Chapter V

Non-Banking Financial Institutions

5.1 Core financial services provided by financial intermediaries include payments and liquidity, maturity transformation, store of value, information processing and pooling of risks. Banks have traditionally provided most of these services and are increasingly diversifying into other areas. However, banks typically have an edge in providing payment and liquidity related services and they usually select a portfolio mix with an overriding objective of providing a certain return. Non-banking financial institutions (NBFIs), on the other hand, tend to offer enhanced equity and risk-based products. NBFIs play a crucial role in broadening access to financial services, enhancing competition and diversification of the financial sector. They are increasingly being recognised as complementary to the banking system capable of absorbing shocks and spreading risks at times of financial distress.

5.2 Mobilisation of financial resources outside the traditional banking system has witnessed tremendous growth all over the world in recent years. The boundaries separating commercial banks and NBFIs are also getting increasingly blurred. Rapid financial diversification has thus posed new challenges for regulators, especially in the area of devising appropriate regulatory safeguards for the highly complex NBFI sector. Owing to their diversified nature, NBFIs may require specific regulatory prescriptions particular to their nature of business, in addition to the general guidelines applicable for the financial sector.

5.3 The NBFI sector in India comprises various types of financial institutions with each one of them having its roots at a particular stage of development of the financial sector. All-India financial institutions (AIFIs), largely an offshoot of development planning in India, were created for long-term financing with some of them having sectoral/regional focus. Non-banking financial companies (NBFCs), on the other hand, are mostly private sector institutions, which have carved their niche in the Indian financial system. Primary dealers (PDs), which have come into existence recently, play an important role in both the primary and secondary Government securities market. Although commonly grouped as 'NBFIs', the nature of operations of FIs, NBFCs and PDs is quite different from one another. The regulatory focus in respect of these three types of NBFIs is also different. Business operations and financial performance of different types of NBFIs are driven mainly by sector-specific factors.

5.4 The focus of regulatory initiatives in respect of financial institutions (FIs) during 2004-05 was to strengthen the prudential guidelines relating to asset classification, provisioning, exposure to a single/group borrower and governance norms. Business operations of FIs expanded during 2004-05. Their financial performance also improved, resulting from an increase in net interest income. Significant improvement was also observed in the asset quality of FIs, in general. The capital adequacy ratio of FIs continued to remain at a high level, notwithstanding some decline during the year.

5.5 Regulatory initiatives in respect of NBFCs during the year related to issuance of guidelines on credit/debit cards, reporting arrangements for large sized NBFCs not accepting/holding public deposits, norms for premature withdrawal of deposits, cover for public deposits and know your customer (KYC) guidelines. Business operations of NBFCs, which contracted sharply during 2003-04[1], reflecting mainly the impact of decline in resource mobilisation, expanded marginally during 2004-05. Profitability of NBFCs improved in 2003-04 and 2004-05 mainly on account of containment of expenditure. While gross NPAs of NBFCs, as a group, declined during 2003-04 and 2004-05, net NPAs after declining marginally during 2003-04, increased significantly during 2004-05. Although capital adequacy of NBFCs continued to be comfortable, on the whole, there was increase in

[1] Data on NBFCs in the previous Report related to the period 2002-03. In this Report apart from data for 2003-04, provisional data in respect of 570 reporting companies for 2004-05 have also been collected and analysed.

the number of NBFCs with CRAR less than 12 per cent and decline in NBFCs with CRAR above 30 per cent. The business of large NBFCs not accepting public deposits, but with asset size of Rs.500 crore and above, continued to expand. These NBFCs earned substantial profits and improved their asset quality during the year.

5.6 A number of measures were initiated during 2004-05 to further strengthen the role of PDs in the Government securities market. Major initiatives undertaken during the year included strengthening of dividend distribution policy with focus on pay-out ratio and capital adequacy ratio, issuance of guidelines for raising subordinated debt for Tier-II and Tier-III capital, adoption of standardised settlement on a T+1 basis for all outright secondary market transactions in the Government securities market and permitting sale of Government securities allotted to successful bidders in primary issues on the day of allotment. Sources of funds of PDs declined during the year. The hardening of interest rates prompted PDs to substantially reduce their Government securities holding. PDs, as a group, incurred net losses during the year, mainly due to large trading losses as against trading profits in the previous year. Notwithstanding the losses, PDs continued to maintain high capital adequacy ratios.

5.7 Against the above backdrop, this Chapter details the policy developments, business operations and financial performance of financial institutions, non-banking financial companies and primary dealers in Sections 2, 3 and 4, respectively.

2. FINANCIAL INSTITUTIONS

5.8 Financial institutions have traditionally been the major source of long-term funds for the economy in line with the development objective of the state. A wide variety of financial institutions (FIs) emerged over the years. While most of them extend direct finance, some also extend indirect finance and still some others extend largely refinance. FIs can be broadly categorised as all-India or state level institutions depending on the geographical coverage of their operation. Based on their major activity, all-India financial institutions (AIFIs) can be classified as (i) term-lending institutions [IFCI Ltd., Industrial Investment Bank of India (IIBI) Ltd., Infrastructure Development Finance Company (IDFC) Ltd., Export-Import Bank of India (EXIM Bank) and Tourism Finance Corporation of India (TFCI) Ltd.] which extend long-term finance to different industrial sectors; (ii) refinance institutions [National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and National Housing Bank (NHB)] which extend refinance to banking as well as non-banking financial intermediaries for on-lending to agriculture, small scale industries (SSIs) and housing sectors, respectively; and (iii) investment institutions [Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) and its erstwhile subsidiaries), which deploy their assets largely in marketable securities. State/regional level institutions are a distinct group and comprise various State Financial Corporations (SFCs), State Industrial and Development Corporations (SIDCs) and North Eastern Development Finance Corporation (NEDFi) Ltd. Some of these FIs have been notified as Public Financial Institutions (PFIs) by the Government of India under Section 4A of the Companies Act, 1956.

5.9 With the conversion of two term-lending institutions, *viz*., ICICI and IDBI into banks, only four FIs, *viz*., NABARD, SIDBI, NHB and EXIM Bank are subjected to full-fledged regulation and supervision by the Reserve Bank. NABARD, SIDBI and NHB also shoulder responsibilities of regulating and/or supervising financial intermediaries, in varying degree, falling under their respective domains - housing finance companies in the case of NHB, SFCs and SIDCs in the case of SIDBI, and rural co-operative banks and regional rural banks in the case of NABARD. Taking into account the developmental and supervisory functions exercised by NABARD, SIDBI and NHB, a modified approach for supervisory assessment of FIs has been introduced based on the recommendations of the Working Group (Chairman: Shri Y.H. Malegham). FIs not accepting public deposits, but having asset size of Rs.500 crore and above, are subjected to only limited off-site supervision by the Reserve Bank. The focus of the analysis in this Section is, therefore, limited to the eight institutions currently being regulated by the Reserve Bank. These institutions include IFCI, IIBI, IDFC, EXIM Bank, TFCI, SIDBI, NABARD and NHB.

Regulatory Initiatives for Financial Institutions

5.10 Several prudential and other regulatory measures were initiated during 2004-05 to bring the regulatory framework for FIs in line with that of banks.

Asset Classification, Provisioning and Capital Adequacy Norms

5.11 With a view to moving closer to international best practices and ensuring convergence of the norms applicable to FIs with those of banks, with effect from March 31, 2005, an asset is required to be classified as doubtful, if it remains in the sub-standard category for 12 months. FIs, however, are permitted to phase out the consequent additional provisioning over a four-year period, commencing from the year ended March 31, 2005, with a minimum of 20 per cent each year.

