

Table VI.17: Public Deposits held by NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification	As at end-March				Percentage Variations 2007-08
	Number of NBFCs		Public Deposits		
	2007	2008 P	2007	2008 P	
1	2	3	4	5	6
Asset Finance	72	178	186 (8.9)	1,156 (56.7)	522.4
Equipment Leasing	28	14	43 (2.1)	8 (0.4)	-81.8
Hire Purchase	240	78	1,683 (81.0)	533 (26.2)	-68.3
Investment	3	1	45 (2.2)	19 (0.9)	-58.1
Loan	29	62	117 (5.6)	321 (15.8)	174.3
MNBC	1	-	2 (0.1)	- (0.0)	-
Total	373	333	2,077	2,038	-1.9

- : Nil/Negligible. P : Provisional.
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are percentages to respective totals.
Source : Annual Returns.

crore and up to Rs.10 crore' and 'Rs.50 crore and above'. Significantly, the share of the deposit class 'Rs.50 crore and above' in total deposits was 82 per cent, while that of other deposit classes combined together was only about 18 per cent of total public deposits of the NBFC sector.

Region-wise Composition of Deposits held by NBFCs

6.56 Following the trend of the previous year, deposits held by NBFCs across all the regions declined during 2007-08 (Table VI.19). As in the previous year, the southern region accounted for the largest share of

Table VI.18: Range of Deposits held by NBFCs-D

(Amount in Rs. crore)

Deposit Range	As at end-March			
	No. of NBFCs		Amount of Deposit	
	2007	2008 P	2007	2008 P
1	2	3	4	5
1. Less than Rs.0.5 crore	226	205	31 (1.5)	27 (1.3)
2. More than Rs.0.5 crore and up to Rs.2 crore	92	80	86 (4.1)	76 (3.7)
3. More than Rs.2 crore and up to Rs.10 crore	36	35	161 (7.7)	174 (8.5)
4. More than Rs.10 crore and up to Rs.20 crore	7	4	93 (4.5)	61 (3.0)
5. More than Rs.20 crore and up to Rs.50 crore	5	1	177 (8.5)	29 (1.4)
6. Rs.50 crore and above	7	8	1,529 (73.6)	1,671 (82.0)
Total	373	333	2,077	2,038

P : Provisional.
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are percentages to respective totals.
Source: Annual Returns.

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

(Amount in Rs.crore)

Region	As at end-March			
	2007		2008 P	
	Number	Amount	Number	Amount
1	2	3	4	5
1. Central	59	27 (1.3)	51	23 (1.1)
2. Eastern	9	28 (1.3)	8	16 (0.8)
3. North-Eastern	1	0 (0.0)	0	0 (0.0)
4. Northern	196	289 (13.9)	181	285 (14.0)
5. Southern	85	1,647 (79.3)	70	1,630 (80.0)
6. Western	23	86 (4.2)	23	84 (4.1)
Total (1 to 6)	373	2,077	333	2,038
<i>Memo</i>				
<i>Metropolitan cities:</i>				
1. Kolkata	6	21	5	13
2. Chennai	47	1,541	36	1,564
3. Mumbai	10	78	10	76
4. New Delhi	68	219	64	205
Total (1 to 4)	131	1,859	115	1,857
P : Provisional.				
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.				
2) Figures in parentheses are percentages to respective totals.				
Source : Annual Returns.				

deposits (80 per cent), followed by the northern region (14 per cent) and the western region (4.1 per cent). The presence of NBFCs in the north-eastern region continued to be nil during the year. Among the metropolitan cities, Chennai continued to hold the largest share of deposits, while New Delhi continued to account for the largest number of NBFCs.

Interest Rate on Public Deposits with NBFCs

6.57 The share of deposits contracted by NBFCs in the interest rates up to 10 per cent declined (from 88.5 per cent to 73.1 per cent), while those contracted in the bracket 'more than 10 per cent and up to 12 per cent' witnessed a sharp rise (from 9.7 per cent to 25.4 per cent), partly reflecting the hardening of interest rates during the year (Table VI.20).

**Table VI.20: Distribution of Public Deposits of
NBFCs-D According to Rate of Interest**

(Amount in Rs.crore)

Deposit Interest Rate Range	As at end-March	
	2007	2008 P
1	2	3
Up to 10 per cent	1,839 (88.5)	1,489 (73.1)
More than 10 per cent and up to 12 per cent	202 (9.7)	517 (25.4)
12 per cent and above	36 (1.7)	32 (1.5)
Total	2,077	2,038
P : Provisional.		
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.		
2) Figures in parentheses are percentages to respective totals.		
Source : Annual Returns.		

Maturity Pattern of Public Deposits

6.58 Deposits with the maturity period of 'less than 1 year', 'more than 3 years and up to 5 years' and '5 years and above' declined during the year. Deposits in the maturity bucket of 'more than 1 years and up to 2 years' increased marginally, while deposits in the maturity bucket of 'more than 2 years and up to 3 years' increased significantly at end-March 2008. As a result, their share in total deposits increased (Table VI.21).

Borrowings by NBFCs

6.59 The outstanding borrowings by NBFCs increased by 55.3 per cent during 2007-08 (Table VI.22). Borrowings by equipment

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

(Amount in Rs.crore)

Maturity Period	As at end-March	
	2007	2008 P
1	2	3
1. Less than 1 year	724 (34.9)	609 (29.9)
2. More than 1 and up to 2 years	477 (23.0)	480 (23.6)
3. More than 2 and up to 3 years	561 (27.0)	653 (32.0)
4. More than 3 and up to 5 years	234 (11.3)	229 (11.3)
5. 5 years and above	80 (3.8)	66 (3.3)
Total	2,077	2,038
P : Provisional		
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'		
2) Figures in parentheses are percentages to respective totals.		
Source : Annual Returns.		

Table VI.22: Borrowings by NBFCs-D -Group-wise

(Amount in Rs.crore)

NBFC Classification	As at end-March				Percentage Variations 2007-08
	Number of NBFCs		Total Borrowings		
	2007	2008 P	2007	2008 P	
1	2	3	4	5	6
Asset Finance	72	178	19,091 (58.8)	32,461 (64.4)	70.0
Equipment Leasing	28	14	128 (0.4)	69 (0.1)	-46.3
Hire Purchase	240	78	10,683 (32.9)	3,516 (7.0)	-67.1
Investment Company	3	1	133 (0.4)	358 (0.7)	168.9
Loan Company	29	62	2,417 (7.4)	13,980 (27.7)	478.3
MNBC	1	0	-	-	-
Total	373	333	32,452	50,384	55.3

P : Provisional

Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'
2) Figures in parentheses are percentages to respective totals.

Source: Annual Returns.

leasing and hire purchase companies declined, while those by loan companies, investment companies and asset finance companies increased during the year partly reflecting the reclassification of NBFCs. AFCs

continued to hold the largest share (64.4 per cent) of borrowings of all NBFCs, followed by loan companies (27.7 per cent).

6.60 Borrowings by NBFCs from banks and financial institutions and by way of bonds and debentures and 'other sources' (which include miscellaneous factors including *inter alia*, money borrowed from other companies, unsecured loans from directors/ promoters, commercial paper, borrowings from mutual funds and any other type of funds which are not treated as public deposits), increased sharply during 2007-08. This broadly reflected the pattern of borrowings of asset finance companies (Table VI.23). Significantly, the borrowing from Government, which was nil during 2006-07, increased sharply to Rs.2,319 crore during 2007-08 largely due to inclusion of IFCI Ltd. and TFCI Ltd. in this category.

