Chapter V
Non-Banking Financial Companies

The activities of non-banking financial companies (NBFCs) in India have undergone qualitative changes over the years through functional specialisation. The role of NBFCs as effective financial intermediaries has been well recognised as they have inherent ability to take quicker decisions, assume greater risks, and customise their services and charges more according to the needs of the clients. While these features, as compared to the banks, have contributed to the proliferation of NBFCs, their flexible structures allow them to unbundle services provided by banks and market the components on a competitive basis. The distinction between banks and non-banks has been gradually getting blurred since both the segments of the financial system engage themselves in many similar types of activities. At present, NBFCs in India have become prominent in a wide range of activities like hire-purchase finance, equipment lease finance, loans, investments, etc. By employing innovative marketing strategies and devising tailor-made products, NBFCs have also been able to build up a clientele base among the depositors, mop up public savings and command large resources as reflected in the growth of their deposits from public, shareholders, directors and other companies, and borrowings by issue of non-convertible debentures, etc. Consequently, the share of non-bank deposits in household sector savings in financial assets, increased from 3.1 per cent in 1980-81 to 10.6 per cent in 1995-96. In 1998, the definition of public deposits[1] was for the first time contemplated as distinct from regulated deposits[2] and as such, the figures thereafter are not comparable with those before.

5.2 The importance of NBFCs in delivering credit to the unorganised sector and to small borrowers at the local level in response to local requirements is well recognised. The rising importance of this segment calls for increased regulatory attention and focused supervisory scrutiny in the interests of financial stability and depositor protection (Box V.1).

5.3 In response to the perceived need for better regulation of the NBFC sector, the Reserve Bank of India (RBI) Act, 1934 was amended in 1997, providing for a comprehensive regulatory framework for NBFCs. The RBI (Amendment) Act, 1997 conferred powers on the RBI to issue directions to companies and its auditors, prohibit deposit acceptance and alienation of assets by companies and initiate action for winding up of companies. The Amendment Act provides for compulsory registration with the RBI of all NBFCs, irrespective of their holding of public deposits, for commencing and carrying on business of a non-banking financial institution; minimum entry point norms; maintenance of a portion of deposits in liquid assets; and creation of reserve fund and transfer of 20 per cent of profit after tax but before dividend annually to the fund. Accordingly, to monitor the financial health and prudential functioning of NBFCs, the RBI issued directions to companies on: acceptance of public deposits; prudential norms like capital adequacy, income recognition, asset classification, provisioning for bad and doubtful assets, exposure norms and other measures. Directions were also issued to the statutory auditors to report non-compliance with the RBI Act and regulations to the RBI, and Board of Directors and shareholders of the NBFCs.

Box V.1: An Overview of Regulation of NBFCs

(1) Mission

deposit taking NBFCs and limited supervision over those not accepting public deposits, To ensure that

- the financial companies function on healthy lines,
- these companies function in consonance with the monetary policy framework, so that their functioning does not lead to systemic aberrations,
- the quality of surveillance and supervision exercised by the RBI over the NBFCs keeps pace with the developments in this sector.

(2) Amendments to the Reserve Bank of India (RBI) Act, 1934

RBI Act was amended in January 1997 providing for, *inter alia,*

- Entry norms for NBFCs and prohibition of deposit acceptance (save to the extent permitted under the Act) by unincorporated bodies engaged in financial business,
- Compulsory registration, maintenance of liquid assets and creation of reserve fund,
- Power of the RBI to issue directions to an NBFC or to the NBFCs in general or to a class of NBFCs.

(3) Basic Structure of Regulatory and Supervisory Framework

- Comprehensive regulation and supervision of
- Prescription of prudential norms akin to those applicable to banks,
- Submission of periodical returns for the purpose of off-site surveillance,
- Supervisory framework comprising (a) on-site inspection (CAMELS pattern) (b) off-site monitoring through returns (c) market intelligence, and (d) exception reports by statutory auditors,
- Asset liability and risk management system for NBFCs,
- Punitive action like cancellation of Certificate of Registration (CoR), prohibition from acceptance of deposits and alienation of assets, filing criminal complaints and winding up petitions in extreme cases, appointment of the RBI observers in certain cases, etc.

(4) Other steps for protection of depositors' interest

- Co-ordination with State Governments to curb unauthorised and fraudulent activities, training programmes for personnel of NBFCs, State Governments and Police officials,
- Publicity for depositors' education and awareness, workshops / seminars for trade and industry organisations, depositors' associations, chartered accountants, etc.

Non-Banking Financial Entities Regulated by the RBI

5.4 The developments in the NBFC sector in terms of policies and performance during 2001-02 and for the subsequent periods (to the extent information is available) are discussed in the subsequent paragraphs.

5.5 Non-banking financial entities partially or wholly regulated by the RBI include: (a) NBFCs comprising equipment leasing (EL), hire purchase finance (HP), loan (LC), investment (IC) (including primary dealers[3] (PDs)) and residuary non-banking (RNBC) companies; (b) mutual benefit financial company (MBFC), *i.e. nidhi* company; (c) mutual benefit company (MBC), *i.e.* potential *nidhi* company; (d) miscellaneous non-banking company (MNBC), *i.e. chit fund* company (Table V.1).

Table V.1: Types of Non-Banking Financial Entities (Regulated by RBI)

Non-Banking Financial Entity	Principal Business
I. Non-Banking Financial Company	In terms of the Section 45-I(f) read with Section 45-I(c) of the RBI Act, 1934, as amended in 1997, their principal business is that of receiving deposits or that of a financial institution, such as lending, investment in securities, hire purchase finance or equipment leasing.
(a) Equipment leasing company (EL)	Equipment leasing or financing of such activity.
(b) Hire purchase finance company (HP)	Hire purchase transactions or financing of such transactions.
(c) Investment company (IC)	Acquisition of securities. These include Primary Dealers (PDs) who deal in underwriting and market making for government securities.
(d) Loan company (LC)	Providing finance by making loans or advances, or otherwise for any activity other than its own; excludes EL/HP/Housing Finance Companies (HFCs).
(e) 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 do not belong to any of the categories as stated above.
II. Mutual benefit financial company (MBFC) i.e., *Nidhi* Company	Any company which is notified by the Central Government as a *Nidhi* company under Section 620A of the Companies Act, 1956 (1 of 1956).
III. Mutual Benefit Company (MBC), i.e., potential *Nidhi* company	A company which is working on the lines of a *Nidhi* company but has not yet been so declared by the Central Government, has minimum net owned fund(NOF) of Rs.10 lakh, has applied to the RBI for CoR and also to Department of Company Affairs (DCA) for being notified as *Nidhi* company and has not contravened directions/ regulations of RBI/DCA.
IV. 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 tender or in such manner as may be provided for in the arrangement, be entitled to the prize amount.

1. Registration

5.6 In terms of the RBI Act, 1934, registration of NBFCs with the RBI is mandatory, irrespective of whether they hold public deposits or not. The amended Act (1997) provides an entry point norm of Rs. 25 lakh as the minimum net owned fund (NOF), which has been revised upwards to Rs.2 crore for new NBFCs seeking grant of CoR on or after April 21, 1999. Certain types of financial companies, *viz*., insurance companies, housing finance companies, stock broking companies, *chit fund* companies, companies notified as *'nidhis'* under Section 620A of the Companies Act, 1956 and companies engaged in merchant banking activities (subject to certain conditions), however, have been exempted from the requirement of registration under the RBI Act, as they are regulated by other agencies. Accordingly, as on June 30, 2002, RBI received 36,269 applications, of which 14,077 were approved and 19,111 were rejected. The rest of the applications are pending at different stages of processing. Of the total approvals, only 784 companies have been permitted to accept/ hold public deposits. Moreover, all NBFCs holding public deposits, whose applications for Certificate of Registration (CoR) have been rejected or CoRs have been cancelled, have to continue repaying the deposits on due dates and dispose of their financial assets within three years from the date of rejection of application/ cancellation of certificate or convert themselves into non-banking non-financial companies within the same period.