5.12 At present, FIs are required to make provisions for non-performing assets (NPAs) on a graded scale based on the age of the NPA. However, in respect of NPAs included in 'doubtful for more than three years' category, the provisioning requirement on the secured portion is stipulated at 50 per cent, irrespective of its age, until it is identified as a loss asset. As the chances of recovery of an asset diminish over a period of time, it is imperative that FIs expedite recovery of NPAs. Accordingly, a graded higher provisioning, according to the age of NPAs in 'doubtful for more than three years' category, was introduced for FIs with effect from March 31, 2005 (with effect from June 30, 2005 in the case of NHB). Consequently, the increase in provisioning requirement on the secured portion is required to be applied in a phased manner over a three-year period in respect of the existing stock of NPAs classified as 'doubtful for more than three years' as on March 31, 2004 (with effect from June 30, 2004 in the case of NHB). On the unsecured portion, which is not covered by the realisable value of tangible security to which the FI has a valid recourse and the realisable value is estimated on a realistic basis, provision will continue to be to the extent of 100 per cent. However, in respect of all advances classified as 'doubtful for more than three years' on or after April 1, 2004 (July 1, 2004 in the case of NHB), the provisioning requirement would be 100 per cent.

5.13 Exposures on all PFIs for capital adequacy purposes attract a risk weight of 100 per cent with effect from April 1, 2005 as against the earlier stipulation of 20 per cent.

Prudential Credit Exposure Limits for FIs

5.14 In the light of the liberalised access of borrowers to external commercial borrowings (ECBs) and their ability to raise resources through the capital market, the practice of giving case-by-case approval to FIs, that had difficulty in complying with the prudential credit exposure limits, was discontinued. Accordingly, the single/group borrower prudential exposure ceilings, *i.e.*, 15 per cent (additional 5 per cent for infrastructure projects) and 40 per cent (additional 10 per cent for infrastructure projects), respectively, have to be strictly adhered to by FIs. In exceptional circumstances, FIs with the approval of their respective Boards, can enhance their exposure to a borrower up to a further 5 per cent of capital funds (*i.e.*, 20 per cent of capital funds for a single borrower and 45 per cent of capital funds for a group of borrowers), subject to the borrower consenting that FIs may make appropriate disclosures in their Annual Reports. In respect of exposure to infrastructure, FIs could consider additional sanctions up to 5 per cent and 10 per cent over and above the limits of 20 per cent and 45 per cent, respectively. Exposures, where principal and interest are fully guaranteed by the Government of India, may be excluded. FIs should make appropriate disclosures in the 'Notes on Accounts' to the annual financial statements, where the exposure exceeded the prudential limits. FIs were advised to phase out exposures in excess of single/group borrower limits not in conformity with above by March 31, 2005, either by increasing capital funds or reducing exposures.

Holding of Instruments in Dematerialised Form

5.15 With a view to extending the dematerialised form of holding to equity instruments, FIs were advised to hold their fresh investments in equity instruments effective August 30, 2004 in dematerialised form. All the outstanding equity investments in physical form were required to be converted into dematerialised form by end-December 2004.

Certificates of Authentication from Statutory Central Auditors of FIs

5.16 FIs were advised in February 2005 to obtain from their Statutory Central Auditors (i) the certificate relating to their treasury operations; (ii) reconciliation of investment; (iii) custody of unused BR (bankers' receipt) forms and their utilisation as recommended by the Janakiraman

Committee; (iv) compliance in the key areas such as investment portfolio, income recognition, asset classification and provisioning; and (v) authentication of calculation of CRAR and assessment of capital adequacy ratio in the 'Notes on Accounts' attached to the balance sheet.

Disclosures on Risk Exposures in Derivatives

5.17 With a view to making meaningful and appropriate disclosures of FIs' exposures to risk and their strategy to manage the risk, a minimum framework for disclosures on their risk exposures in derivatives was put in place in April 2005. The framework, apart from the quantitative aspects, also includes qualitative aspects relating to derivatives with a particular reference to the extent to which derivatives are used, the associated risks and business purposes served.

Other Policy Developments

5.18 As a follow up to the announcement made in the Annual Policy Statement for the year 2004-2005, a Technical Group on Refinancing Institutions (RFIs) (Chairman: Shri G.P. Muniappan) was constituted on September 3, 2004 to evaluate the efficacy of regulatory and supervisory systems of RFIs over their regulated entities. The Group, which submitted its Report in February 2005, made several recommendations to rationalise the regulatory system in respect of RFIs. It recommended a differentiated approach to regulation based on the acceptance of public deposits, size and the dependence on RFIs for refinance. The Committee held that entities regulated/supervised by RFIs should be classified into those accepting public deposits and those not accepting public deposits. Entities accepting public deposits should be subjected to direct regulation by the Reserve Bank till such time they cease to accept public deposits. Entities not accepting public deposits should be segregated into the following categories: (a) entities with an asset size of more than Rs.100 crore and which either do not avail of refinance from RFIs at all or whose dominant source of funds is not refinance from RFIs; (b) entities with an asset size of more than Rs.100 crore but whose sole/dominant source of funds is refinance from RFIs; and (c) entities with an asset size equal to or less than Rs.100 crore. The Group recommended that the Reserve Bank should provide to RFIs a broad framework for regulation of entities under category (a). The regulation of entities falling under categories (b) and (c), including prescription of prudential norms, may be left entirely to the RFIs themselves. Furthermore, SFCs may be discouraged from accepting public deposits and the Reserve Bank may withdraw permission granted to them for accessing public deposits. Acceptance of public deposits by non-bank financial intermediaries should be phased out. Eventually, regulation of entities accepting public deposits should converge with the prudential norms prescribed for commercial banks.

5.19 Supervision of the entities under the oversight of RFIs may be carried out on the basis of Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and Control (CAMELS) approach and the capabilities should preferably be developed in-house. However, in respect of RRBs, if necessary, auditors may be employed on a contract basis. Furthermore, for this purpose, if necessary, the Banking Regulation Act, 1949 may be amended. Also, SIDBI and NHB may consider setting up a Board of Supervision (BoS) on the lines of the Board already constituted by NABARD. The supervisory functions of SIDBI need to be well defined with no intervention by the State Governments. Adequate powers may be vested in SIDBI to impose penalty. NHB may consider introducing the system of awarding ratings to housing finance companies (HFCs) in a phased manner.

5.20 For co-ordination between the Reserve Bank and RFIs, the Group recommended setting up of a Standing Committee comprising representatives of the Reserve Bank, SIDBI, NABARD and NHB. Further, the arrangements existing between the Reserve Bank and NABARD may be replicated for two other RFIs, *i.e.*, SIDBI and NHB. As in the case of NHB and NABARD, the Reserve Bank may have a top management level nominee on the Board of SIDBI. While the existing arrangements of 'annual financial inspection' and special scrutinies are necessary and useful, a formal system to measure supervisory effectiveness may be developed by RFIs and implemented after approval from the Reserve Bank.