Table VI.23: Sources of Borrowings by NBFCs-D - Group wise

(Amount in Rs. crore)

NBFC Classification	As at end-March									
	Government		External Sources @		Banks and Financial Institutions		Debentures		Others	
	2007	2008 P	2007	2008 P	2007	2008 P	2007	2008 P	2007	2008 P
1	2	3	4	5	6	7	8	9	10	11
Asset Finance	0	0	975	828 (-15.2)	9,148	16,329 (78.5)	5,808	10,216 (75.9)	3159	5,088 (61.1)
Equipment Leasing	0	0	0	0	39	2 (-95.5)	0	0	89	67 (-24.7)
Hire Purchase	0	0	225	0	4,295	501 (-88.3)	1,950	3 (-99.9)	4212	3,012 (-28.5)
Investment	0	72	0	0	0	82	7	0	126	204 (62.3)
Loan	0	2,247	1	627	1,442	1,848 (28.2)	901	1,690 (87.6)	74	7,568
MNBC	0	0	0	0	0	0	0	0	0	0
Total	0	2,319	1,201	1,455 (21.1)	14,925	18,762 (25.7)	8,667	11,909 (37.4)	7,659	15,939 (108.1)

P : Provisional. @ : Comprises (i) foreign Government, (ii) foreign authority, and (iii) foreign citizen or person.

Note : 1. Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.

2. Figures in parentheses are percentage variations over the previous year.

Source : Annual Returns.

Assets of NBFCs

6.61 The sharp increase in assets of deposit-taking NBFCs was mainly on account of increase in assets of asset finance companies and loan companies. Loans and advances as well as investments of NBFCs also increased during the year (Table VI.24). At end-March 2008, 64.1 per cent of assets, 71.2 per cent of total loans and advances and 34.5 per cent of investments by all NBFCs were held by asset finance companies.

Distribution of NBFCs-D According to Asset Size

6.62 The asset size of NBFCs varies significantly from less than Rs.25 lakh to above Rs.500 crore. The asset holding pattern remained skewed in 2007-08, with fifteen NBFCs with asset size of 'above Rs.500 crore' holding 94.9 per cent of total assets of all NBFCs, while the remaining 318

NBFCs held about 5.1 per cent of total assets at end-March 2008 (Table VI.25).

Distribution of Assets of NBFCs - Type of Activity

6.63 While assets held in the form of equipment and leasing witnessed a sharp decline during 2007-08, assets in the form of loans and inter-corporate deposits as also other assets witnessed a sharp growth. Assets in the form of loans and bills, which had witnessed a decline during 2006-07, increased sharply by 39.8 per cent. Assets held in the hire purchase activity as well as investment activity, however witnessed a deceleration. The hire purchase activity continued to constitute the largest share (46.7 per cent) in total assets, followed by loans and inter-corporate deposits (28.3 per cent) and investments (16.4 per cent) (Table VI.26).

Table VI.24: Major Components of Assets of NBFCs-D -Group -wise

Classification	(Amount in Rs.crore)					
	Assets		Advances		Investment	
	2007	2008 P	2007	2008 P	2007	2008 P
1	2	3	4	5	6	7
Asset Finance	24,718 (50.9)	45,071 (64.1)	20,882 (54.0)	38,341 (71.2)	2,413 (32.6)	3,964 (34.5)
Equipment Leasing	325 (0.7)	156 (0.2)	252 (0.7)	85 (0.2)	56 (0.8)	47 (0.4)
Hire Purchase	17,376 (35.8)	5,302 (7.5)	14,781 (38.2)	4,953 (9.2)	1,743 (23.5)	238 (2.1)
Investment	1,633 (3.4)	402 (0.6)	498 (1.3)	146 (0.3)	1,110 (15.0)	256 (2.2)
Loan	4,499 (9.3)	19,362 (27.5)	2,240 (5.8)	10,348 (19.2)	2,089 (28.2)	6,995 (60.8)
MNBCC	2 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Total	48,554	70,292	38,653	53,873	7,412	11,500

P: Provisional.

Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'

2) Figures in parentheses are percentages to respective totals.

Source : Annual Returns.

Table VI.25: NBFCs-D According to Asset Size

Asset Size	(Amount in Rs.crore)			
	As at end-March			
	No. of Reporting Companies		Assets	
	2007	2008 P	2007	2008 P
1	2	3	4	5
1. Less than 0.25 crore	8	38	1 (0.0)	4 (0.0)
2. More than 0.25 crore and up to 0.50 crore	27	27	11 (0.0)	10 (0.0)
3. More than 0.50 crore and up to 2 crore	163	114	185 (0.4)	127 (0.2)
4. More than 2 crore and up to 10 crore	102	86	435 (0.9)	361 (0.5)
5. More than 10 crore and up to 50 crore	45	37	1,073 (2.2)	764 (1.1)
6. More than 50 crore and up to 100 crore	5	9	339 (0.7)	558 (0.8)
7. More than 100 crore and up to 500 crore	8	7	1,386 (2.9)	1,729 (2.5)
8. Above 500 crore	15	15	45,125 (92.9)	66,739 (94.9)
Total	373	333	48,554	70,292

P : Provisional.
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd' .
 2) Figures in parentheses are percentages to respective totals.
Source : Annual Returns.

Financial Performance of NBFCs

6.64 Financial performance of NBFCs continued to improve during 2007-08. Both fund based income (79.8 per cent) and fee based income (56.6 per cent) increased sharply. As a result, even though expenditure witnessed an increase of 45.4 per cent, operating profits increased by 263.2 per cent and net profits by 298.3 per cent. The cost to income ratio declined sharply (to 68.5 per cent in 2007-08 from 84.4 per cent in 2006-07) (Table VI.27).

6.65 Out of the total cost incurred by NBFCs, the non-interest cost continued to constitute the largest share (94.5 per cent in 2007-08 as compared with 89.5 per cent in 2006-07). The interest cost constituted a smaller share of the total cost (Table VI. 28).

6.66 While income as percentage of assets increased, expenditure (including provisions)

as percentage of assets declined sharply, resulting in a rise in the net profits to asset ratio (Chart VI.3).

Table VI.26: Distribution of Assets of NBFCs-D Activity-wise

Activity	(Amount in Rs. crore)			
	As at end-March		Percentage Variations	
	2007	2008 P	2006-07	2007-08
1	2	3	4	5
Loans and Inter-corporate Deposits	11,059 (22.8)	19,921 (28.3)	3.5	80.1
Investments	7,412 (15.3)	11,500 (16.4)	71.3	55.2
Hire Purchase	26,222 (54.0)	32,842 (46.7)	31.1	25.2
Equipment and Leasing	740 (1.5)	411 (0.6)	20.0	-44.5
Bills	7 (0.0)	10 (0.0)	-83.1	39.8
Other assets	3,113 (6.4)	5,607 (8.0)	45.0	80.2
Total	48,554	70,292	28.4	44.8

P: Provisional.
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
 2) Figures in parentheses are percentages to respective totals.
Source : Annual Returns.