2. Supervision

5.7 The RBI has instituted a strong and comprehensive supervisory mechanism for NBFCs. The focus of the RBI is on prudential supervision so as to ensure that NBFCs function on sound and healthy lines and avoid excessive risk taking. The RBI has put in place a four pronged supervisory framework based on:

i) On-site inspection;
ii) Off-site monitoring supported by state-of-the art technology;
iii) Market intelligence; and
iv) Exception reports of statutory auditors of NBFCs.

5.8 The thrust of supervision is based on the asset size of the NBFC and whether it accepts/ holds deposits from the public. The system of on-site examination put in place during 1997 is structured on the basis of assessment and evaluation of CAMELS (Capital, Assets, Management, Earnings, Liquidity, and Systems and Procedures) approach and the same is akin to the supervisory model adopted by the RBI for the banking system. Market intelligence system is also being strengthened as one of the important tools of supervision. This process of continuous and on-going supervision is expected to facilitate RBI to pick up warning signals which can result in triggering supervisory action promptly. The returns being submitted by the NBFCs are reviewed and relooked at intervals to widen the scope of information so as to address the requirements either for supervisory objectives or for furnishing the same to various interest groups on the important aspect of the working of these companies. The companies not holding public deposits are supervised in a limited manner with companies with asset size of Rs.100 crore and above being subjected to annual inspection and other non-public deposit companies by rotation once in every 5 years. The exception reports, if any, from the auditors of such companies coupled with adverse market information and the sample check at periodical intervals are the main tools for monitoring the activities of such companies *vis-à-vis* the RBI regulations.

3. Policy Developments

5.9 The RBI introduced a number of measures to enhance the regulatory and supervisory standards of this sector, to bring them on par with commercial banks over a period of time. The regulatory norms, applicable to NBFCs are presented in Box V.2. Regulatory measures adopted during the year aim at aligning the interest rates in this sector with the rates prevalent in the rest of the economy, tightening prudential norms, standardising operating procedures and aligning the RBI's regulations with the requirements of the amended Companies Act.

Box V.2: Regulatory Norms and Directions for NBFCs

A. Important Statutory Provisions of Chapter IIIB of the RBI Act as applicable to NBFCs

Sr. No.	Subject	Particulars
1.	Certificate of Registration*	No company, other than those exempted by the RBI, can commence or carry on the business of non-banking financial institution without obtaining a CoR from RBI. The pre-requisite for eligibility for such a CoR is that the NBFC should have a minimum NOF of Rs. 25 lakh (since raised to Rs. 2 crore on and from April 21, 1999 for any new applicant NBFC). The RBI considers grant of the CoR after satisfying itself about the company's compliance with the criteria enumerated in Section 45-IA of the RBI Act.
2.	Maintenance of Liquid Assets*	NBFCs have to invest in unencumbered approved securities, valued at a price not exceeding current market price, an amount which, at the close of business on any day, shall not be less than 5.0 per cent but not exceeding 25.0 per cent, specified by RBI, of the deposits outstanding at the close of business on the last working day of the second preceding quarter.
3.	Creation of Reserve Fund*	Every non-banking financial company shall create a reserve fund and transfer thereto a sum not less than 20.0 per cent of its net profit every year as disclosed in the profit and loss account and before any dividend is declared. Such fund is to be created by every NBFC irrespective of the fact whether it accepts public deposits or not. Further, no appropriation can be made from the fund for any purpose without prior written approval of RBI.

B. Directions applicable to NBFCs

The RBI has issued comprehensive deposit acceptance and asset side regulations as under for the NBFCs. While all the prudential norms are applicable to public deposit accepting/holding NBFCs only, some of the regulations are applicable to non-deposit accepting companies.

(1) Deposit Acceptance Related Regulations

1	Ceiling on quantum of public deposits	• Loan and investment companies - 1.5 times of NOF if the company has NOF of Rs. 25 lakh, minimum investment grade (MIG) credit rating, complies with all the prudential norms and has CRAR of 15 per cent. • Equipment leasing and hire purchase finance companies - if company has NOF of Rs. 25 lakh and complies with all the prudential norms. (i) with MIG credit rating and 12 per cent CRAR - 4 times of NOF (ii) without MIG credit rating but CRAR 15 per cent or above - 1.5 times of NOF, or Rs.10 crore, whichever is less.

2	Investment in liquid assets	• **NBFCs -** 15 per cent of outstanding public deposit liabilities as at the close of business on the last working day of the second preceding quarter, of which (i) not less than 10 per cent in approved securities and (ii) not more than 5 per cent in term deposits with scheduled commercial banks. • **RNBCs -** 10 per cent of outstanding deposit liabilities as at close of business on last working day of second preceding quarter. • These liquid asset securities are required to be lodged with one of the scheduled commercial banks or Stock Holding Corporation of India Ltd., or a depository or its participant (registered with SEBI). • Effective October 1, 2002, government securities are to be necessarily held by NBFCs either in Constituent's Subsidiary General Ledger Account with a scheduled commercial bank or in a demat account with a depository participant registered with SEBI. • These securities cannot be withdrawn or otherwise dealt with for any purpose other than repayment of public deposits.
3	Period of deposits	• No demand deposits • NBFCs **-** 12 to 60 months • RNBCs **-** 12 to 84 months • MNBCs *(Chit Funds)* **-** 6 to 36 months
4	Ceiling on deposit rate	• NBFCs, MNBCs and *Nidhis* **-** 12.5 per cent per annum (effective November 1, 2001) • RNBCs **-** Minimum interest of 4.0 per cent on daily deposits and 6.0 per cent on other than daily deposits . • Interest may be paid or compounded at periods not shorter than monthly rests.
5.	Advertisement and methodology for acceptance of deposits/ public deposits	Every company which accepts deposits by advertisement has to comply with the advertisement rules prescribed in this regard, the deposit acceptance form should contain certain prescribed information, issue receipt for deposits, maintain a deposit register, etc.
6.	Submission of returns	All NBFCs holding or accepting public deposits have to submit periodical returns to RBI at Quarterly, half yearly and annual intervals.

(2) Prudential Norms applicable to only those NBFCs which are accepting/holding public deposits

1	Capital to Risk Assets Ratio(CRAR)	• The NBFCs holding/accepting public deposits are required to maintain CRAR as under: (i) Equipment leasing companies/hire purchase finance companies (with MIG credit rating) — 12 per cent (ii) Equipment leasing companies/ hire purchase finance companies (without minimum investment grade credit rating) — 15 per cent (iii) Loan/investment companies — 15 per cent (iv) RNBCs — 12 per cent

		• CRAR comprises - tier I and tier II capital. • To be maintained on a daily basis and not merely on the reporting dates. • Tier I capital - core capital or NOF but includes compulsorily convertible preference shares (CCPS) as a special case for CRAR purposes. • Tier II capital - all quasi-capital like preference shares (other than CCPS) subordinated debt, convertible debentures, etc. • Tier II capital not to exceed tier I capital. • General provisions and loss reserves not to exceed 1.25 per cent of the risk - weighted assets. • Subordinated debt issued with original tenor of 60 months or more.
2.	Restrictive norms	• Acceptance of public deposits not allowed if the prudential norms are not complied with fully. • Any NBFC defaulting in repayment of the matured deposits prohibited from creating any further assets until the defaults are rectified. • Investments in real estate, except for own use, restricted to 10 per cent of the owned fund. • Investments in unquoted shares restricted as under: • EL/HP Companies — 10 per cent of owned fund • Loan/investment companies — 20 per cent of owned fund • No further investments in real estate or unquoted shares in case of excess position held till its regularisation. • Sufficient adjustment period allowed - further extension on merits of each case.
3.	Credit/investment concentration norms	• Single borrower exposure limits credit — 15 per cent of owned fund investments — 15 per cent of owned fund • Single group of borrowers exposure limits credit — 25 per cent of owned fund investments — 25 per cent of owned fund • Composite (credit and investments) exposure limits Single borrower: — 25 per cent of owned fund Single group of borrowers : — 40 per cent of owned fund • Exposure norms also applicable to own group companies and subsidiaries. • Includes all forms of credit and credit related and certain other receivables as also off balance sheet exposures. • Debentures/bonds to be treated as credit for the purpose of prudential norms but as investments for the purpose of balance sheet and compliance with investment obligations.
4.	Reporting System: Half-yearly return	• Half-yearly returns to be submitted as at the end of March and September every year. • Time allowed for submission - 3 months from the due date. • The return to be certified by the statutory auditors of the company. However, it need not wait for audit and the figures furnished therein could be the unaudited figures but must be certified by auditors.