5.21 The Group recommended that the aggregate refinance by an RFI to an apex lending institute may be viewed as if it were a bundle of back to back facilities granted to various primary lending institutions or to various categories of borrowers. It may be permissible to classify the contaminated portion and non-contaminated portion of the facility separately so that the entire refinance assistance to an apex lending institution does not get classified as NPA in the books of the RFI merely as a result of part contamination. Further, the revised prudential norms recently prescribed by the Reserve Bank for banks relating to State Government guaranteed exposures, whereby the requirement of invocation of State Government guarantee was delinked for deciding the asset classification and provisioning requirements, be applied to RFIs as well.

Operations of Financial Institutions

5.22 FIs extend financial assistance both by way of project finance and non-project finance. Loans, underwriting and direct subscription and deferred payment guarantees constitute major forms of project finance, while non-project finance comprises equipment finance, equipment leasing, among others (Appendix Table 1). FIs have been broad-basing their operations in an attempt to widen their clientele base (Box V.1). They have also been taking several measures to augment their non-fund based income by providing customised advisory services, undertaking assignments relating to investment appraisals and business restructuring and playing the role of lead arrangers.

5.23 Financial assistance sanctioned and disbursed by all-India financial institutions (excluding IDBI which was converted into a bank with effect from October 1, 2004) declined during 2004-05 mainly due to a sharp decline in the sanctions and disbursements by LIC. Among FI groups, while financial assistance sanctioned by all-India term-lending institutions declined, disbursements increased, *albeit* marginally, during the year, reversing the trend of the previous year (Table V.1 and Appendix Table V.1).

5.24 Financial assistance sanctioned and disbursed by AIFIs has declined in recent years (Chart V.1).

Box V.1: Business Initiatives and New Product Development – Financial Institutions

EXIM Bank has been focusing on small and medium enterprise (SME) exporters as a significant target group of clients. An SME Group has been set up in the EXIM Bank to handle proposals from companies/firms with annual turnover of up to Rs.75 crore. The primary objective of the Group is to develop a portfolio of externally oriented SME clients and ensure smooth credit delivery to these clients. The EXIM Bank's support to the SME sector includes term loans for setting up of new projects, modernisation, expansion as also equipment finance and export credit. Total credit facilities amounting to Rs.134 crore were sanctioned to export oriented SMEs during 2004-05. Similarly, agriculture-exports have also been identified as a focus area. An Agriculture Business Group has also been set up in the EXIM Bank to cater to the requirements of agriculture exports. Term loans were also sanctioned to food processing, floriculture, fruits and vegetables and contract farming. Total sanctions to the agriculture-export sector amounted to Rs.582 crore during 2004-05. Further, service sector financing by EXIM Bank now includes entertainment, healthcare, hospitality and shipping. Loans were extended to 3 companies in the entertainment industry engaged in film production during 2004-05. The approach with regard to film financing has been to focus on forex earning projects and select borrowers with proven record.

SIDBI has been taking a series of measures in the direction of aligning the concept of SSIs with the SMEs. SIDBI has operationalised the SME Fund of Rs.10,000 crore announced earlier by the Government of India. Under the Fund, direct assistance is being provided to SMEs at an interest rate of 2 per cent below the PLR of SIDBI. During 2004-05, an assistance of Rs.2,825 crore was sanctioned which benefited around 3,900 units. Further, in association with the select public sector banks, SIDBI has set up the SME Growth Fund with a view to meeting the needs of the risk capital for SMEs.

IDFC has expanded its business from core infrastructure financing to urban, agricultural and social infrastructure in recent years. It has also strived to expand its non-interest sources of income such as financial and advisory services. Sanctions and disbursements of IDFC continued to register high growth on the back of improved infrastructure outlook for the country. Although sanctions recorded a moderate growth of 12.1 per cent as compared with 149.3 per cent witnessed during the previous year, disbursements at Rs.3,739 crore constituted 58.3 per cent of sanctions as compared with 47.2 per cent in the previous year. IDFC's annual disbursements in 2004-05 accounted for about a third of all infrastructure related project financing in the country during the year. On a cumulative basis, IDFC approved assistance of around Rs.25,000 crore to 198 projects as on March 31, 2005. During 2004-05, energy, telecom and transportation constituted bulk (83.7 per cent) of the disbursements made. Significant growth in disbursements was also observed in the energy and commercial and industrial sectors (Appendix Table V.2).

In view of restrictions on the lending activity and resource mobilisation, IIBI focussed on recovery of dues through settlements, speeding up of legal processes and restructuring.

Table V.1: Financial Assistance Sanctioned and Disbursed by Financial Institutions

(Amount in Rs. crore)

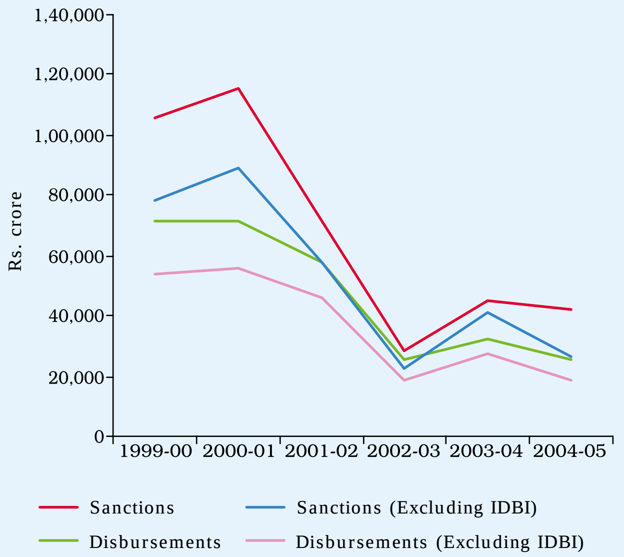
Item	As at end-March				Percentage Variation			
	2004		2005		2003-04		2004-05	
	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9
i) All-India Term-lending Institutions*	17,770	9,647	15,605	10,025	8.5	-9.1	-12.2	3.9
ii) Specialised Financial Institutions **	440	396	98	64	-7.6	-19.4	-77.7	-83.8
iii) Investment Institutions #	23,197	16,989	10,293	8,972	288.9	115.0	-55.6	-47.2
Total Assistance by FIs (i+ii+iii)	**41,407**	**27,032**	**25,996**	**19,061**	**81.5**	**42.2**	**-37.2**	**-29.5**

S: Sanctions. D: Disbursements.
* : Relating to IFCI, SIDBI, IIBI and IDFC.
** : Relating to IVCF, ICICI Venture and TFCI.
# : Relating to LIC and GIC.
Note : All data are provisional.
Source : Respective financial institutions.

Assets and Liabilities of FIs

5.25 Liabilities/assets of FIs (excluding IDBI) expanded at a high rate during 2004-05 as compared with the previous year. Bonds/debentures continued to be the main source of funds for FIs, followed by borrowings from banks in rupees and foreign currency. While resources mobilised by way of bonds and debentures and borrowings increased sharply, those by way of deposits declined sharply. Loans and advances and investments constitute the bulk of assets of FIs. Loans and advances by FIs grew at a significantly higher rate during the year, reflecting the impact of robust investment climate in the country. Investments by FIs, however, increased marginally as against the sharp increase in the previous year (Table V.2).

Chart V.1: Financial Assistance Sanctioned and Disbursed by AIFIs



Resources Mobilised by FIs

5.26 Total resources mobilised (outstanding) by FIs (long-term and short-term rupee and foreign currency borrowings, bonds and debentures and deposits) grew by 19.4 per cent to Rs.83,889 crore at end-March 2005.