Table VI.27: Financial Performance of NBFCs-D

(Amount in Rs. crore)

Indicator	As at end-March		Percentage Variations	
	2007	2008 P	2006-07	2007-08 P
1	2	3	4	5
A. Income (i+ii)	5,721	10,255	24.4	79.3
(i) Fund Based	5,590	10,051	25.5	79.8
	(97.7)	(98.0)		
(ii) Fee-Based	131	204	-11.2	56.6
	(2.3)	(2.0)		
B. Expenditure (i+ii+iii)	4,831	7,023	28.7	45.4
(i) Financial	2,765	4,696	29.0	69.8
	(57.2)	(66.9)		
<i>of which</i>				
Interest Payment	508	385	-6.1	-24.1
(ii) Operating	1,261	2,167	33.4	71.9
	(26.1)	(30.9)		
(iii) Others	804	160	21.1	-80.1
	(16.6)	(2.3)		
C. Tax Provisions	385	1,223	32.5	217.3
D. Operating Profit (PBT)	890	3,232	5.1	263.2
E. Net Profit (PAT)	504	2,009	-9.3	298.3
F. Total Assets	48,554	70,292	28.4	44.8
G. Financial Ratios				
(as percentage of total assets)				
i) Income	11.8	14.6		
ii) Fund Income	11.5	14.3		
iii) Fee Income	0.3	0.3		
iv) Expenditure	9.9	10.0		
v) Financial Expenditure	5.7	6.7		
vi) Operating Expenditure	2.6	3.1		
vii) Tax Provision	0.8	1.7		
viii) Net Profit	1.0	2.9		
H. Cost to Income Ratio	84.4	68.5		

P : Provisional.

Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.

2) Figures in parentheses are percentages to respective totals.

Source : Annual Returns.

Soundness Indicators

Asset Quality of NBFCs-D

6.67 Continuing the trend witnessed during the last few years, gross NPAs as well as net NPAs (as percentage of gross advances and net

Table VI.28: Interest Cost of NBFCs-D

(Amount in Rs. crore)

End-March	Total Income	Total Cost	Interest Cost	Non-Interest Cost
1	2	3	4	5
2006-07	5,721	4,831	508	4,323
2007-08 P	10,255	7,023	385	6,638

P: Provisional.

Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.

2) Figures in parentheses are percentages to respective totals.

Source : Annual Returns.

Chart VI.3: Financial Performance of NBFCs


advances, respectively) of reporting NBFCs declined further during the year ended March 2008 (Table VI.29).

6.68 Gross NPAs (as percentage of gross advances) of equipment leasing and hire purchase companies increased during 2007-08, due to reclassification of NBFCs, while those of asset finance companies and loan companies declined. Net NPAs (as percentage of net advances) increased marginally in case of asset finance companies, hire purchase companies and investment companies, while those of equipment leasing companies, and loan companies improved further (Table VI.30).

Table VI.29: NPA Ratios of NBFCs-D

(Per cent)

End-March	Gross NPAs to Gross Advances	Net NPAs to Net Advances
1	2	3
2001	11.5	5.6
2002	10.6	3.9
2003	8.8	2.7
2004	8.2	2.4
2005	5.7	2.5
2006	3.6	0.5
2007	2.2	0.2
2008 P	1.5	-8.7

P: Provisional.

Note : Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.

Source : Half-Yearly Returns.

Table VI.30: NPAs of NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification/ End-March	Gross Advances	Gross NPAs			Net Advances	Net NPAs		
		Amount	Percent to Gross Advances	Percent to Assets		Amount	Percent to Net Advances	Percent to Advances
1	2	3	4	5	6	7	8	9
Asset Finance								
2007	11,824	262	2.2	2.2	11,548	-14	-0.1	-0.1
2008 P	37,254	656	1.8	1.7	36,626	28	0.1	0.1
Equipment Leasing								
2001	4,118	304	7.4	6.1	3,826	12	0.3	0.2
2002	1,625	646	39.7	28.0	1,330	351	26.3	15.2
2003	5,969	932	15.6	11.1	5,506	469	8.5	5.6
2004	3,306	582	17.6	13.3	3,067	344	11.2	7.8
2005	4,187	514	12.3	11.0	4,018	345	8.6	7.4
2006	2,878	69	2.4	2.2	2,786	-23	-0.8	-0.7
2007	1,057	45	4.2	4.0	992	-20	-1.9	-1.8
2008 P	26	6	24.3	7.2	-10	-29	-114.9	-34.2
Hire Purchase								
2001	8,296	1,324	16.0	12.3	7,604	631	8.3	5.9
2002	6,825	1,167	17.1	14.8	6,068	410	6.8	5.2
2003	16,489	1,288	7.8	6.8	15,305	104	0.7	0.5
2004	10,437	942	9.0	7.3	9,748	253	2.6	2.0
2005	15,900	610	3.8	3.6	15,544	253	1.6	1.5
2006	17,607	444	2.5	2.4	17,238	74	0.4	0.4
2007	18,280	464	2.5	2.3	17,884	67	0.4	0.3
2008 P	249	73	29.2	26.0	181	4	1.8	1.6
Investment								
2001	232	53	22.9	5.1	223	45	20.0	4.3
2002	149	2	1.6	0.1	147	1	0.4	-
2003	93	11	11.9	2.1	90	8	8.9	1.5
2004	63	15	24.2	2.6	55	7	12.7	1.2
2005	58	10	18.0	1.8	58	10	18.0	1.8
2006	59	-	0.4	0.0	59	-	0.4	-
2007	31	1	2.8	0.1	31	1	2.8	0.1
2008 P	-	-	-	-	-	-	-	-
Loan								
2001	7,414	595	8.0	5.9	7,118	299	4.2	3.0
2002	3,986	549	13.8	10.1	3,615	177	4.9	3.3
2003	2,707	144	5.3	4.8	2,503	-60	-2.4	-2.0
2004	2,038	142	7.0	4.1	1,833	-63	-3.4	-1.8
2005	1,955	117	6.0	5.1	1,772	-65	-3.7	-2.8
2006	690	252	36.5	19.3	483	45	9.3	3.4
2007	7,594	124	1.6	5.9	7,463	-6	-0.1	-0.3
2008 P	16,487	34	0.2	0.2	11,007	-5,447	-33.0	-27.7

- : Nil/Negligible.

P: Provisional.

Note : Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.**Source** : Half-Yearly Returns.

6.69 Asset quality of various types of NBFCs as reflected in various categories of NPAs (sub-standard, doubtful and loss) remained broadly at the previous year's level. The sharp increase in the standard assets of asset finance companies and the corresponding sharp decline in the case of equipment leasing companies and hire purchase companies was mainly due to the reclassification of NBFCs (Table VI.31).