(3) Prudential Norms applicable to all NBFCs irrespective of whether they accept/hold public deposits or not

1.	Income Recognition Norms	• The recognition of income on the NPA is allowed on cash basis only. The unrealised income recognised earlier is required to be reversed.
2.	NPA Norms	• Recognition of income on accrual basis before the asset becomes NPA as under : Loans and Advances: Upto 6 months and 30 days past due period (past due period done away with effect from March 31, 2003) Lease and Hire Purchase Finance: 12 months
3.	Restrictive Norms	• Loans against own shares not allowed.
4.	Policy on demand/call loans	• Companies to frame a policy for demand and call loans relating to cut-off date for recalling the loans, the rate of interest, periodicity of such interest, periodical reviews of such performance, etc.
5.	Accounting Standards	• All the Accounting Standards and Guidance Notes issued by Institute of Chartered Accountants of India (ICAI) are applicable to all NBFCs in so far as they are not inconsistent with the guidelines of RBI.
6.	Accounting for investments	• All NBFCs to have a well defined investment policy. • Investments classified into two categories - (i) long term and (ii) current investments. • Long term investments to be valued as per Accounting Standard, AS-13 of ICAI. • Current investments to be classified into - (a) quoted and (b) unquoted. • Current quoted investments to be valued at lower of cost or market value. • Block valuation permitted - Notional gains or losses within the block permitted to be netted - but not inter-block, net notional gains to be ignored but notional losses to be provided for. • Valuation norms for current unquoted investments are as under- (i) Equity shares (at lower of cost or break up value or fair value) (ii) Re 1/- for the entire block of holding if the balance sheet of the investee company is not available for the last two years (iii) Preference shares at lower of cost or face value (iv) Government securities at carrying cost (v) Mutual Fund units at net asset value (NAV) for each scheme and (vi) Commercial Paper (CP) at its carrying cost
7.	Asset Classification	• All forms of credit (including receivables) to be classified into four categories - • Standard asset • Sub-standard asset • Doubtful asset • Loss asset
8.	Provisioning for Non-Performing Assets – Loans and advances	• Standard assets - No provision • Sub-standard assets- 10 per cent of outstanding balance • Doubtful assets - on unsecured portion 100 per cent and on secured portion 20, 30 and 50 per cent depending on the age of the doubtful assets • Loss asset – 100 per cent of the outstanding
9.	Provisioning for Non-	• Unsecured portion to be fully provided for

	Performing Assets - Equipment lease and hire purchase accounts	• Further provisions on net book value (NBV) of EL/HP assets • Accelerated additional provisions against NPAs NPA for 12 months or more but less than 24 months — 10 per cent of NBV NPA for 24 months or more but less than 36 months — 40 per cent of NBV NPA for 36 months or more but less than 48 months — 70 per cent of NBV NPA for 48 months or more — 100 per cent of NBV • Value of any other security considered only against additional provisions. • Rescheduling in any manner will not upgrade the asset upto 12 months of satisfactory performance under the new terms. • Repossessed assets to be treated in the same category of NPA or own assets - option lies with the company.
10.	Risk - weights and credit conversion factors	• Risk – weights to be applied to all assets except intangible assets. • Risk – weights to be applied after netting off the provisions held against relative assets. • Risk – weights are 0, 20 and 100. • Assets deducted from owned fund like exposure to subsidiaries or companies in the same group or intangibles to be assigned 0 per cent risk - weight. • Exposures to all-India financial institutions (AIFIs) at 20 per cent risk - weight and all other assets to attract 100 per cent risk – weights. • Off-balance sheet items to be factored at 50 or 100 and then converted for risk – weight.
11.	Disclosure requirements	(1) Every NBFC is required to separately disclose in its balance sheet the provisions made as outlined above without netting them from the income or against the value of assets. (2) The provisions shall be distinctly indicated under separate heads of accounts as under: (i) provisions for bad and doubtful assets; and (ii) provisions for depreciation in investments. (3) Such provisions shall not be appropriated from the general provisions and loss reserves held, if any, by the NBFC. (4) Such provisions for each year shall be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves may be written back without making adjustment against them.

* *Nidhis* and *Chit Fund* companies exempted.

Interest Rates

5.10 Keeping in view interest rates prevalent in the financial sector, the ceiling on interest rates on deposits payable by NBFCs, including *chit fund* companies and *nidhi* companies, was reduced from 16 per cent per annum to 14 per cent per annum effective April 1, 2001 and further to 12.5 per cent per annum effective November 1, 2001.

Classification of NBFCs as Equipment Leasing and Hire Purchase Finance Companies

5.11 In response to representations from NBFCs, it was decided to include loans and advances against hypothecation of automobiles, aircrafts and ships registered with the specified authorities in the aggregate of equipment leasing and hire purchase assets for the purpose of classification of an NBFC into equipment leasing and hire purchase finance company.

Alignment of the RBI's Regulations with Companies (Amendment) Act, 2000

5.12 Changes were effected in the RBI directions to NBFCs to align with those contained in the Companies Act, 1956, as amended by the Companies (Amendment) Act, 2000. Accordingly, all NBFCs were advised to report to the Company Law Board the defaults, if any, in repayment of matured deposits or payment of interest to small depositors within 60 days of such default. In addition to NBFCs with asset size of Rs.50 crore and more, those with paid up capital of not less than Rs.5 crore have to constitute Audit Committees. Such committees would have the same powers, functions and duties as laid down in Companies Act, 1956. Moreover, some NBFCs, which were hitherto private limited companies holding public deposits, have now become public limited companies under the Companies Act. Such NBFCs have to approach the RBI after obtaining a fresh certificate of incorporation from the Registrar of Companies, for change of name in the CoR to reflect their status as public limited companies

Liquid Asset Securities of NBFCs

5.13 Effective from October 1, 2002, all NBFCs should necessarily hold their investments in government securities either in Constituent's Subsidiary General Ledger Account (CSGL) with a scheduled commercial bank or Stock Holding Corporation of India Ltd. (SHCIL) or in a dematerialised account with depositories [National Securities Depository Ltd. (NSDL)/ Central Depository Services (India) Ltd. (CDSL)] through a depository participant registered with SEBI. The facility of holding government securities in physical form, therefore, stands withdrawn. Government guaranteed bonds, which have not been dematerialised may be kept in physical form till such time these are dematerialised. Only one CSGL or a dematerialised account can be opened by any NBFC. In case the CSGL account is opened with a scheduled commercial bank, the account holder has to open a designated funds account (for all CSGL related transactions) with the same bank. In case the CSGL account is opened with any of the non-banking institutions indicated above, the particulars of the designated funds account (with a bank) should be intimated to that institution. The NBFCs maintaining the CSGL/designated funds accounts will be required to ensure availability of clear funds in the designated funds accounts for purchases and of sufficient securities in the CSGL account for sales before putting through the transaction. No further transactions in government securities should be undertaken by NBFCs with any broker in physical form with immediate effect. All further transactions of purchase and sale of government securities have to be compulsorily through CSGL/demat account. Government securities held in physical form were to be dematerialised by October 31, 2002.

Accounting Standards

5.14 In terms of Accounting Standard (AS) 19 (Accounting for Leases) issued by the Institute of Chartered Accountants of India (ICAI), it was clarified that (i) the prudential norms applicable to hire purchase assets would, *mutatis mutandis*, be applicable to the financial leases written on or after April 1, 2001 and (ii) the leases written up to March 31, 2001 would continue to be governed by the prudential norms relating to leased assets, as hitherto.

Statutory Auditors

5.15 NBFCs have to reiterate in their letter of appointment to statutory auditors their statutory responsibility to report directly to the RBI the violations, if any, of the provisions of the RBI Act or Directions issued thereunder, noticed by them in the course of their audit.