5.27 While long-term and short-term rupee resources raised by FIs increased, resources raised by way of foreign currency borrowings declined. NABARD mobilised the largest amount of resources, followed by EXIM Bank, NHB and IDFC (Table V.3 and Appendix Table V.3). IFCI and IIBI continued to be barred from mobilising fresh resources on account of their poor financials.

5.28 Average amount of resources mobilised by FIs through money market instruments declined significantly during 2004-05 mainly on account of decline in resources raised by way of term deposits. Resources raised by way of commercial paper increased sharply (Table V.4).

5.29 The practice of advancing loans by the Reserve Bank to industrial and agricultural financial institutions from the Long Term Operations (LTO) Funds, before transferring the surplus profit to the Government of India, was discontinued subsequent to an announcement to this effect made in the Union Budget for 1992-93. Accordingly, the Reserve Bank has been making only token contribution to these funds from 1992-93. There was no outstanding borrowing

Table V.2: Composition of Liabilities and Assets of Financial Institutions

(Amount in Rs. crore)

Item	As at end-March		Percentage Variation	
	2004	2005	2003-04	2004-05
1	2	3	4	5
Liabilities				
1. Capital	6,131 (4.7)	6,331 (4.4)	–	3.3
2. Reserves	13,499 (10.4)	14,963 (10.5)	13.5	10.8
3. Bonds and Debentures	50,545 (38.8)	60,801 (42.6)	5.6	20.3
4. Deposits	17,946 (13.8)	13,643 (9.5)	13.5	-24.0
5. Borrowings	18,360 (14.1)	23,028 (16.1)	11.3	25.4
6. Other Liabilities	23,661 (18.2)	24,104 (16.9)	5.6	1.9
Total Liabilities/Assets	**1,30,142**	**1,42,870**	**7.9**	**9.8**
Assets				
1. Cash	12,146 (9.3)	16,989 (11.9)	77.0	39.9
2. Investments	14,298 (11.0)	14,386 (10.1)	23.8	0.6
3. Loans and Advances	91,613 (70.4)	98,924 (69.2)	0.4	8.0
4. Bills Discounted/ Rediscounted	1,218 (0.9)	1,048 (0.7)	22.8	-14.0
5. Fixed Assets	1,217 (0.9)	1,195 (0.8)	-28.0	-1.8
6. Other Assets	9,650 (7.4)	10,328 (7.2)	16.9	7.0

– : Nil/Negligible.
Note : 1. Data relate to IFCI, TFCI, IDFC, IIBI, EXIM Bank, NABARD, NHB and SIDBI.
2. Figures in parentheses are percentages to total liabilities/assets.
Source : Balance sheets of respective FIs.

by any institution under the National Industrial Credit (NIC) Long-Term Operations (LTO) Fund at end-June 2005. The outstanding credit to NHB under the National Housing Credit (NHC) Long-Term Operations (LTO) Fund stood at Rs.50 crore at end-June 2005.

Table V.3: Resources Mobilised by Financial Institutions
(As at end-March)

(Amount in Rs. crore)

Institution	Total Resources Raised								Total Outstanding	
	Long-term		Short-term		Foreign Currency		Total			
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
1	2	3	4	5	6	7	8	9	10	11
IFCI	–	–	–	–	–	–	–	–	17,564	13,385
IIBI	176	–	–	–	–	–	176	–	2,420	2,229
TFCI	102	23	70	–	–	–	172	23	546	421
IDFC	1,550	3,378	2,025	875	–	–	3,575	4,253	3,975	6,533
EXIM Bank	2,025	955	1,074	1,632	3,782	2,843	6,881	5,430	12,752	14,704
NABARD	5,334	8,843	–	–	–	–	5,334	8,843	11,883	23,805
NHB	2,990	2,419	300	2,753	–	–	3,290	5,172	10,569	14,385
SIDBI	1,429	1,607	1,536	736	7	21	2,972	2,364	10,535	8,427
Total	**13,607**	**17,225**	**5,005**	**5,996**	**3,789**	**2,864**	**22,401**	**26,085**	**70,245**	**83,889**

– : Nil/Negligible.
Note: 1. Long-term resources comprise borrowings by way of bonds/debentures; short-term resources comprise borrowings by way of commercial papers, term deposits, inter-corporate deposits, certificates of deposit and term money. Foreign currency resources comprise largely bonds.
2. Figures in columns 10 and 11 may not match with total borrowings (including bonds and debentures) and deposits in Table V.2 due to differences in the coverage as some loans raised by FIs are not included in the Table.

Table V.4: Resources Raised by Financial Institutions from the Money Market

(Amount in Rs. crore)

Instrument	2003-04	2004-05
1	2	3
i) Term Deposits	2,206	1,155
ii) Term Money	245	175
iii) Inter-corporate Deposits	1,329	477
iv) Certificates of Deposit	408	233
v) Commercial Paper	1,847	2,370
Total	**6,035**	**4,410**
Percentage of limits	25.6	30.0

All-India Financial Institutions versus Scheduled Commercial Banks

5.30 Financial assets of FIs grew by 7.9 per cent during 2004-05 as against 20.9 per cent of scheduled commercial banks. As a result, the share of financial assets of AIFIs in the combined financial assets of banks and AIFIs declined (Table V.5). Assets of FIs registered a rise in spite of continuing losses suffered by IFCI and IIBI, which resulted in the erosion of their assets. FIs, which have historically played an important role, have been finding it difficult to sustain their operations in the changed operating environment. Financial assets of NHB grew at the highest rate, followed by EXIM Bank and NABARD [Appendix Table V.4(A) and Appendix Table V.4(B)].

Table V.5: Financial Assets of All-India Financial Institutions and Banks*

(Amount in Rs. crore)

Item	As at end-March		Percentage Variation	
	2004	2005	2003-04	2004-05
1	2	3	4	5
i) All-India Financial Institutions	1,28,925 @	1,39,153	8.4	7.9
ii) Scheduled Commercial Banks#	16,43,447	19,87,456	17.2	20.9
Total (i+ii)	**17,72,372**	**21,26,609**	16.6	20.0
Memo:				
FIs assets as percentage of total assets	7.3	6.5		
SCBs assets as percentage of total assets	92.7	93.5		

* : Including investments, loans and advances, money market assets, deposits, cash in hand and balances with banks and other assets, excluding fixed assets.

@ : Excluding IDBI. Including IDBI, the amount stands at Rs.1,95,247 crore.

: As per returns under section 42 of the Reserve Bank of India Act, 1934 and include cash in hand and balances with the banking system, investments, bank credit and dues from banks. It does not include non-SLR investments, foreign currency assets and bank reserves.

Sources and Uses of Funds

5.31 Total sources/deployment of funds of FIs increased from Rs.86,990 crore to Rs.94,810 crore during 2004-05, registering a rise of 9.0 per cent. In the case of deployment, while fresh deployment and repayment of past borrowing registered a rise, other deployments, including interest payment declined during 2004-05 as compared with the previous year (Table V.6 and Appendix Table V.5).

Cost and Maturity of Borrowings

5.32 While the weighted average maturity of the instruments issued by FIs shortened, weighted average cost of funds increased across all FIs during 2004-05 (Table V.7 and Appendix Table V.6).