Capital Adequacy Ratio

6.70 Capital to risk-weighted assets ratio (CRAR) norms were made applicable to NBFCs in 1998, in terms of which every deposit-taking NBFC is required to maintain a minimum capital, consisting of Tier-I and Tier-II capital, of not less than 12 per cent (15 per cent in the case of unrated deposit-taking loan/investment companies) of its aggregate risk-weighted assets and of risk-adjusted value of off-balance sheet items. Total of Tier-II

Table VI.31: Classification of Assets of NBFCs-D - Group-wise

(Amount in Rs. crore)

Classification/ End-March	Standard Assets	Sub- Standard Assets	Doubtful Assets	Loss Assets	Gross NPAs	Credit Exposure
1	2	3	4	5	6	7
Asset Finance						
2007	11,562 (97.8)	242 (2.1)	17 (0.1)	3 -	262 (2.2)	11,824
2008 P	36,599 (98.2)	586 (1.6)	41 (0.1)	29 (0.1)	656 (1.8)	37,254
Equipment Leasing						
2005	3,673 (87.7)	383 (9.1)	91 (2.2)	39 (0.9)	514 (12.3)	4,187
2006	2,809 (97.6)	12 (0.4)	21 (0.7)	36 (1.2)	69 (2.4)	2,878
2007	1,013 (95.8)	4 (0.4)	2 (0.2)	38 (3.6)	45 (4.3)	1,057
2008 P	19 (75.7)	1 (4.7)	1 (4.5)	4 (15.0)	6 (24.3)	26
Hire Purchase						
2005	15,290 (96.2)	386 (2.4)	130 (0.8)	94 (0.6)	610 (3.8)	15,900
2006	17,163 (97.5)	184 (1.0)	47 (0.3)	212 (1.2)	444 (2.5)	17,607
2007	17,817 (97.5)	194 (1.1)	81 (0.4)	188 (1.0)	464 (2.5)	18,280
2008 P	177 (70.8)	8 (3.0)	7 (3.0)	58 (23.2)	73 (29.2)	249
Investment						
2005	48 (82.8)	1 (1.7)	10 (17.2)	-	10 (17.2)	58
2006	59 (99.6)	-	-	-	- (0.4)	59
2007	31 (97.2)	1 (2.8)	-	-	1 (2.8)	31
2008 P	-	-	-	-	-	-
Loan						
2005	1,837 (94.0)	14 (0.7)	42 (2.1)	61 (3.1)	117 (6.0)	1,955
2006	438 (63.5)	19 (2.7)	99 (14.3)	134 (19.4)	252 (36.5)	690
2007	7,470 (98.4)	9 (0.1)	91 (1.2)	24 (0.3)	124 (1.6)	7,594
2008 P	16,454 (99.8)	21 (0.1)	11 (0.1)	2 -	34 (0.2)	16,487

- : Nil/Negligible.

P: Provisional

Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.

2) Figures in parentheses are percentages to credit exposures.

Source : Half-Yearly Returns

capital, at any point of time, cannot exceed 100 per cent of Tier-I capital. The number of NBFCs with less than the minimum regulatory CRAR of 12 per cent increased to 44 at end-March 2008 from 20 at end-March 2007 (Table VI.32). At end-March 2008, 276 out of 320 NBFCs had CRAR of 12 per cent or more as against 354 out of 374 NBFCs at end-March 2007. The number of NBFCs with CRAR more than 30 also declined to 238 at end-March 2008 from 305 at end-March

2007. Notwithstanding this, it is noteworthy that the NBFC sector is witnessing a consolidation process in the last few years, wherein the weaker NBFCs are gradually exiting, paving the way for a stronger NBFC sector.

6.71 Net owned fund (NOF) of NBFCs is the aggregate of paid-up capital and free reserves, netted by (i) the amount of accumulated losses; and (ii) deferred revenue expenditure and other intangible assets, if any, and

Table VI.32: Capital Adequacy Ratio of NBFCs-D

(per cent)

CRAR Range	As at end-March									
	2007					2008 P				
	AFC	EL	HP	LC/ IC	Total	AFC	EL	HP	LC/ IC	Total
1	2	3	4	5	6	7	8	9	10	11
1) Less than 12 per cent (a+b)	0	4	13	3	20	20	4	12	8	44
a) Less than 9 per cent	0	4	13	3	20	20	4	12	7	43
b) More than 9 and up to 12 per cent	0	0	0	0	0	0	0	0	1	1
2) More than 12 and up to 15 per cent	2	0	2	0	4	3	0	0	1	4
3) More than 15 and up to 20 per cent	3	1	7	1	12	5	0	0	1	6
4) More than 20 and up to 30 per cent	2	2	23	6	33	24	0	1	3	28
5) Above 30 per cent	44	22	217	22	305	115	10	70	43	238
Total	51	29	262	32	374	167	14	83	56	320

P: Provisional.

Note : AFC: Asset Finance Companies; EL: Equipment Leasing Companies; HP: Hire Purchase Companies; LC/IC = Loan Companies/Investment Companies.**Source** : Half-yearly Returns.

adjusted by investments in shares, and loans and advances to (a) subsidiaries, (b) companies in the same group, and (c) other NBFCs (in excess of 10 per cent of owned fund). Information about NOF can complement the information on CRAR. The ratio of public deposits to NOF in the case of loan companies and MNBCs declined during the year ended March 2008, while that of

other category companies witnessed a marginal increase. The ratio of equipment leasing companies continued to be negative because of negative net owned funds, although there was some moderation. The ratio of public deposit to NOF for all categories of NBFCs taken together was 0.2 per cent at end-March 2008 as compared with 0.3 per cent at end-March 2007 (Table VI.33).

Table VI.33 Net Owned Fund vis-à-vis Public Deposits of NBFCs-D

(Amount in Rs.crore)

Classification	As at end-March			
	Net Owned Fund		Public Deposits	
	2007	2008 P	2007	2008 P
1	2	3	4	5
1. Asset Finance	2,673	6,452	186 (0.1)	1,156 (0.2)
2. Equipment Leasing	-15	-42	43 (-2.9)	8 (-0.2)
3. Hire Purchase	3,004	675	1,683 (0.6)	533 (0.8)
4. Investment	822	83	45 (0.1)	19 (0.2)
5. Loan	437	3,379	117 (0.3)	321 (0.1)
6. MNBC	0	0	2 (6.6)	0 (0.0)
Total	6,921	10,546	2,077 (0.3)	2,038 (0.2)

P: Provisional

Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.

2) Figures in parentheses are ratio of public deposits to net owned fund.

Source : Annual Returns.

6.72 Net owned funds of NBFCs range from less than Rs.25 lakh to above Rs.500 crore. Public deposits, as ratio of NOF, held by NBFCs in the category of NOF of 'more than Rs.2 crore and up to Rs.10 crore', 'more than Rs.50 crore and upto Rs.100 crore' and 'above Rs.500 crore' remained constant, while those by NBFCs in all other ranges of NOF generally declined except in the case of the category 'more than Rs.100 crore and upto Rs.500 crore' (Table VI.34).

Residuary Non-Banking Companies (RNBCs)

6.73 Assets of the RNBCs increased by 5.5 per cent during the year ended March 2008. Their assets in the form of unencumbered approved securities declined, while those in bonds/debentures and fixed deposits/certificates of deposit of SCBs registered an increase. Net owned funds of RNBCs

increased by 25.5 per cent during 2007-08 on top of the rise of 15.5 per cent witnessed during 2006-07 (Table VI.35).

6.74 In continuation of the trend witnessed in 2006-07, the increase in income of RNBCs during 2007-08 was more than the increase in expenditure, as a result of which the operating profit of RNBCs increased sharply. Even though the provision for taxation also registered a sharp rise, the net profit of RNBCs increased by 86.9 per cent during 2007-08 as compared with 27.5 per cent during 2006-07.