Prudential Regulation

5.16 Some NBFCs were granting demand/call loans with an open period or without any stipulation regarding the rate of interest and servicing, resulting in problems of compliance with prudential norms relating to income recognition, asset classification and provisioning in respect of such loans. Accordingly, guidelines were issued to obviate such difficulties and to ensure that all such loans are appropriately classified and the position of NPAs are truly reflected in the financial statements of NBFCs. The concept of 'past due' would be done away with in respect of the definition of NPA for NBFCs effective from March 31, 2003, which would be reflected in the half-yearly return on prudential norms and the balance sheet as on March 31, 2003. In terms of NBFCs Directions on Prudential Norms, the NBFCs accepting/holding public deposits have to ensure maintenance of minimum prescribed capital to risk-weighted assets ratio (CRAR) at all times. The format for the report of the auditors has accordingly been amended. In order to obviate the probability of applying divergent yardsticks for identification of potential threat of non-recoverability of loans, RBI has prescribed objective criteria for classification of assets as loss assets.

Submission of Returns by NBFCs

5.17 Several NBFCs have been lax in timely submission of the returns to the RBI. Action has been contemplated against such NBFCs – initially those with public deposits of Rs.50 crore and above - for non-submission of returns. The action may include imposing penalties as provided in the RBI Act, 1934 as also launching court proceedings against the errant companies, besides considering rejection/ cancellation of the CoR.

Protection of Depositors' Interest

5.18 With a view to protecting the interest of depositors, it was decided to issue press advertisements in cases where winding up petitions filed by the RBI have been admitted in Court and provisional liquidators have been appointed or where criminal complaints have been filed by the RBI and summons have been issued by the Court.

Asset Liability Management

5.19 Based on the guidelines issued in July 2001, effective March 31, 2002 asset liability management system in all NBFCs with public deposits of Rs. 20 crore and above as also NBFCs with asset size of Rs. 100 crore and above has been made operational. Instructions were also issued to the effect that the first return as on September 30, 2002, should be submitted by the NBFCs to the RBI latest by October 31, 2002.

Primary Dealers

5.20 Primary dealers (PDs) as institutional entities fall in the category of NBFC. PDs are registered with and regulated by the RBI irrespective of whether they accept public deposits or not.

5.21 During 2000-01, the scheme of liquidity support to PDs was fine tuned to provide at two levels: (a) assured support at a fixed rate and quantum, and (b) discretionary support to be extended through Liquidity Adjustment Facility (LAF). In May 2001, the assured liquidity support was further bifurcated[4] into 'Normal' (two-third) facility at the bank rate and 'Backstop' (one-third) facility with a higher interest rate provided at a variable rate linked to cut-off rates emerging in regular LAF auctions. In the absence of LAF operations, the rate is fixed at 200 to 300 basis points over National Stock Exchange-Mumbai inter-bank offer rate (NSE-MIBOR) as may be decided by the RBI.

5.22 The RBI prescribed new guidelines in January 2002 to improve the risk management system of PDs. Accordingly, the capital adequacy requirements of PDs take into account both credit risk and market risk. The PDs are required to maintain a minimum CRAR of 15 per cent, including market risk capital. PDs are required to maintain the higher of the market risk capital calculated through a standardised model and the Value at Risk (VaR) method. PDs without a VaR system in place are required to maintain 7 per cent risk capital. In January 2002, PDs were advised to provide back-testing results for the year ended December 31, 2001 and follow a prudent distribution policy so as to build up sufficient reserves even in excess of regulatory requirements which can act as a cushion against any adverse interest rate movements in the future. The need for putting in place appropriate exposure limits and reviewing those limits periodically by the PDs was also emphasised. Furthermore, in view of the risks involved in accepting Inter-corporate Deposits (ICDs) and deploying those funds in non-SLR bonds, PDs were advised to restrict acceptance of ICDs to 50 per cent of their net owned funds (NOF) and evolve a policy for acceptance of ICDs after due consideration of the risks involved. ALM discipline has also been extended to PDs during the year. Unlike other NBFCs, the entire portfolio of government securities of PDs has been allowed to be treated as liquid.

5.23 The off-site surveillance of PDs is done on the basis of three basic returns, *viz.*, PDR I, II and III. PDR I is a daily statement of sources and uses of funds and is used to monitor the deployment of call borrowing and the RBI liquidity support, leverage and the duration of PDs portfolio. PDR I return has been revised to capture more details on sources like ICDs, CPs, etc. PDR II is a monthly statement on the basis of which the bidding commitments, success ratio, underwriting performance, secondary market turnover of PDs, etc., are monitored. PDR III is a quarterly return on the basis of which the capital adequacy of the PDs is monitored. Apart from these regular returns, additional details are called for as and when necessary. The ALM guidelines for NBFCs with some modifications were also made applicable to PDs.

Mutual Benefit Financial Companies (Nidhis)

5.24 Mutual Benefit Financial Companies (*Nidhis*) have been exempted from the core provisions of the RBI Act, 1934 and Directions, excepting those relating to ceiling on interest rate, maintenance of register of deposits, issue of deposit receipt to depositors, and submission of return on deposits in Form NBS-1. As part of the implementation of the recommendations of an Expert Group to examine various aspects of the functioning of *Nidhi* companies (Chairman: Shri P. Sabanayagam), the Central Government prescribed entry point norms and NOF to deposits ratio, liquid asset requirement, etc. These measures are expected to strengthen the functioning of these companies. In July 2001, the Central Government announced guidelines relating to acceptance of deposits, business activity, prudential norms, etc., which were further amended in April 2002.

Unincorporated Bodies

5.25 The time limit for repayment of public deposits, except those from sources permitted by the RBI Act, 1934, held by all the unincorporated bodies engaged in financial business expired on March 31, 2000. Accordingly, the RBI cautioned unincorporated bodies engaged in financial business to neither accept any deposit from members of the public, nor issue advertisements soliciting deposit. Concomitantly, members of the public were also cautioned about the risk of depositing money with such unincorporated bodies.

4. Business Profile of the NBFC sector[5]

5.26 A broad business profile of the NBFC sector as at the end of March 2000 and 2001, based on the periodic returns submitted by deposit accepting/holding companies is presented in Table V.2.

Table V.2: Business Profile of the NBFC Sector
(As at end-March)

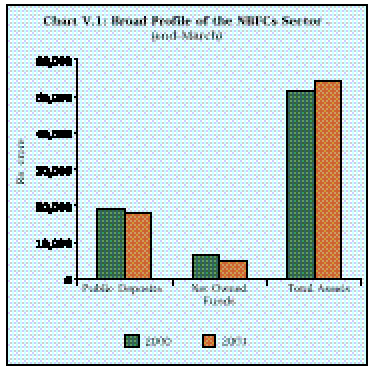
(Amount in Rs. crore)

Item	2000		2001	
	NBFCs	*of which* : **RNBCs**	**NBFCs**	*of which* : **RNBCs**
1	2	3	4	5
Number of reporting companies	1,005	9	981	7
Total Assets	51,324.26	11,317.31	53,878.24	16,244.01
Public Deposits	19,341.72	11,003.77 (56.9)	18,084.64	11,625.24 (64.3)
Net Owned Fund	6,222.89	- 442.82	4,942.90	-178.83

Note: 1. Figures are provisional.
2. Figures in brackets indicate percentages to total outstanding deposits of NBFCs.

5.27 The aggregate assets of the NBFC sector as on March 31, 2001 at Rs.53,878 crore increased by 5.0 per cent over the previous year, despite a decline in the number of reporting companies to 981 from 1,005 (Chart V.1), reflecting significant increase in the total assets of RNBCs (43.5 per cent or Rs.4,927 crore). Consequently, their share in total assets of NBFCs also increased to 30.2 per cent by end-March 2001.