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

(Amount in Rs. crore)

Sources / Deployment of Funds	2003-04	2004-05	Percentage Variation	
			2003-04	2004-05
1	2	3	4	5
A) Sources of Funds (i+ii+iii)	**86,990 (100.0)**	**94,810 (100.0)**	**-9.0**	**9.0**
(i) Internal	58,263 (67.0)	59,371 (62.6)	18.8	1.9
(ii) External	26,317 (30.3)	32,670 (34.5)	-18.5	24.1
(iii) Others	2,410 (2.8)	2,769 (2.9)	-83.1	14.9
B) Deployment of Funds (i+ii+iii)	**86,990 (100.0)**	**94,810 (100.0)**	**-9.0**	**9.0**
(i) Fresh deployments	56,555 (65.0)	61,635 (65.0)	8.7	9.0
(ii) Repayment of past borrowings	17,590 (20.2)	21,069 (22.2)	0.6	19.8
(iii) Other deployments	12,845 (14.8)	12,106 (12.8)	-50.7	-5.8
of which: Interest Payments	5,611	4,597	-47.7	-18.1

* : IFCI, IIBI, IDFC, TFCI, NABARD, NHB, SIDBI and EXIM Bank.

Note : Figures in parentheses are percentages to the total.

Source : Respective FIs.

Table V.7: Weighted Average Cost and Maturity of Long-term Rupee Resources

Institution	Weighted Average cost (per cent)		Weighted Average Maturity in years	
	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5
IFCI	8.2	–	3.2	–
IIBI	8.7	–	18.0	–
TFCI	8.6	10.4	10.0	4.9
IDFC	5.6	6.0	5.9	3.7
EXIM Bank	5.9	6.6	6.7	4.2
NABARD	5.4	5.5	5.4	5.0
NHB	5.4	6.3	3.2	2.6
SIDBI	4.9	5.9	2.8	1.9

– : Nil/Negligible.
Data are provisional.
Source : Respective FIs.

Lending Interest Rates

5.33 NHB increased its lending rate during the year, while SIDBI maintained its lending interest rates at the previous year's level. Prime lending rate (PLR) of IFCI remained unchanged at the previous year's level (Table V.8).

Financial Performance of Financial Institutions

5.34 All-India FIs, as a group, showed significant improvement in their financial performance during the year ended March 2005. Net interest income increased significantly on account of increase in interest income on the one hand and decline in interest expenditure on the other. The increase in net interest income, however, was offset, to an extent, by a sharp decline in non-interest income and increase in non-interest expenditure. On the whole, operating profits of FIs improved as also the net profits, despite net losses incurred by IFCI and IIBI (Table V.9).

Table V.8: Lending Rate Structure of Select Financial Institutions

(Per cent Per annum)

Effective	PLR	IFCI	SIDBI	NHB@
1	2	3	4	5
July 2003	Long-term PLR	12.5	–	7.5-7.0
	Medium-term PLR	–	11.5	6.9
	Short-term PLR	12.5	10.0	6.9
March 2004	Long-term PLR	12.5	–	6.7-6.5
	Medium-term PLR	–	11.5	6.5
	Short-term PLR	12.5	10.0	6.4
July 2004	Long-term PLR	12.5	–	6.5-6.7
	Medium-term PLR	–	11.5	6.3
	Short-term PLR	12.5	10.0	6.0
March 2005	Long-term PLR	12.5	–	7.3
	Medium-term PLR	–	11.5	6.8
	Short-term PLR	12.5	10.0	6.5

– : Nil/Negligible.
@ : Relating to the fixed rate.

Table V.9: Financial Performance of Select All-India Financial Institutions*

(Amount in Rs. crore)

Item	2003-04	2004-05	Variation	
			Amount	Percentage
1	2	3	4	5
A) Income (a+b)	**9,346**	**9,451**	**105**	**1.1**
a) Interest Income	7,694 (82.3)	8,122 (85.9)	428	5.6
b) Non-interest Income	1,652 (17.7)	1,329 (14.1)	-322	-19.5
B) Expenditure (a+b)	**7,135**	**6,689**	**-446**	**-6.3**
a) Interest Expenditure	6,203 (86.9)	5,660 (84.6)	-543	-8.8
b) Other Expenses	932 (13.1)	1,029 (15.3)	97	10.4
Of which : Wage Bill	389	344	-45	-11.6
Provisions for Taxation	666	726	60	9.0
C) Profit				
Operating Profit (PBT)	2,211	2,762	551	24.9
Net Profit (PAT)	1,545	2,036	491	31.8
D) Financial Ratios@				
Operating Profit (PBT)	1.7	1.9		
Net Profit (PAT)	1.2	1.4		
Income	7.2	6.6		
Interest Income	5.9	5.7		
Other Income	1.3	0.9		
Expenditure	5.5	4.7		
Interest Expenditure	4.8	4.0		
Other Operating Expenses	0.7	0.7		
Wage Bill	0.3	0.2		
Provisions	0.5	0.5		
Spread (Net Interest Income)	1.1	1.7		

@ : As percentage of total assets.
* : Relating to IFCI, TFCI, IDFC, IIBI, EXIM Bank, NABARD, NHB and SIDBI.
Note : 1. Operating Profit refers to Profit before Provisions for Taxation/ Tax (PBT).
2. Net Profit refers to profits after Tax Provisions (PAT).
3. Figures in parentheses are percentage shares to the respective total.
Source : Annual Accounts of respective FIs.

Table V.10: Select Financial Parameters of Financial Institutions

(Per cent)

Institution	Interest Income/ Average Working Funds		Non-interest Income/ Average Working Funds		Operating Profits/ Average Working Funds		Return on Average Assets		Net Profit per Employee (Rs. crore)	
	As at end-March									
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
1	2	3	4	5	6	7	8	9	10	11
IFCI	4.3	7.4	1.3	1.5	-1.9	1.8	-16.9	-2.2	-5.34	-0.63
IIBI	10.0	11.1	0.3	7.5	-4.9	-7.6	NA	NA	-0.49	-0.80
TFCI	11.8	11.4	0.9	0.2	3.1	3.6	1.6	2.0	0.39	4.40
IDFC	8.4	7.9	4.4	2.5	5.4	4.6	5.2	4.3	2.06	2.92
EXIM Bank	6.4	6.1	0.8	0.5	2.4	2.0	1.7	1.5	1.20	1.34
NABARD	8.0	6.9	0.1	0.0	3.6	3.2	2.8	1.8	0.28	0.20
NHB	8.1	6.7	0.4	0.4	2.2	0.5	2.2	0.3	2.35	0.47
SIDBI	7.3	5.9	0.5	0.6	3.5	3.0	2.0	1.7	0.27	0.26

Source : Balance sheets of respective FIs.

5.35 Interest income as percentage of average working funds of all FIs, barring IFCI and IIBI, declined during the year. Non-interest income constitutes a very small percentage of average working funds for most of the FIs. IDFC earned the highest return on assets, followed by TFCI, NABARD, SIDBI and EXIM Bank. Operating profits ratio of all FIs, except IFCI and TFCI, declined during the year. IFCI earned operating profits during the year as against operating losses last year. IIBI, however, continued to incur operating losses. Of all the FIs, IDFC earned highest operating profits, followed by TFCI. Return on assets in respect of IFCI continued to be negative. Net profit per employee was highest in the case of TFCI, followed by IDFC (Table V.10).

Soundness Indicators

Assets Quality

5.36 The asset quality of all FIs, except SIDBI improved significantly during 2004-05, reflecting the combined impact of recovery of dues and increased provisioning (Table V.11).

5.37 Sub-standard assets across all FIs declined as at end-March 2005 in comparison with the previous year. While doubtful assets of IFCI and IIBI declined, those of SIDBI and EXIM bank increased (Table V.12).