Regional Pattern of Deposits of RNBCs

6.75 Of the two RNBCs, one is based in the Eastern region (Kolkata) and the other in the Central region. The public deposits held by RNBCs in both the Eastern region and Central region registered a marginal decline. Of the four metropolitan cities, RNBCs held public deposits only in one metropolitan city, i.e., Kolkata (Table VI.36).

Table VI.34: Range of Net Owned Funds vis-à-vis Public Deposits of NBFCs-D

(Amount in Rs.crore)

Ranges of Net Owned Fund	As at end-March					
	2006-07			2007-08 P		
	No. of Companies	Net Owned Fund	Public Deposits	No. of Companies	Net Owned Fund	Public Deposits
1	2	3	4	5	6	7
1. Up to Rs.0.25 crore	18	-442	173 (-0.4)	8	-229	137 (-0.6)
2. More than Rs.0.25 crore and up to Rs.2 crore	255	181	101 (0.6)	227	163	88 (0.5)
3. More than Rs.2 crore and up to Rs.10 crore	63	287	129 (0.5)	60	258	135 (0.5)
4. More than Rs.10 crore and up to Rs.50 crore	22	498	275 (0.6)	21	440	145 (0.3)
5. More than Rs.50 crore and up to Rs.100 crore	2	125	45 (0.4)	3	226	91 (0.4)
6. More than Rs.100 crore and up to Rs.500 crore	7	1540	683 (0.4)	7	1496	677 (0.5)
7. Above Rs.500 crore	6	4733	671 (0.1)	7	8192	765 (0.1)
Total	373	6,921	2,077 (0.3)	333	10,546	2,038 (0.2)

P: Provisional.

Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.

2) Figures in parentheses are ratio of public deposit to the respective net owned fund.

Source : Annual Returns.

Table VI.35: Profile of RNBCs

(Amount in Rs.crore)

Item	As at end-March		Percentage Variation	
	2007	2008 P	2006-07	2007-08 P
1	2	3	4	5
A. Assets (i to v)	23,172	24,452	5.9	5.5
(i) Investment in Unencumbered Approved Securities	3,317	3,137	41.4	-5.4
(ii) Investment in Fixed deposits/Certificates of Deposit of Scheduled Commercial Banks/Public Financial Institutions	5,604	6,562	-8.0	17.1
(iii) Debentures/Bonds/Commercial Papers of Govt. Companies/Public Sector Banks/Public Financial Institution/Corporation	11,700	12,320	22.2	5.3
(iv) Other investments	1,156	573	-30.2	-50.4
(v) Other Assets	1,394	1,860	-37.2	33.5
B. Net Owned Funds	1,366	1,714	15.5	25.5
C. Total Income (i+ii)	1,893	2,325	16.9	22.8
(i) Fund Income	1,886	2,303	16.7	22.1
(ii) Fee Income	8	22	156.7	191.7
D. Total Expenses (i+ii+iii)	1,648	1,725	14.5	4.7
(i) Financial Cost	1,230	1,321	5.5	7.5
(ii) Operating Cost	284	329	78.8	15.5
(iii) Other cost	134	75	17.4	-44.1
E. Taxation	44	224	101.1	406.8
F. Operating Profit (PBT)	246	601	36.5	144.5
G. Net profit (PAT)	201	377	27.5	86.9

P : Provisional

Note : PBT - Profit Before Tax; PAT - Profit After Tax**Source** : Annual Returns.*Investment Pattern of RNBCs*

6.76 The investment pattern of RNBCs as prescribed in the Residuary Non-Banking (Reserve Bank) Directions, 1987 was reviewed

Table VI.36: Public Deposits Held by RNBCs - Region-wise

(Amount in Rs.crore)

Region	As at end-March			
	2006-07		2007-08 P	
	No of RNBCs	Amount	No of RNBCs	Amount
1	2	3	4	5
1. Central	1	18,108 (80.0)	1	18,056 (80.8)
2. Eastern	2	4,515 (20.0)	1	4,302 (19.2)
3. North-Eastern	-	-	-	-
4. Northern	-	-	-	-
5. Southern	-	-	-	-
6. Western	-	-	-	-
Total (1 to 6)	3	22,622	2	22,358
Metropolitan Cities:				
1. Chennai	-	-	-	-
2. Kolkata	2	4,515	1	4,302
3. Mumbai	-	-	-	-
4. New Delhi	-	-	-	-
Total (1 to 4)	2	4,515	1	4,302

-: Nil/Negligible; P: Provisional.

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

and modified on March 31, 2006. The aggregate liability to depositor (ALD) was bifurcated under two heads, viz., aggregate liability to depositor (ALD) as on December 31, 2005 and incremental ALDs. Incremental ALDs are the liabilities to the depositors exceeding the aggregate amount of the liabilities to the depositors as on December 31, 2005. RNBCs were advised to invest, with effect from April 1, 2006, not less than 95 per cent of the ALD as on December 31, 2005 and the entire incremental ALD in the prescribed manner. RNBCs were also advised that on and from April 1, 2007, the entire amount of ALD would be invested in directed investments only and no discretionary investment would be allowed to be made by them.

6.77 Aggregate liability to depositor (ALD) declined marginally by 1.7 per cent during 2007-08. While fixed deposits with banks and bonds and debentures increased, unencumbered approved securities and other investments registered a decline (Table VI.37).

Table VI.37: Investment Pattern of RNBCs

(Amount in Rs.crore)

Item	End- March	
	2006-07	2007-08 P
1	2	3
Aggregated Liabilities to the Depositors (ALD)	22,622	22,358
(i) Unencumbered Approved Securities	3,317	3,137
	(14.7)	(14.0)
(ii) Fixed Deposits with Banks	5,604	6,562
	(24.8)	(29.3)
(iii) Bonds or debentures or commercial papers of a Govt. company/ public sector bank/ public financial institution/ corporations	11,700	12,320
	(51.7)	(55.1)
(iv) Other investments	1,156	573
	(5.1)	(2.6)

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

Non-Deposit Taking Systemically Important Non-Banking Finance Companies (NBFCs - ND - SI)

6.78 Information based on the returns received from non-deposit taking systemically important NBFCs (with asset size of Rs.100 crore and above) for the year ended March 2008 showed an increase of 28.6 per cent in their liabilities/assets over the year ended March 2007. Unsecured loans continued to constitute the single largest source of funds for NBFCs-ND-SI, followed by secured loans and reserves and surplus (Table VI.38).

Borrowings

6.79 Total borrowings (secured and unsecured) by NBFCs-ND-SI increased by 28.0 per cent to Rs.2,71,288 crore during the year ended March 2008, constituting 66.4 per cent of their total liabilities. During the quarter ended June 2008, the total borrowings increased further by 3.0 per cent to Rs.2,79,491 crore (Table VI.39).

Application of Funds

6.80 The pattern of application of funds by NBFCs-ND-SI during the year ended March

Table VI.38: Liabilities of NBFCs-ND-SI

(Amount in Rs.crore)

Items	As at end		
	March 2007	March 2008	June 2008
1	2	3	4
Total Liabilities	3,17,898	4,08,705	4,23,083
<i>of which:</i>			
a) Paid up Capital	18,904	24,490	27,217
	(5.9)	(6.0)	(6.4)
b) Preference Shares	2,192	4,573	4,845
	(0.7)	(1.1)	(1.1)
c) Reserve & Surplus	52,090	81,055	78,467
	(16.4)	(19.8)	(18.5)
d) Secured Loans	93,765	1,21,082	1,23,764
	(29.5)	(29.6)	(29.3)
e) Unsecured Loans	1,18,221	1,50,206	1,55,727
	(37.2)	(36.8)	(36.8)

Note : Figures in parentheses are percentages to Total Liabilities.
Source : Monthly return by NBFCs-ND-SI.

