Level meeting between officials of the Reserve Bank, Ministry of Finance and Department of Company Affairs.