Capital Adequacy

5.38 Capital adequacy ratio (CRAR) of all FIs, barring TFCI, declined marginally at end-March 2005 as compared with end-March 2004. Notwithstanding the decline, the CRAR of FIs remained substantially higher than the minimum prescribed ratio of 9 per cent (Table V.13). CRAR of IFCI and IIBI eroded further during the year on account of high level of NPAs and accumulated financial losses.

Reserve Bank's Assistance to State Financial Corporations

5.39 State financial corporations (SFCs) were sanctioned *ad hoc* borrowing limits for a period of 12 months (July to June) and extendable by a maximum period of 6 months by the Reserve Bank every year. These short-term financial

Table V.11: Net Non-Performing Assets
(At end-March)

(Amount in Rs. crore)

Institution	Net NPAs		Net NPAs/ Net Loans (per cent)	
	2004	2005	2004	2005
1	2	3	4	5
IFCI	3,865	2,688	32.3	28.0
IIBI	800	405	38.0	27.3
TFCI	144	68	21.1	11.0
IDFC	–	–	–	–
EXIM Bank	129	109	1.3	0.9
NABARD	1	1	–	–
NHB	–	–	–	–
SIDBI	226	407	2.4	3.9

– : Nil/Negligible.
Source : Balance sheets of respective FIs.

Table V.12: Asset Classification of Financial Institutions

Institution	As at end - March							
	Standard		Sub-Standard		Doubtful Assets		Loss Assets	
	2004	2005	2004	2005	2004	2005	2004	2005
1	2	3	4	5	6	7	8	9
IFCI	8,116	6,909	899	205	2,966	2,483	–	–
IIBI	1,304	1,079	274	23	526	382	–	–
TFCI	539	531	30	4	115	64	–	–
IDFC	4,419	7,050	–	–	–	–	–	–
EXIM Bank	10,046	12,714	76	47	53	62	–	–
NABARD	48,789	48,354	1	–	–	1	–	–
NHB	6,580	10,812	–	–	–	–	–	–
SIDBI	9,249	9,845	29	8	197	399	62	51

– : Nil/Negligible.
Source : Balance sheets of respective FIs.

accommodations were backed by the pledge of *ad hoc* bonds issued by the individual SFCs and guaranteed by the concerned State Government/ Union Territory to enable the SFCs to tide over their temporary liquidity problems. In May 2004, the Reserve Bank decided to discontinue the *ad hoc* borrowing facility to all SFCs from 2004-05.

3. NON-BANKING FINANCIAL COMPANIES

5.40 Non-banking financial companies represent a heterogenous group of institutions separated by their type of activity, organisational structure and portfolio mix. Four types of institutions, categorised in terms of their primary business activity and under the regulatory purview of the Reserve Bank, are equipment leasing companies, hire purchase companies, loan companies and investment companies. The residuary non-banking companies (RNBCs) have been classified as a separate category as their business does not conform to any of the other defined classes of NBFC businesses. Besides, there are other NBFCs, *viz*., miscellaneous non-banking companies (Chit Fund), mutual benefit finance companies (*Nidhis* and Potential *Nidhis*) and housing finance companies, which are either partially regulated by the Reserve Bank or are outside the purview of the Reserve Bank. This section broadly focuses on the policy developments and operations of NBFCs under the regulatory purview of the Reserve Bank. However, in view of their diverse nature, operations of NBFCs and RNBCs have been discussed separately. Besides, operations of NBFCs not accepting public deposits but having asset size of Rs.500 crore and above have also been discussed separately in view of their implications for systemic risk.

Table V.13: Capital Adequacy Ratio of Select Financial Institutions*

(Per cent)

Institution	As at end-March						
	1999	2000	2001	2002	2003	2004	2005
1	2	3	4	5	6	7	8
IFCI	8.4	8.8	6.2	3.1	0.95	-17.0	-23.4
IIBI	11.7	9.7	13.9	9.2	-11.0	-20.1	-41.1
TFCI	15.4	16.2	18.6	18.5	19.8	22.8	27.4
IDFC	235.5	119.7	85.5	56.7	51.3	36.9	28.6
EXIM Bank	23.6	24.4	23.8	33.1	26.9	23.5	21.6
NABARD	53.3	44.4	38.5	36.9	39.1	39.4	38.8
NHB	17.3	16.5	16.8	22.1	27.9	30.5	22.5
SIDBI	26.9	27.8	28.1	45.0	44.0	51.6	50.7

* : Net of provisioning and write-offs.
Source : Balance sheets of respective FIs.

Regulatory and Supervisory Initiatives

5.41 The focus of regulatory initiatives in respect of NBFCs during 2004-05 was on deposit acceptance norms and improved disclosures.

Issuance of Guidelines on Credit Cards by NBFCs

5.42 NBFCs were allowed to enter into credit card business on their own or in association with another NBFC or a scheduled commercial bank. The permission to this effect was granted on a selective basis keeping in view the financial position of the company and its record of compliance. NBFCs are not allowed to issue any debit card as it tantamounts to opening and operating a demand deposit account, which is the exclusive privilege of banks. Emergency cash withdrawal facility through ATMs of associate bank may only be allowed to credit card holders as a short-term advance with a reasonable limit and necessary built-in safeguards. NBFCs have been advised to be selective while issuing credit cards with adequate appraisal on the standing of the applicant. It was clarified that any NBFC, including a non-deposit taking company, intending to engage in the activity of issue of credit card would have to obtain a Certificate of Registration, apart from specific permission to enter into this business from the Reserve Bank. The NBFC would have to satisfy the requirement of a minimum net owned fund of Rs.100 crore and such other terms and conditions as the Reserve Bank may specify to this effect from time to time.

Acceptance of Public Deposits by NBFCs Registered in Non-public Deposit Taking Category

5.43 NBFCs which were granted Certificate of Registration (CoR) in the non-public deposit taking category should meet the minimum capital requirement of Rs.2 crore for being eligible to apply to the Reserve Bank for accepting deposits. Accordingly, NBFCs were advised to ensure compliance with this requirement before applying to the Reserve Bank for approval to accept public deposits.

Preparation of Balance Sheet as on March 31 of Every Year

5.44 In terms of the extant directions, every NBFC is required to prepare its balance sheet and profit and loss account as on March 31 every year. However, a few companies obtained permission directly from the Registrar of Companies (RoC) for extension of the financial year as required under the provisions of the Companies Act, 1956. In order to ensure that there is no eventual violation of the directions of the Reserve Bank, NBFCs were advised that whenever an NBFC intends to extend the date of its balance sheet as per provisions of the Companies Act, it should take prior approval of the Reserve Bank before approaching the RoC for this purpose. It was also clarified that even in the cases where the Reserve Bank and the RoC grant extension of time, the company is required to furnish to the Reserve Bank a *proforma* balance sheet (unaudited) as on March 31 of the year and the statutory returns due on the above date.

Premature Withdrawal of Deposits by NBFCs, RNBCs and MNBCs

5.45 NBFCs which have defaulted in repayment of deposits, are prohibited from making premature repayment of any public deposits (in the case of NBFCs) or deposits (in the case of MNBCs/RNBCs) or granting any loan against such deposits (in the case of NBFCs/MNBCs), except in the case of death of a depositor or for repaying tiny deposit, *i.e.*, deposits up to Rs.10,000. The remaining amount and the interest thereon may be paid only after maturity. In the case of normally run companies, the premature repayment, after the lock-in period, will be at the sole discretion of the company and cannot be claimed as a matter of right by the depositor. However, in the event of death of the depositor, public deposit/deposits may be repaid prematurely, even within lock-in period to the surviving depositor or legal heir/s of the deceased depositor. The rate of interest to be paid on premature repayment of deposits has also been rationalised by the Reserve Bank.