Chart V. 1: Broad Profile of the NBFCs Sector –
(End-March)



5.28 As on March 31, 2001, the quantum of public deposits (reported by 981 companies) stood at Rs.18,085 crore, equivalent to 1.7 per cent of the aggregate deposits (Rs.10,55,386 crore) of scheduled commercial banks (SCBs). A year ago, the public deposits of 1,005 reporting deposit holding companies (registered and unregistered) was of the order of Rs.19,342 crore. Public deposits of the reporting 7 RNBCs increased by 5.6 per cent to Rs.11,625 crore as on March 31, 2001 compared with the position prevailing for 9 reporting RNBCs as on March 31, 2000 (Rs.11,004 crore).

5.29 The profile of public deposits of different categories of NBFCs indicates that public deposits with equipment leasing companies increased by 42.0 per cent as on March 31, 2001. On the other hand, the public deposits of investment and loan companies decreased substantially by 68.8 per cent during the same period (Table V.3 and Chart V.2). The decline may be partly attributed to conversion of some companies into non-public deposit holding companies by repaying the public deposits.

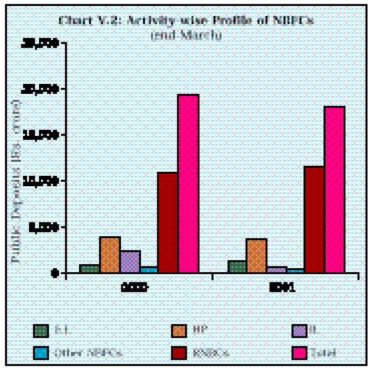
Table V.3: Profile of Public Deposits of Different Categories of NBFCs
(As at end-March)

(Amount in Rs. crore)

Nature of Business	No. of NBFCs		Public Deposits		Percentage Variation
	2000	**2001**	**2000**	**2001**	**(Col.5/Col.4)**
1	2	3	4	5	6
1. Equipment Leasing (EL)	56	58	1,021.20 (5.2)	1,450.21 (8.0)	42.0
2. Hire Purchase (HP)	465	470	4,083.54 (21.2)	3,659.19 (20.2)	-10.4
3. Investment and Loan (IL)	188	170	2,517.46 (13.0)	785.82 (4.3)	-68.8
4. RNBCs	9	7	11,003.77 (56.9)	11,625.24 (64.3)	5.6
5. Other NBFCs*	287	276	715.75 (3.7)	564.18 (3.1)	-21.2
Total	**1,005**	**981**	**19,341.72 (100.0)**	**18,084.64 (100.0)**	**-6.5**

* Includes miscellaneous non-banking companies, unregistered and unnotified *Nidhis*, etc.
Note: Figures in brackets indicate percentages to total.

Chart V.2: Activity-Wise Profile of NBFCs
(end-March)



5. Region-wise composition of Deposits held by NBFCs

5.30 The region-wise analysis of the deposits of NBFCs is based on the number of deposit-holding/ accepting NBFCs (including RNBCs) that reported data to the RBI for the years ending March 2000 and March 2001 (Table V.4, Chart V.3). The NBFCs in the eastern region continued to account for a significant proportion of public deposits of all reporting NBFCs in both the years. Their share in the regional distribution of aggregate public deposits, however, declined from 49.5 per cent as on March 31, 2000 to 43.9 per cent as on March 31, 2001. The central region improved their share from 18.7 per cent as at end- March 2000 to 22.7 per cent as on March 31, 2001. The public deposits reported by NBFCs in the metropolitan centres of Mumbai, New Delhi, Kolkata and Chennai accounted for Rs.14,920 crore (77.1 per cent) and Rs.13,350 crore (73.8 per cent) of the total deposits as on March 31, 2000 and March 31, 2001, respectively, with Kolkata maintaining its dominant position.

Chart V.3: Region-wise break-up of Public Deposits held by Registered and Unregistred NBFCs (End-March)

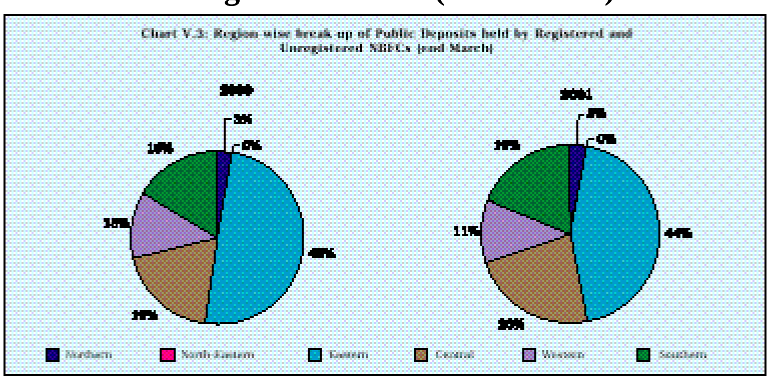


Table V.4: Region-wise break-up of Public Deposits held by Registered and Unregistered NBFCs (As at end-March)

(Amount in Rs. crore)

Region	2000						2001					
	NBFCs						NBFCs					
	No.	Amount	Per cent to Total	*of which* **RNBCs**			No.	Amount	Per cent to Total	*of which* **RNBCs**		
				No.	Amount	Per cent				No.	Amount	Per cent
1	2	3	4	5	6	7	8	9	10	11	12	13

Northern	251	529.04	2.7	—	—	—	253	575.05	3.1	—	—	—
North-Eastern	4	7.02	0.1	1	5.55	0.1	—	—	—	—	—	—
Eastern	32	9,573.05	49.5	6	7,506.62	68.2	24	7,932.10	43.9	3	7,641.86	65.7
Central	124	3,623.41	18.7	2	3,491.64	31.7	126	4,104.94	22.7	3	3,980.06	34.2
Western	86	2,441.17	12.6	—	—	—	81	2,040.79	11.3	—	—	—
Southern	508	3,168.07	16.4	—	—	—	497	3,431.72	19.0	1	3.32	0.1
Total	**1,005**	**19,341.76**	**100.0**	**9**	**11,003.81**	**100.0**	**981**	**18,084.64**	**100.0**	**7**	**11,625.24**	**100.0**
Metropolitan cities :												
Mumbai	68	2,381.21	12.3	—	—	—	62	2,011.40	11.1	—	—	—
Chennai	340	2,577.56	13.3	—	—	—	349	2,918.01	16.1	—	—	—
Kolkata	28	9,508.53	49.2	5	7,446.67	67.5	23	7,929.32	43.9	3	7,641.86	65.7
New Delhi	122	452.65	2.3	—	—	—	114	491.69	2.7	—	—	—
Total	**558**	**14,919.95**	**77.1**	**5**	**7,446.67**	**67.5**	**548**	**13,350.42**	**73.8**	**3**	**7,641.86**	**65.7**

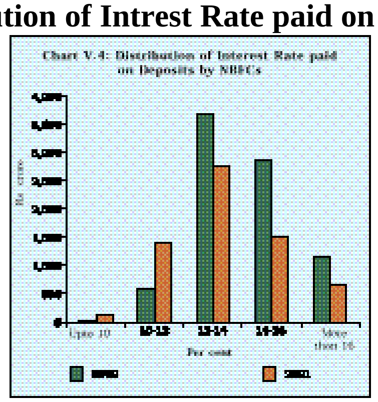
— Nil

6. Interest Rate and Maturity Pattern of Deposits with NBFCs

5.31 The distribution of the public deposits of NBFCs (excluding RNBCs) by interest rates and maturity pattern are presented in Tables V.5 and V.6, respectively.

5.32 Reflecting the successive reductions in the ceiling for deposit rates during 2000-01, NBFCs (excluding RNBCs) recorded a perceptible shift towards the lower end of interest rates spectrum for deposits. This is revealed by a five-fold increase in outstanding public deposits of NBFCs (excluding RNBCs) in the interest rate below 10 per cent. The share of such deposits in total deposits increased from 0.3 per cent as on March 31, 2000 to 1.8 per cent as on March 31, 2001. The quantum of public deposits in the interest rate range of 10-12 per cent also doubled from Rs.589 crore to Rs.1,404 crore, thereby raising its share in total deposits from 7.1 per cent to 21.8 per cent. On the other hand, public deposits with interest rates in the range of 14–16 per cent declined steeply from Rs.2,881 crore (March 31, 2000) to Rs.1,533 crore as on March 31, 2001 (Chart V.4).