Table VI.39: Borrowings by NBFCs-ND-SI

(Amount in Rs crore)

Items	As at end		
	March 2007	March 2008	June 2008
1	2	3	4
A Secured Borrowings (i to vi)	93,765	1,21,082	1,23,764
	(44.2)	(44.6)	(44.3)
i. Secured Debentures	32,564	44,439	44,809
	(15.4)	(16.4)	(16.0)
ii. Deferred Credit	0	0	0
	(0.0)	(0.0)	(0.0)
iii. Term Loan from Banks	19,503	25,774	27,795
	(9.2)	(9.5)	(9.9)
iv. Term Loan from FIs	5,030	5,988	5,757
	(2.4)	(2.2)	(2.1)
v. Others	35,745	42,864	42,608
	(16.9)	(15.8)	(15.2)
vi. Interest accrued	923	2,017	2,795
	(0.4)	(0.7)	(1.0)
B Unsecured borrowings(i to viii)	1,18,221	1,50,206	1,55,727
	(55.8)	(55.4)	(55.7)
i. Loans from Relatives	1,621	1,822	1,390
	(0.8)	(0.7)	(0.5)
ii. ICDs	20,018	22,019	20,610
	(9.4)	(8.1)	(7.4)
iii. Loans from Banks	33,191	46,243	45,946
	(15.7)	(17.0)	(16.4)
iv. Loans from FIs	4,218	2,956	4,030
	(2.0)	(1.1)	(1.4)
v. Commercial Papers	14,031	20,068	21,282
	(6.6)	(7.4)	(7.6)
vi. Unsecured Debentures	30,549	44,432	47,008
	(14.4)	(16.4)	(16.8)
vii. Others	13,786	10,847	13,193
	(6.5)	(4.0)	(4.7)
viii. Loans Interest accrued	807	1,819	2,268
	(0.4)	(0.7)	(0.8)
Total Borrowings	2,11,986	2,71,288	2,79,491
<i>Memo:</i>			
Total Liabilities	3,17,898	4,08,705	4,23,083

Note : Figures in parentheses are percentages to 'Total Borrowings'.

Source : Monthly returns of NBFCs-ND-SI.

2008 remained broadly in line with the pattern witnessed during the previous year. The secured loans continued to constitute the largest share (44.7 per cent), followed by unsecured loans with a share of 24.8 per cent (Table VI.40).

Financial Performance

6.81 NBFCs-ND-SI earned a profit of Rs.8,705 crore during the year ended March

2008, which was higher by 16.7 per cent as compared with the profit earned during the year ended March 2007 (Rs.7,460 crore) (Table VI.41).

6.82 The gross NPAs to total assets ratio of NBFCs-ND-SI remained unchanged at 2.3 per cent for the year ended March 2008 and also for the quarter ended June 2008. The net NPAs to total assets ratio increased from 1.5

Table VI.40: Select Indicators on Application of Funds by NBFCs-ND-SI

(Amount in Rs.crore)

Items	As at end		
	March 2007	March 2008	June 2008
1	2	3	4
Secured Loan	1,14,898 (41.5)	1,60,017 (44.7)	1,67,767 (44.0)
Unsecured Loan	69,609 (25.2)	88,783 (24.8)	90,746 (23.8)
Hire Purchase Assets	28,160 (10.2)	29,832 (8.3)	34,693 (9.1)
Long-term Investment	43,309 (15.7)	53,856 (15.0)	57,888 (15.2)
Current Investment	20,671 (7.5)	25,758 (7.2)	29,763 (7.8)
Total	2,76,647	3,58,246	3,80,855
<i>Memo Items:</i>			
Capital Market Exposure	81,435	1,11,630	1,05,111
<i>of which:</i>			
Equity Market	34,196	35,957	35,203
Note : Figures in parentheses are percentages to respective totals.			
Source : Monthly returns of NBFCs-ND-SI.			

per cent as at end March 2007 to 1.6 per cent as at end March 2008, but declined to 1.4 per cent during the quarter ended June 2008 (Table VI.42).

4. Primary Dealers

6.83 In order to strengthen the market infrastructure of Government securities market and make it vibrant, liquid and broad-based, the primary dealers (PDs) system was introduced by Reserve Bank in 1995. The PD system is designed to facilitate Government's market borrowing programme and improve

the secondary market trading system by contributing to price discovery, enhancing liquidity and turnover and encouraging voluntary holding of Government securities amongst a wider investor base. The PD system developed significantly over the years and currently it serves as an effective conduit for conducting open market operations.

6.84 The PD system continued to play a significant role in the Government securities market during the year 2007-08. The number of PDs increased to 19 at end-March 2008 as compared with 17 at the end-March 2007. Of these 19 entities, 10 were banks undertaking PD business departmentally (Bank-PDs) and

Table VI.41: Financial Performance by NBFCs-ND-SI

(Amount in Rs.crore)

Items	Year Ended		Quarter Ended
	March 2007	March 2008	June 2008
1	2	3	4
Total Assets	3,17,898	4,08,705	4,23,083
Total Income @	31,281 (9.8)	39,537 (9.7)	11,564 (2.7)
Total Expenses @	20,552 (6.5)	27,291 (6.7)	8,877 (2.1)
Net Profit @	7,460 (2.3)	8,705 (2.1)	2,150 (0.5)
<i>@: Cumulative</i>			
Note: Figures in parentheses are percentages to Total Assets.			
Source: Monthly returns of NBFCs-ND-SI.			

Table VI.42: Gross and Net NPAs of NBFCs-ND-SI

(Per cent)

Items	As at end		
	March 2007	March 2008	June 2008
1	2	3	4
1 Gross NPAs to Total Assets	2.3	2.3	2.3
2 Net NPAs to Total Assets	1.5	1.6	1.4
3 Gross NPAs to Total Credit Exposure	4.9	3.1	4.5
4 Net NPAs to Net Credit Exposure	1.9	2.0	2.2

Source : Monthly returns of NBFCs-ND-SI.

the remaining nine were stand-alone, non-bank entities. HDFC Bank Limited was authorised to take up PD business with effect from April 2, 2007 and one new stand-alone PD, viz., Lehman Brothers Fixed Income Securities Pvt. Limited (LBFISL), was also authorised to undertake PD business with effect from November 1, 2007. However, following the filing of a petition under Chapter 11 of the US Bankruptcy code by Lehman Brothers Holding Inc. in the US, the Reserve Bank announced certain measures in public interest and in the interest of financial stability. As such, LBFISL was advised not to declare any interim dividend or remit any amount to its holding company or any other group company without prior approval of the Reserve Bank. Further, they were advised not to undertake transactions in Government securities as a PD in the primary market.

6.85 The regulatory guidelines issued in July 2006 prohibited PDs from setting up step-down subsidiaries. Accordingly, PDs that already had step-down subsidiaries (in India and abroad) were required to restructure the ownership pattern of those subsidiaries. The stand-alone PDs complied with these guidelines during the year.