Reporting System for NBFCs not Accepting/ Holding Public Deposits and Having Asset Size of Rs.500 Crore and Above

5.46 NBFCs not accepting/holding public deposits and having an asset size of Rs.500 crore and above were advised to submit a quarterly return in the prescribed format beginning from the quarter ended September 2004 within a period of 30 days of the month following the close of the quarter. It was also advised that a provisional return for the quarter ended March of every year may be submitted, within 30 days of the close of the quarter and a final return duly certified by the statutory auditors should be submitted, with a copy of the audited balance sheet, as soon as the same is finalised but not later than September 30 of the year. Non-submission of return would be viewed seriously and penal action would be taken for such non-compliance. With effect from September 2005, periodicity of return has been reduced to monthly and cut off point for submission of return has been reduced to asset size of Rs.100 crore and above.

Cover for 'Public Deposits'

5.47 In order to protect depositors' interest, all NBFCs accepting/holding public deposits were advised to ensure that there is full cover available at all times for public deposits accepted by them. While calculating this cover, the value of all debentures (secured and unsecured) and outside liabilities other than the aggregate liabilities to depositors may be deducted from total assets. For this purpose, they were advised that the assets should be evaluated at their book value or realisable/market value, whichever is lower. NBFCs are required to report to the Reserve Bank in case the asset cover calculated, as advised, falls short of the liability on account of public deposits. They were further directed to create a floating charge on the statutory liquid assets invested as required under Section 45-IB of the RBI Act, 1934 in favour of their depositors and that the charge should be duly registered in accordance with the requirements of the Companies Act, 1956.

'Know Your Customer' (KYC) Guidelines – Anti-Money Laundering Standards

5.48 NBFCs/RNBCs were advised in January 2004 to follow certain customer identification procedure for opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to the appropriate authority. The 'know your customer' (KYC) guidelines were revisited in the context of the recommendations made by the Financial Action Task Force (FATF) on Anti-Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT). Subsequently, the Reserve Bank issued detailed guidelines to banks based on the recommendations of the Financial Action Task Force and the paper issued on Customer Due Diligence (CDD) for banks by the Basel Committee on Banking Supervision. NBFCs were advised on February 21, 2005 to adopt the same guidelines with suitable modifications depending on the activity undertaken by them and ensure that a proper policy framework on KYC and AML measures is formulated and put in place with the approval of the Board within three months. NBFCs are required to ensure full compliance with the provisions of the guidelines before December 31, 2005.

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

5.49 Certain sections of the SARFAESI Act, 2002 were amended by passing the Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Act, 2004. The amendment to the Act was necessitated in view of the Supreme Court judgment and suggestions received from various sources including Indian Banks' Association (IBA), NHB and the Government. The constitutional validity of the SARFAESI Act was challenged in the Supreme Court in the case of Mardia Chemicals Ltd. *vs.* ICICI Bank Ltd. and others. The Supreme Court while upholding the Act declared sub-section (2) of Section 17 of the Act, requiring the defaulting borrower to pre-deposit 75 per cent of the liability in case the borrower wants to appeal against the order of the attachment of an asset, as *ultra vires* of Article 14 of the Constitution of India.

Supervision of NBFCs

5.50 Supervisory oversight by the Reserve Bank over NBFCs encompasses a four-pronged strategy; (a) on-site inspection based on the CAMELS methodology; (b) off-site monitoring supported by state-of-the-art technology; (c) market intelligence; and (d) exception reports of statutory auditors. During the period April 2004 to March 2005, a total of 573 (318 deposit taking companies and 255 non-deposit taking companies) registered NBFCs were inspected. In addition to the inspections, the Bank also conducted 236 snap scrutinies.

Registration

5.51 By the end of March 2005, the Reserve Bank had received 38,096 applications for grant of Certificate of Registration (CoR). Of these, the Reserve Bank has approved 13,187 applications (net of cancellation), including 474 applications (net of cancellation) of companies authorised to accept/hold public deposits. The total number of NBFCs increased to 13,261 (net of cancellation) by end-June 2005, of which 507 were public deposit accepting companies (Table V.14).

Table V.14: Number of Non-Banking Financial Companies

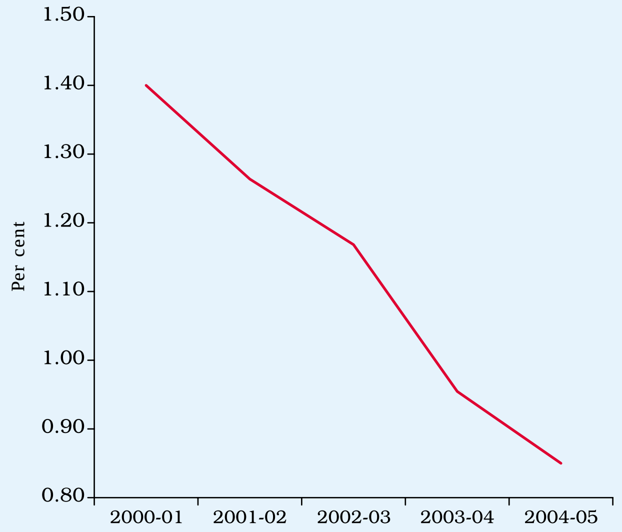
End-June	All NBFCs	NBFCs Accepting Public Deposits
1	2	3
1999	7,855	624
2000	8,451	679
2001	13,815	776
2002	14,077	784
2003	13,849	710
2004	13,764	604
2005*	13,261	507

* : net of cancellation.

Profile of NBFCs (including RNBCs)

5.52 The number of reporting NBFCs (registered and unregistered) declined from 875 at end-March 2003 to 777 at end-March 2004 and further to 573 at end-March 2005. The decline was mainly due to the exit of many NBFCs from deposit taking activity. The number of RNBCs, which were five at the end-March 2003, declined to three at end-March 2004 and remained unchanged at that level at end-March 2005. Assets and public deposits accepted by reporting NBFCs, which declined during the year ended March 2004, increased marginally during the year ended March 2005 even as the number of reporting NBFCs declined sharply. The net owned funds of NBFCs increased in 2004 as well as 2005 (Table V.15). Deposits of reporting NBFCs constituted 1.1 per cent of aggregate deposits of scheduled commercial banks at end-March 2005 as against 1.2 per cent at end-March 2004 and 1.5 per cent at end-March 2003.

Chart V.2: Share of Public Deposits of NBFCs in Broad Liquidity (L_3)



5.53 Reflecting the decline in public deposits held by NBFCs, the share of NBFC deposits in broad liquidity (L_3) has declined sharply over the years (Chart V.2).