Chart V.4: Distribution of Intrest Rate paid on Deposits by NBFCs



5.33 The broad trends indicate that outstanding public deposits with NBFCs (other than RNBCs) had declined from Rs.8,338 crore as on March 31, 2000 to Rs.6,459 crore by March 31, 2001. The decline (Rs.1,879 crore or 22.5 per cent) was on account of the fall in public deposits with maturities of 2 years and above. The quantum of public deposits in the maturity buckets of less than 1 year and 1-2 years, however, rose to Rs.1,721 crore and Rs.1,740 crore, respectively, as on March 31, 2001. During 2000-01, there was also a shift in the composition of deposits of NBFCs (excluding RNBCs) to the shorter end of the maturity spectrum (Table V.6). Between March 31, 2000 and March 31, 2001, the quantum of deposits with a maturity profile of less than one year rose by 30.1 per cent, with a concomitant rise in share in its total deposits to 26.7 per cent. During the same period, the share of deposits with maturity period of 1-2 years in total deposits also increased from 19.4 per cent to 27.0 per cent. Significantly, the quantum of deposits in the maturity bucket of 5 years or above witnessed a decline by 93.1 per cent; with their share in total deposits steeply declining from 20.6 per cent to 1.8 per cent. This is primarily on account of the exclusion from the data for 2001, an amount of Rs.1,668 crore (but included in 2000) mobilised as unsecured non-convertible debentures by a Government owned NBFC based in West Bengal. These are now treated as 'secured bonds' guaranteed by the Government of West Bengal, and hence not considered as public deposits according to the Directions of the RBI.

Table V.6: Maturity Pattern of Public Deposits held by NBFCs[@](excluding RNBCs)
(As at end-March)

(Rs. crore)

Maturity Period in years		Amount of Public Deposits	
		2000	**2001**
1		2	3
Less than 1		1,323.45	1,721.22
	(a)	(15.9)	(26.7)
	(b)	(-21.9)	(30.1)
1 – 2		1,615.94	1,740.48
	(a)	(19.4)	(27.0)
	(b)	(-44.4)	(7.7)
2 – 3		2,462.48	2,037.49
	(a)	(29.5)	(31.5)
	(b)	(-15.0)	(-17.3)
3 – 5		1,218.45	841.89
	(a)	(14.6)	(13.0)
	(b)	(-42.6)	(-30.9)
5 and above		1,717.63	118.32
	(a)	(20.6)	(1.8)
	(b)	(923.8)	(-93.1)
Total		**8,337.95**	**6,459.40**
	(a)	**(100.0)**	**(100.0)**
	(b)	**(-14.8)**	**(-22.5)**

@ On the basis of residual maturity of outstanding deposits
(a) Percentages to total.
(b) Percentage increase over the previous year.

7. Asset Profile of NBFCs

5.34 The asset profile of NBFCs revealed that out of 996 reporting companies (excluding RNBCs), 66 NBFCs with asset sizes of Rs.50 crore and above accounted for 91 per cent of the total assets as on March 31, 2000 (Table V.7). As on March 31, 2001, out of 974 reporting companies, 63 companies had asset size of Rs.50 crore and above, accounting for 90 per cent of the total assets. During 2001, the number of reporting companies for almost all categories decreased or remained unchanged, except companies with asset base of Rs.2 crore to Rs.10 crore which recorded an increase. The aggregate assets of almost all categories, excepting those in the ranges of Rs.2 crore to Rs.10 crore and Rs.10 crore to Rs. 50 crore recorded a decline as on March 31, 2001. Apart from the decline in the number of reporting companies the decline in asset size of several companies may be reflective of utilisation of assets to liquidate high cost deposit liabilities (Table V.5).

Table V.5: Distribution of NBFC Deposits according to Rate of Interest @

(As at end-March)

(Amount in Rs. crore)

Interest Range (per cent)	Amount of deposit	
	2000	**2001**
1	2	3
Upto10	22.96	118.43
	(0.3)	(1.8)
10-12	588.50	1,403.55
	(7.1)	(21.8)
12-14	3,702.08	2,758.84
	(44.4)	(42.7)
14-16	2,880.79	1,532.92
	(34.6)	(23.7)
More than16	1,143.62	645.75
	(13.6)	(10.0)
Total	**8,337.95**	**6,459.49**
	(100.0)	**(100.0)**

@ Excluding RNBCs

Note: Figures in brackets indicate percentages to total deposits

Table V.7: Asset Profile of NBFCs*

(As at end-March)

(Amount in Rs. crore)

Range of Assets (Rs. crore)	No. of reporting companies		Assets		Percentage Variation of Col. (5) over Col. (4)
	2000	**2001**	**2000**	**2001**	
1	2	3	4	5	6
Less than 0.25	82	62	7.86	6.79	-13.6
0.25 - 0.50	95	91	36.36	34.80	-4.3
0.50 – 2	397	389	434.32	420.46	-3.2
2 – 10	266	280	1,142.02	1,193.33	4.5
10 – 50	90	89	1,921.11	1,981.25	3.1
50 – 100	16	15	1,114.35	1,018.82	-8.6
100 – 500	28	28	7,825.22	7,130.39	-8.9
Above 500	22	20	27,525.71	25,848.39	-6.1
Total	**996**	**974**	**40,006.95**	**37,634.23**	**-5.9**

* The reporting NBFCs (excluding RNBCs) have been regrouped on the basis of their asset size as on March 31, 2000 and March 31, 2001.

8. Distribution of Assets of NBFCs according to Activity

5.35 A major portion of the assets of NBFCs (excluding RNBCs) constitutes hire purchase and equipment leasing assets. These two portfolios comprised 46.6 per cent of the total assets of NBFCs as on March 31, 2001. The loans and ICD portfolios accounted for 27.3 per cent of the assets of the NBFCs (Table V.8).

Table V.8: Activity-wise Distribution of Assets of NBFCs @
(As at end-March)

(Rs. crore)

Activity	**2000**	**2001**
1	2	3
Loans & ICD	10,561.35	10,271.00
	(26.4)	(27.3)
Investments	5,578.65	4,344.07
	(13.9)	(11.5)
Hire Purchase	12,016.79	12,886.51
	(30.0)	(34.2)
Equipment & Leasing	5,146.70	4,680.90
	(12.9)	(12.4)
Bills	1,280.09	788.36
	(3.2)	(2.1)
Other Assets	5,423.37	4,663.39
	(13.6)	(12.4)
Total	**40,006.95**	**37,634.23**
	(100.0)	**(100.0)**

@ excluding RNBCs.
Note: Figures in brackets are percentages to total.

9. Analysis of Borrowings by NBFCs

5.36 The total outstanding borrowings of NBFCs (excluding RNBCs) registered a marginal increase of 0.5 per cent as on March 31, 2001 compared with the position prevalent at the end of the previous year (Table V.9). There was, however, a steep decline in borrowings from ‘other’ sources *viz.*, security deposits from employees and caution money, allotment money, borrowings from mutual funds, directors, etc. to the extent of Rs.3,122 crore (48.2 per cent) in the year 2001 as compared to the previous year. The reduction in borrowings from other sources was more than offset by the increase in borrowings from: (i) corporates (Rs. 1,023 crore), (ii) borrowings from banks (Rs.913 crore), (iii) Central/State Governments (Rs.437 crore), (iv) money raised by issue of convertible or secured debentures (Rs.409 crore), (v) financial institutions (Rs.309 crore) and (vi) commercial paper (Rs.72 crore). As at end-March 2001, borrowing from banks accounted for the highest share (29.0 per cent) of the total borrowings of NBFCs, followed by money raised by issue of convertible or secured debentures (including those subscribed by banks) at 16.7 per cent.