6.86 The Reserve Bank initiated steps to phase out current account facility allowed to the non-bank and non-PD entities. The establishment of Multi Modal Settlements

(MMS) system was a major step in this regard (Box VI.3)

6.87 In recent years, the non-competitive bidding facility has been receiving good response. The Working Group on Auction Process of Government of India Securities (Chairman: H.R. Khan), which submitted its report in March 2008, made several important recommendations regarding the non-competitive bidding facility (Box VI.4).

6.88 The bidding commitment of PDs in the underwriting auction of dated Government of India securities was revised from the earlier stipulation of a minimum of 3 per cent of the notified amount to an amount equal to the minimum underwriting commitment (MUC) with effect from November 22, 2007.

Operations and Performance of PDs

6.89 A significant portion of the market demand for Government securities in the primary market emanates from the PDs. The aggregate bids submitted by the PDs in the auctions of Treasury Bills and dated securities, as reflected in the bid-cover ratio, tended to increase in recent years in tandem with the increase in issuances. The PDs also maintained a dominant share of over 45 per cent in primary auction allotments.

6.90 During 2007-08, cumulative bidding commitments in Treasury Bills auctions were fixed to ensure that PDs bid for the notified

Box VI.3: Multi-Modal Settlement System

Currently, holding a current account and SGL account with the Reserve Bank is mandatory for settlement of Government security transactions by NDS members. However, the medium term objective of the Reserve Bank is to allow current accounts only to banks and primary dealers which necessitates phasing out of current accounts allowed to the non-bank and non-PD entities. To meet this objective, a system of 'multi modal settlements' (MMS) in Government securities market to facilitate the settlement of Government security transactions undertaken by the non-bank and non-PD NDS members was put in place from June 16, 2008. Under this arrangement, the funds leg of the transactions would be settled through the fund accounts maintained by these entities with select commercial banks chosen as 'designated settlement banks' (DSB), while all Government securities related transactions, viz., secondary market, primary market and servicing of

Government securities (interest payments and repayments) for these entities would be carried out through the current account of the DSB with whom the non-bank and non-PD entities open the settlement account. The Reserve Bank would debit/credit the current accounts of the DSBs maintained in Deposit Accounts Department, Reserve Bank and these DSBs would, in turn, debit/credit the accounts maintained by such members with them, as per the agreement between the DSBs and such members. The Clearing Corporation of India Ltd. (CCIL) has appointed three commercial banks, viz., HDFC Bank, Axis Bank and Citibank as the DSBs. To start with, mutual funds have been advised to move over to the new settlement system. From June 30, 2008 onwards, secondary market transactions in government securities undertaken by mutual funds are being settled only through the DSBs. Arrangements for settlement of primary auction bidding outside the current accounts are being worked out.

Box VI.4: Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities

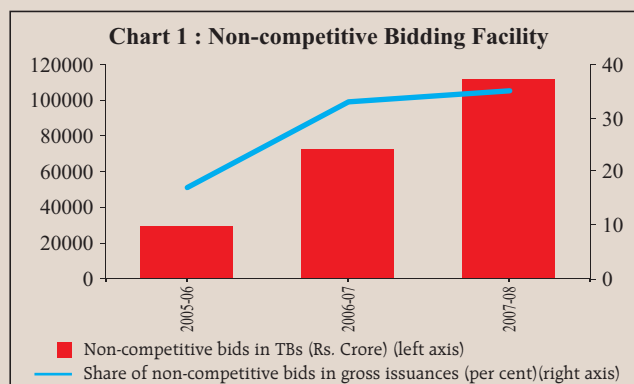
With a view to encouraging wider participation and retail holding of Government securities and to provide retail investors an opportunity to participate in the auction process, a scheme for non-competitive bidding facility was introduced in the auctions of government securities in January 2002. Participation on a “non-competitive” basis is open to any person including firms, companies, corporate bodies, institutions, provident funds, trusts, and any other entity as may be prescribed by the Reserve Bank as also to the investors who do not maintain current account (CA) or subsidiary general ledger (SGL) account with the Reserve Bank.

In every auction of dated securities, a maximum of 5 per cent of the notified amount is reserved for non-competitive bids. In the case of auction for Treasury Bills, there is no ceiling for non-competitive bids. However, non-competitive bidding in T-Bills is available only to State Governments and other select entities and is not available to the co-operative banks. Only one bid is allowed to be submitted by an investor either through a bank or primary dealer. For bidding under the scheme, an investor has to fill in an undertaking and send it along with the application for allotment of securities through a bank or a primary dealer.

The minimum amount and the maximum amount for a single bid are Rs.10,000 and Rs.2 crore respectively, in the case of an auction of dated securities. A bank or a primary dealer can charge an investor up to a maximum of 6 paise per Rs.100 of application money as commission for rendering its services. In case the total applications received for non-competitive bids exceed the ceiling of 5 per cent of the notified amount of the auction for dated securities, the bidders are allotted securities on a pro-rata basis. On the other hand, if the aggregate amount of bids is less than the reserved amount, the shortfall will be taken to the competitive portion. Allotment under the non-competitive segment is at the weighted average rate of yield/price that emerges in the auction on the basis of competitive bidding.

This facility has been receiving overwhelming response in recent years. During 2007-08, non-competitive bids aggregating Rs.1,11,551 crore of T-Bills were received as

compared with Rs.72,514 crore during the previous year. The share of non-competitive bids in gross issuances of auctioned T-Bills increased to 35 per cent during 2007-08 from 33 per cent during 2006-07, almost entirely due to investments by the State Governments (Chart 1).



Measures are being initiated to introduce the scheme of non-competitive bidding facility (which at present is limited to Central Government dated securities and T-Bills) in the auctions of State Government securities.

In March 2008, the Working Group on Auction Process of Government of India Securities (Chairman: H.R. Khan) made several important recommendations regarding the non-competitive bidding facility. The recommendations, *inter alia*, included (a) the time for submission of non-competitive bids in auctions of dated securities as well as Treasury Bills, both in electronic and physical form, may be advanced; (b) eligible entities and individuals desirous of submitting non-competitive bids be allowed access through a bank/PD only electronically; (c) Bank/PD be allowed to submit a single consolidated bid on behalf of all its constituents, with the responsibility of verifying the genuineness of non-competitive bids vesting with the bank/PD concerned.

The recommendations of the Working Group are being examined in consultation with the Government of India.

amount. The aggregate bids at Rs.3,18,201 crore were, however, much higher at 3.04 times of the aggregate commitment of Rs.1,04,385 crore (under the regular borrowing programme). Bids amounting to Rs.1,04,819 crores were accepted in Treasury Bill auctions. PDs are required to achieve a success ratio of 40 per cent of bidding commitment in respect of Treasury Bill auctions on a half-yearly basis. While the PDs achieved a success ratio of 94.43 per cent during the year 2006-07, the achievement during 2007-08 was higher at 100.42 per cent. The PDs’ share in the primary auctions of Treasury Bills increased to 48 per cent during 2007-08 from 38 per cent during 2006-07.