Operations of NBFCs (Excluding RNBCs)

5.54 Total assets/liabilities of NBFCs (excluding RNBCs), which had declined sharply by 13.1 per cent during 2003-04, increased marginally during 2004-05. Borrowings represent the major source of funds for NBFCs, followed by owned funds (capital and reserves) and public deposits. All these sources of funds declined during 2003-04 as well as 2004-05, except borrowings, which increased marginally during 2004-05 after a sharp decline in

Table V.15: Profile of Non-Banking Financial Companies

(Amount in Rs. crore)

Item	As at End-March					
	2003		2004		2005	
	NBFCs	*of which:* RNBCs	NBFCs	*of which:* RNBCs	NBFCs	*of which:* RNBCs
1	2	3	4	5	6	7
Number of reporting companies	875	5	777	3	573	3
Total Assets	58,071	20,362 (35.1)	50,709	17,955 (35.4)	52,900	19,056 (36.0)
Public Deposits	20,100	15,065 (75.0)	19,644	15,327 (78.1)	20,246	16,600 (82.0)
Net Owned Funds	4,950	809	5,098	1,002	5,510	1,065

Note: Figures in parentheses indicate percentages to total outstanding deposits of NBFCs.

2003-04. On the asset side, loans and advances, hire purchase and equipment leasing assets constitute the major assets of NBFCs. Reflecting the impact of slowdown in borrowing and deposits, growth of all major assets such as loans and advances and equipment leasing assets, except SLR investments, declined during 2003-04. The decline in assets continued during 2004-05, except hire purchase assets, bill business and SLR investments which increased sharply (Table V.16).

5.55 Among NBFC groups, assets/liabilities of hire purchase finance companies and equipment leasing companies, which declined during the year ended March 2004, increased marginally during the year ended March 2005. Assets/liabilities of investment and loan companies which expanded during the year ended March 2004, declined in the following year. This broadly reflected the impact of resources raised. Hire purchase finance companies, the largest NBFC group, constituted 59.2 per cent of total assets/liabilities of all NBFCs at end-March 2005, followed distantly by loan companies (15.7 per cent), equipment leasing companies (14.0 per cent) and investment companies (5.6 per cent) (Table V.17).

Table V.16: Consolidated Balance Sheet of NBFCs

(Amount in Rs. crore)

Item	As at end-March			Variation			
	2003	2004	2005	2003-04		2004-05	
				Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8
Liabilities							
1. Paid-up capital	2,860 (7.6)	2,327 (7.1)	2,106 (6.2)	-533	-18.6	-221	-9.5
2. Reserves and Surplus	4,745 (12.6)	4,414 (13.5)	3,855 (11.4)	-331	-7.0	-559	-12.7
3. Public Deposits	5,035 (13.4)	4,317 (13.2)	3,646 (10.8)	-718	-14.3	-671	-15.5
4. Borrowings	24,480 (64.9)	20,852 (63.7)	21,842 (64.5)	-3,628	-14.8	990	4.7
5. Other Liabilities	589 (1.6)	844 (2.6)	2,394 (7.1)	255	43.3	1,550	183.6
Total Liabilities/Assets	**37,709**	**32,754**	**33,843**	**-4,955**	**-13.1**	**1,089**	**3.3**
Assets							
1. Investments							
i) SLR Investments	1,453 (3.9)	1,707 (5.2)	1,772 (5.2)	254	17.5	65	3.8
ii) Non-SLR Investments	2,885 (7.7)	2,110 (6.4)	1,736 (5.1)	-775	-26.9	-374	-17.7
2. Loans and Advances	13,398 (35.5)	12,363 (37.7)	11,301 (33.4)	-1,035	-7.7	-1,062	-8.6
3. Hire Purchase Assets	13,031 (34.6)	11,649 (35.6)	14,200 (42.0)	-1,382	-10.6	2,551	21.9
4. Equipment Leasing Assets	5,816 (15.4)	3,036 (9.3)	1,971 (5.8)	-2,780	-47.8	-1,065	-35.1
5. Bill Business	450 (1.2)	436 (1.3)	464 (1.4)	-14	-3.1	28	6.4
6. Other Assets	676 (1.8)	1,453 (4.4)	2,398 (7.1)	777	114.9	945	65.0

Note : 1. Number of reporting companies declined to 777 companies in 2004 from 875 during 2003.
2. Figures in parentheses are percentages to total liabilities/assets.

Table V.17: Major Components of Liabilities of NBFCs – Group-wise

(Amount in Rs. crore)

NBFC Group	As at end-March								
	Liabilities			Deposits			Borrowings		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
1	2	3	4	5	6	7	8	9	10
Equipment Leasing	7,996	3,744	4,721	511	344	343	6,472	2,811	3,112
	(21.2)	(11.4)	(14.0)	(10.1)	(8.0)	(9.4)	(26.4)	(13.5)	(14.2)
Hire Purchase	22,163	19,929	20,039	3,539	2,963	2,315	13,650	12,141	13,008
	(58.8)	(60.8)	(59.2)	(70.3)	(68.6)	(63.5)	(55.8)	(58.2)	(59.6)
Investment	2,208	2,422	1,890	125	106	93	1,613	1,718	1,092
	(5.9)	(7.4)	(5.6)	(2.5)	(2.5)	(2.6)	(6.6)	(8.2)	(5.0)
Loan	4,109	5,485	5,319	177	178	157	2,600	3,775	3,679
	(10.9)	(16.7)	(15.7)	(3.5)	(4.1)	(4.3)	(10.6)	(18.1)	(16.9)
Others	1,233	1,173	1,874	683	727	738	145	407	950
	(3.3)	(3.6)	(5.5)	(13.6)	(16.8)	(20.2)	(0.6)	(2.0)	(4.3)
Total	**37,709**	**32,754**	**33,843**	**5,035**	**4,317**	**3,646**	**24,480**	**20,852**	**21,842**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

Note: Figures in parentheses represent percentage share in total.

Deposits

Profile of Public Deposits of Different Categories of NBFCs

5.56 Public deposits held by all NBFCs declined significantly during the year ended March 2004 (14.2 per cent) as well as March 2005 (15.6 per cent). Significantly, public deposits by all NBFC groups declined in both the years, except loan companies, which increased marginally during 2003-04 and 'other' companies, which increased during 2003-04 and 2004-05. Hire purchase companies held the largest share of public deposits (63.5 per cent), followed remotely by equipment leasing companies, loan companies and investment companies (Table V.18).

Deposit Size-wise Classification of NBFCs

5.57 The number of NBFCs and deposits held by them in all categories of deposit size declined during the year ended March 2004 as well as March 2005, barring NBFCs in the deposit size of 'Rs.10 crore to Rs.20 crore', deposit in respect of which increased marginally during 2004-05 and

Table V.18: Public Deposits held by NBFCs – Group-wise

(Amount in Rs. crore)

Nature of Business	As at end-March						Percentage Variation	
	Number of NBFCs			Public Deposits				
	2003	2004	2005	2003	2004	2005	2004	2005
1	2	3	4	5	6	7	8	9
1. Equipment Leasing	58	46	38	511	344	343	-32.7	-0.3
				(10.1)	(8.0)	(9.4)		
2. Hire Purchase	439	396	316	3,539	2,963	2,315	-16.3	-21.9
				(70.3)	(68.6)	(63.5)		
3. Investment	19	11	5	125	106	93	-15.2	-12.3
				(2.5)	(2.5)	(2.6)		
4. Loan	122	87	54	177	178	157	0.6	-11.8
				(3.5)	(4.1)	(4.3)		
5. Others*	232	234	157	683	727	738	6.4	1.5
				(13.6)	(16.8)	(20.2)		
Total	**870**	**774**	**570**	**5,035**	**4,318**	**3,646**	**-14.2**	**-15.6**
				(100.0)	**(100.0)**	**(100.0)**		

* : Including Miscellaneous Non-Banking Companies, unregistered and unnotified *Nidhis*.
Note: Figures in parentheses indicate percentages to total.