Table V.9: Classification of Borrowings by NBFCs (excluding RNBCs)
(As at end-March)

(Rs. crore)

Item	2000	2001
1	2	3
Money borrowed from Central/State Government @	2,603.60	3,040.57
	(11.6)	(13.5)
Money borrowed from foreign sources*	601.32	670.26
	(2.7)	(3.0)
Inter-corporate borrowings	1,842.74	2,866.16
	(8.2)	(12.6)
Money raised by issue of convertible or secured debentures including those subscribed by banks	3,348.82	3,757.98
	(14.9)	(16.7)
Borrowings from banks	5,632.77	6,545.32
	(25.1)	(29.0)
Borrowings from Financial Institutions	1,384.47	1,693.71
	(6.1)	(7.5)
Commercial Paper	554.42	626.77
	(2.5)	(2.8)
Others #	6,480.24	3,358.23
	(28.9)	(14.9)
Total	**22,448.38**	**22,559.00**
	(100.0)	**(100.0)**

@ Mainly by State-Government owned companies.

* The amount received from foreign collaborators as well as from institutional investors (Asian Development Bank, Interna- tional Finance Corporation, etc.). The major amount is in infrastructure and leasing companies.

Includes security deposits from employees and caution money, allotment money, borrowings from mutual funds, Directors, etc.

Note: Figures in brackets are percentages to total.

10. Assets and Liabilities of Large NBFCs

5.37 As on March 31, 2001, out of the 974 reporting companies, 37 held public deposits of Rs.20 crore and above. An analysis of their assets and liabilities reveals that they held public deposits of Rs.5,351 crore which accounted for 82.8 per cent of total public deposits (Rs.6,459 crore) held by all the reporting NBFCs, excluding RNBCs. The total asset size of these companies was Rs.25,604 crore, which was 68.0 per cent of the total assets (Rs.37,634 crore) of all reporting NBFCs. Under the assets portfolio, loans and advances and hire purchase assets constituted 64.2 per cent of total assets of these companies, while investments accounted for 11.3 per cent (Table V.10). On the liabilities side, paid up capital and free reserves together accounted for 16.0 per cent of total liabilities as on March 31, 2001. Public deposits constituted 20.9 per cent of the total, while convertible debentures and other borrowings together accounted for nearly 31.9 per cent of total liabilities of these companies as on that date.

Table V.10: Asset and Liabilities of Companies Holding Public Deposits of Rs.20 crore and above (As on March 31, 2001)

(Rs. crore)

Liabilities		**Amount**	**Assets**		**Amount**
1		2	3		4
Paid-Up Capital		1,070.61	Loans & Advances		8,090.94
Free Reserve		3,018.90	Investment		2,882.35
Public Deposits		5,350.88	(1) Government Securities	875.15	
(1) Maturity of less than 1 year	1,240.14		(2) Corporate sector-share, bonds, debentures	1,320.18	
(2) 1 year or more	4,110.74				
			(3) Others	687.02	
Convertible debentures		2,176.36			
			Other Financial Assets		12,027.19
Other Borrowings		5,980.79			
			(1) Hire Purchase	8,341.03	
(1) From Banks	4,443.41				
			(2) Equipment Leasing	3,187.21	
(2) Inter-Corporate Deposits	1,031.13				
			(3) Bills Discounting	498.95	
(3) Foreign Government	506.25				
			Accumulated balance of Loss		544.58
Other Liabilities		8,006.42	Other Assets		2,058.90
Total Liabilities		**25,603.96**	**Total Assets**		**25,603.96**

11. Income-Expenditure Statement of NBFCs

5.38 Both income and expenditure continued to decline for the second year in succession. The order of decline in these two components, however, was much larger during 2000-01 and resulted in a net loss (Table V.11). Income declined by 17.0 per cent, during 2000-01 largely due to the drop in fund-based income (contributing 91.4 per cent of the decline in income). Fee-based income also recorded a steep fall. Although total expenditure also declined by 9.8 per cent, mainly due to decrease in operating expenses by 27.9 per cent, it did not result in enhanced profitability of NBFCs on account of the steep decline in income. With the result, NBFCs recorded a net loss of Rs.325 crore as on March 31, 2001 compared to a net profit of Rs.137 crore during the previous year.

Table V.11: Financial Performance of NBFCs (excluding RNBCs)
(As at end-March)

(Rs. crore)

Item	**1999-2000**	**2000-2001**
1	2	3
A. Income (I+ii)	**6,770**	**5,619**
	(-0.6)	**(-17.0)**
i) Fund based	6,299	5,247
	(-3.8)	(-16.7)
ii) Fee based	471	372
	(82.6)	(-21.0)
B. Expenditure (I+ii+iii)	**6,363**	**5,741**
	(-0.8)	**(-9.8)**
i) Financial	3,687	3,400

	(-15.3)	(-7.8)
ii) Operating	1,614	1,164
	(-49.9)	(-27.9)
iii) Other	1,062	1,177
	(7.9)	(10.8)
C. Tax Provisions	**270**	**203**
	(-1.1)	**(-24.8)**
D. Net Profit	**137**	**-325**
	(14.2)	(—)
E. Total Assets	**40,007**	**37,634**
	(11.2)	**(-5.9)**
F. Financial Ratios @		
i) Income	16.9	14.9
ii) Fund Income	15.7	13.9
iii) Fee Income	1.2	1.0
iv) Expenditure	15.9	15.3
v) Financial Expenditure	9.2	9.0
vi) Operating Expenditure	4.0	3.1
vii) Other Expenditure	2.7	3.1
viii) Tax Provisions	0.7	0.5
ix) Net Profit	0.3	-0.9

@ Ratios to Total Assets in per cent.

Note : Figures in brackets are percentage change over the previous year.

12. Net Owned Funds (NOF)[6] of NBFCs

5.39 The number of companies having NOF up to Rs.25 lakh have increased to 225 as on March 31, 2001 compared with 205 for the previous year. For most other ranges of NOF, the number of registered companies showed declines as compared to the previous period (Table V.12). The ratio of public deposits to NOF reflects the resilience of the institution as given by the capital cushion available to it. The aggregate public deposits to NOF ratio for all reporting NBFCs (excluding RNBCs) as at end-March 2001 stood at 1.3, the same as that in the previous year.

Table V.12: Net Owned Fund *vis-à-vis* Public Deposits of NBFCs @

(As at end-March)

(Amount in Rs. crore)

Range of NOF (Rs. crore)	2000				2001			
	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	205	-215.15	394.78	-1.8	225	-859.39	806.72	-0.9
0.25 – 0.50	360	116.17	194.20	1.7	346	115.70	187.77	1.6
0.50 – 5.0	314	501.98	362.86	0.7	305	497.73	692.11	1.4
5 – 10	43	294.12	202.13	0.7	34	223.83	94.11	0.4
10 – 50	46	1,060.24	2,773.16	2.6	37	774.95	776.64	1.0
50 – 100	9	628.40	877.58	1.4	12	804.39	923.56	1.1

100 – 500	19	4,279.95	3,533.24	0.8	14	3,063.19	2,299.29	0.8
Above 500	—	—	—	—	1	501.33	679.20	1.4
Total	**996**	**6,665.71**	**8,337.95**	**1.3**	**974**	**5,121.73**	**6,459.40**	**1.3**

@ Excluding RNBCs.

13. Capital Adequacy Ratio

5.40 Capital adequacy norms were made applicable to NBFCs in 1998. The norms relating to CRAR stipulate that every NBFC shall maintain a minimum capital ratio, consisting of tier I and tier II capital (Box V.2). It is noteworthy that, 525 out of the 714 reporting NBFCs (73.5 per cent) had CRAR above 30 per cent as on March 31, 2001. Another 82 companies (11.5 per cent of the total), recorded CRAR between 20 and 30 per cent, 5 had CRAR between 10 and 12 per cent, while 56 companies had CRAR below 10 per cent. Among the different categories of NBFCs, a large number of HPs and LC/ICs have been well-capitalised, with about 73.1 per cent and 79.3 per cent of the two categories, respectively, having CRAR in excess of 30 per cent (Table V.13).