6.91 In terms of the Fiscal Responsibility and Budget Management Act, 2003, the Reserve Bank was prohibited from participating in the primary auctions of Central Government securities. The PDs were, therefore, enjoined to underwrite the entire notified amount in the auctions of dated Government of India securities. During 2007-08, the PDs offered to underwrite the auctions of Central Government dated securities to the extent of Rs.2,76,518 crore as against the notified amount of Rs.1,56,000 crore. This represented a bid-cover ratio of 1.77 in underwriting auctions. Of the total thirty five primary auctions of dated securities held during the year, there was a devolvement of Rs.957 crore on PDs in one auction.

6.92 The actual bids tendered by the PDs (Rs.2,54,253 crore) in the auction of dated securities were 1.6 times of the notified amount. Of the total bids made by PDs in dated securities, bids worth Rs.72,122 crore were accepted. The success ratio at 46.2 per cent was a marginal increase over 44.3 per cent during the period 2006-07 (Table VI.43).

6.93 The secondary market turnover of Treasury Bills and Government dated securities (both outright and repo) traded by stand-alone PDs amounted to Rs.1,57,747 crore and Rs.16,80,073 crore, respectively, constituting 16 per cent and 17 per cent, respectively, of the market turnover. The share of PDs in total market turnover worked out to 16 per cent.

Sources and Application of Funds

6.94 The consolidated balance sheet size of nine stand-alone PDs at end-March 2008 declined by 19.7 per cent as compared with the position at end-March 2007 due to restructuring of their businesses. Three PDs hived off their PD operations to newly set up group entities with reduced capital. Capital funds of the stand-alone PDs declined by 27.8 per cent as on March 31, 2008 in contrast

Table VI.43: Performance of the PDs in the Primary Market

(At end-March)

(Amount in Rs. crore)		
Items	2007	2008
1	2	3
Treasury Bills		
1. Bidding Commitment	1,02,675	1,04,385
2. Actual Bids Submitted	2,84,686	3,18,201
3. Bid to Cover Ratio (in per cent)	2.77	3.04
4. Bid Accepted	96,952	1,04,819
5. Success Ratio (in per cent)	94.43	100.42
Central Govt. Securities		
1. Notified Amount	1,46,000	1,56,000
2. Actual Bids submitted	2,02,462	2,54,253
3. Bid to Cover Ratio (in per cent)	1.39	1.63
4. Bid Accepted	64,727	72,122
5. Success Ratio in (in per cent)	44.33	46.23

with the sharp increase of 46.3 per cent as on March 31, 2007. On the sources side, secured loans increased by 17.1 per cent during 2007-08, while unsecured loans registered a sharp decline of 36.1 per cent. The decline in the growth rate of unsecured loans during 2007-08 was in contrast with the sharp rise (of 20.3 per cent) witnessed during 2006-07. On the deployment side, investments in corporate bonds increased by 4.3 per cent (from Rs.595 crore to Rs.621 crore) in contrast to the decline of 12.7 per cent witnessed during 2006-07. (Table VI.44). The share of Government securities and Treasury Bills in

Table VI.44: Sources and Applications of Funds of Primary Dealers

(Amount in Rs. crore)				
Items	End-March		Percentage Variations	
	2007	2008	2007	2008
1	2	3	4	5
Sources of Funds	13,557	10,882	26.1	-19.7
1. Capital	2,088	1,508	46.3	-27.8
2. Reserves and Surplus	3,102	1,944	8.6	-37.3
3. Loans (a+b)	8,367	7,430	29.4	-11.2
a) Secured	3,910	4,580	41.7	17.1
b) Unsecured	4,457	2,850	20.3	-36.1
Application of Funds	13,557	10,882	26.1	-19.7
1. Fixed Assets	72	14	12.2	-80.5
2. Investments (a to c)	9,248	8,291	16.3	-10.3
a) Government Securities	7,412	7,584	11.5	2.3
b) Commercial Papers	1,241	86	98.2	-93.1
c) Corporate Bonds	595	621	-12.7	4.3
3. Loans and Advances	1,135	429	-39.7	-62.2
4. Non-current Assets	-	-	-	-
Equity, Mutual Funds, etc.	928	150	-	-83.9
Others*	2,174	2,148	156.4	-1.2
No. of PDs **	8	9	8	9

*: Others include cash+ bank balances + accrued interest + DTA - current liabilities and provisions.

** : Stand-alone PDs only.

Source : Annual Reports of respective PDs.

total assets of PDs increased to 70 per cent at end-March 2008 from 55 per cent at end-March 2007.

Financial Performance of PDs

6.95 The income earned by the PDs declined by 33 per cent during the year 2007-08 as compared with that in 2006-07, due to restructuring of business by PDs and consequent decline in income from other activities that were not allowed to be undertaken by PDs. However, a corresponding sharp decline on the expenditure front and a rise in trading profits restricted the decline in net profit during the year (Table VI.45).

6.96 All nine stand-alone PDs posted net profit during the year 2007-08 as compared with six PDs which posted net profits in the previous year. The restructuring of business by some PDs resulted in a decline in the return on average assets (ROA) from 3 per cent during 2006-07 to 2.5 per cent during 2007-08 (Table VI.46). Return on net worth (RoNW),

Table VI.45: Financial Performance of Primary Dealers

Items	(Amount in Rs. crore)				
	2006-07	2007-08	Percentage Variations		
			2006-07	2007-08	
1	2	3	4	5	
A. Income (i to iii)	1,950	1,307	17	-33	
i) Interest and discount	986	914	21	-7	
ii) Trading Profit	-17	255	-	-	
iii) Other income	979	138	22	-86	
B. Expenses (i+ii)	1,314	775	49	-43	
i) Interest	668	595	38	-11	
ii) Administrative Costs	645	180	62	-76	
Profit Before Tax	636	531	-18	-16	
Profit After Tax	444	373	-20	-16	
No. of PDs **	8	9	8	9	

** : Stand-alone PDs only.
Source: Primary Dealers' Return (PDR)

Table VI.46 : Financial Indicators of Primary Dealers

Indicator	(Amount in Rs. crore)	
	2006-07	2007-08
1	2	3
i) Net profit	444	373
ii) Average Assets	14,984	15,039
iii) Return on average assets (in per cent)	3.0	2.5
iv) Capital Funds	5,992	3,611
v) No. of PDs	8	9

Source : Primary Dealers' Return (PDR).

however, increased from 9.5 per cent during 2006-07 to 10.8 per cent in 2007-08, reflecting the better use of capital. (Appendix Table VI.5). The cost-income ratio declined from 50 per cent in 2006-07 to 25 per cent in 2007-08 as some PDs significantly improved their efficiency ratio.

6.97 Stand-alone PDs continued to be adequately capitalised. The capital to risk weighted-assets ratio (CRAR) of individual stand-alone PDs remained above the prescribed minimum CRAR of 15 per cent. The CRAR of the stand-alone PDs as a group was at 38 per cent as on March 31, 2008. (Appendix Table VI.6 and Table VI.47).

Table VI.47: Select Indicators of Primary Dealers

Items	(At end-March)	
	2007	2008
1	2	3
Total Assets*	13,557	10,882
Of which: Government Securities	7,412	7,584
Government Securities as Per cent of Total Assets	55	70
Total Capital Funds	4,026	3,611
CRAR (in per cent)	33	38
Liquidity Support Limit	3,000	3,000
No. of PDs **	8	9

* : Net of Current Assets and Liabilities.
 ** : Stand-alone PDs only.
Source : Primary Dealers' Returns (PDR).