Table V.13: Distribution of Reporting NBFCs by CRAR

(As at end-March)

CRAR Range (per cent)	**2000**					**2001**				
	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	7	11	12	2	**32**	9	22	23	2	**56**
10-12	—	—	1	—	**1**	1	1	2	1	**5**
12-15	1	3	3	—	**7**	1	5	2	—	**8**
15-20	3	31	8	—	**42**	4	29	5	—	**38**
20-30	12	52	16	1	**81**	8	58	15	1	**82**
Above 30	23	253	159	1	**436**	30	313	180	2	**525**
Total	**46**	**350**	**199**	**4**	**599**	**53**	**428**	**227**	**6**	**714**

14. Performance of Primary Dealers (PDs)

5.41 PDs' performance in the Government securities market was marked by steady improvement over the years (Table V.14). During the year 2001-02, 65 per cent of auctioned primary issues of Government securities were absorbed by PDs. In treasury bills auctions, PDs' share was 83.2 per cent. In the secondary market too, the PDs achieved a noticeable expansion in their transactions. In 2001-02, the PDs achieved a turnover (outright plus repos) of Rs.8,84,181 crore (representing a share of 23 per cent of market transactions).

5.42 In the primary market, for the year 2001-02, all PDs together had given a bidding commitment of Rs.50,718 crore in treasury bills and Rs.95,950 crore in Government of India dated securities representing 156 per cent and 97 per cent of the amounts indicated to be raised at the beginning of the year. The bids tendered by them were higher at Rs.64,752 crore and Rs.1,24,804 crore for treasury bills and Government of India dated securities, respectively, at 199 per cent and 109 per cent of actual amounts notified for auction. Of these, the bids accepted were Rs.26,236 crore for treasury bills and Rs.55,113 crore for Government of India dated securities, respectively, indicating a success ratio of 51 per cent and 57 per cent. As against Rs.1,20,449 crore offered for underwriting, Rs.68,267 crore were accepted by the RBI. Total primary purchases including devolvement on PDs were 83 per cent in case of treasury bills and 65 per cent in Government of India dated securities against 74 per cent and 48 per cent in the last year indicating larger absorption by PDs in the primary market (Table V.15). In the secondary market, primary dealers turnover (outright plus repo) amounted to Rs.8,84,181 crore in treasury bills and dated securities (representing 23 per cent of market transactions), out of which turnover on outright basis amounted to Rs.6,52,127 crore (Table V.14).

Table V.14 : Selected Indicators of the Primary Dealers

(As at end-March)

(Amount in Rs. crore)

	2000	**2001**	**2002**
1	2	3	4
Number of PDs	15	15	18
Total Capital (NOF)	2,688	3,184	4,425
Total assets	15,399	14,772	15,310
Of which Government Securities	10,502	10,401	12,236
Per cent of Government Securities	68	70	80
PD system turnover (outright)	2,34,337	3,16,915	6,52,127
Market turnover (outright)	9,12,986	11,44,291	24,23,933
Per cent of PD turnover (outright)	26	28	27
Liquidity Support limits	5,900	6,000	4,000 + 2,000 (backstop)

Table V.15: Activities of Primary Dealers

(Amount in Rs. crore)

		1998-99	**1999-2000**	**2000-01**	**2001-02**
1	2	3	4	5	6
Total Primary Purchase (including devolvements)	Treasury Bills	18,018	18,786	23,815	26,236
	Dated Securities	16,243	34,956	47,818	55,848
Per cent to Total Primary Issues	Treasury Bills	40	46	74	83
	Dated Securities	19	40	48	65
Market Share of PDs * (Per cent)		20	27	31	23

* Turnover of PDs to total turnover in the market.

5.43 The average daily net call money borrowing of the PDs aggregated Rs.6,711 crore during 2001-02 as compared with Rs.6,216 crore in the previous year. A total commission/ underwriting fee of Rs.25 crore was paid to the PDs during 2001-02 as compared with Rs.87 crore in 2000-01. For the year 2001-02, the normal liquidity support limits for PDs was fixed at Rs.6,000 crore. The average daily utilisation of liquidity support by the PDs was Rs.1,529 crore for the financial year 2001-02, well below the utilisation of Rs.4,145 crore last year. This lower utilisation reflects the ample liquidity available in the system throughout the year.

15. Other Developments

Developments Pertaining to Informal Advisory Group on NBFCs.

5.44 The Informal Advisory Group on NBFCs deliberates on various issues emanating from the difficulties in compliance with the regulatory framework and serves as a forum for consulting the professional bodies, experts and NBFCs themselves. Such institutionalised decision-making mechanism has been extremely useful, and has resulted in the formulation of several policy decisions, regulatory measures and amendments to the Directions. During the year under review (July-June), the Group held four meetings with the last one being in June 2002.

Study Group to Design New Balance Sheet Format

5.45 In pursuance of the Khanna Committee recommendations, a Committee was constituted to explore the possibility of prescribing separate formats of financial statements for NBFCs to enhance transparency in the presentation of their financial position. On the basis of the Committee's report, further discussions were held with the Informal Advisory Group and a final view is being taken thereon.

Depositor Protection

5.46 The RBI continues to pursue with various State Governments the case for enacting legislation for protection of interest of depositors in financial establishments. An extensive publicity campaign has also been taken up using the print and electronic media to educate the depositors. RBI has been conducting special seminars for the civil and police personnel of State Governments to equip them with the skills of identifying and apprehending unscrupulous elements in NBFC sector and to protect the interest of depositors. Special training programmes were held at the College of Agricultural Banking (CAB), Pune as also at some of the regional offices of RBI for personnel/executives of NBFCs in order to familiarise them with the objectives, genesis and focus of the RBI regulations.

Training of Auditors

5.47 The ICAI in association with the RBI, holds workshops for auditors at various centres, for training them on auditors' reporting requirements under the directions issued by RBI. In addition, RBI conducts training programmes for the statutory auditors of the NBFCs to familiarise them with the directions and regulations as applicable to NBFCs.

Initiatives in Co-ordination

5.48 The RBI continues to hold regular meetings with the top civil and police officials of the State Governments and other regulatory agencies, and issues of common concern are discussed in such meetings for impressing upon them the need for supporting the RBI to track down unscrupulous elements. Constant follow up action by the RBI helped in the setting up of

Economic Offences Wing in many States. Close liaison is also maintained with various other regulatory authorities like DCA, SEBI, etc.

Self Regulatory Organisation

5.49 The RBI has been impressing upon various NBFC Associations, the need for formation of a self-regulatory organisation (SRO) which would serve the purpose of a viable mechanism for instituting a self-regulatory system for the sector, particularly for the benefit of smaller NBFCs. Towards this end, the RBI continues to be in touch with the Informal Advisory Group of NBFCs and also with various NBFC Associations.

1 The term 'public deposit' means any receipt of money by way of deposit or loan or in any other form excluding amounts received as share capital, borrowings from Central or State Governments, foreign Governments, banks, institutions, registered money lenders, *chit* subscription, money received as advance against sale of assets, dealership deposits, security deposits, the money received from other companies and mutual funds, money raised by issue of optionally convertible debentures, secured debentures, hybrid debts/subordinated debts and commercial papers, deposits received from the directors and their relatives and deposits accepted by a private company from its shareholders.

2 Regulated deposits are defined as receipt of money by way of deposit or loan or in any other form excluding amounts received as share capital, bank borrowings, institutional borrowings, *chit* subscription, borrowings from registered money lenders and money received in ordinary course of business; further excluding certain other forms of deposits as specified in Non-Banking Financial Companies (Reserve Bank) Directions, 1977 like money received from Central or State Governments, foreign Government, financial institutions, companies and certain other forms of deposits.

3 From the institutional angle, PDs also belong to the category of NBFCs and are classified as investment companies. The policy developments and performance of PDs have been presented separately in this Chapter.

4 One-half each from the fortnight beginning November 16, 2002.

5 Data for different periods may not be comparable due to differences in the reporting NBFCs in each period.

6 The NOF of NBFCs is the total of paid-up capital and free reserves, net of (i) the amount of accumulated balance of loss, (ii) deferred revenue expenditure and other intangible assets, if any, and further reduced by investments in shares and loans and advances to (a) subsidiaries, (b) companies in the same group and (c) other NBFCs, in excess of10 per cent of owned funds.