Chapter VI

Non-Banking Financial Institutions

Non-Banking Financial Institutions (NBFIs) play an important role in the Indian financial system given their unique postion of providing complimentarity and competitiveness to banks. On account of intensification of the global financial crisis in September 2008, some impact was experienced in the sector, thereby creating liquidity constraints for NBFIs. In response, the Reserve Bank introduced special fixed term rate Repo under liquidity adjustment facility (LAF) to banks exclusively for the purpose of meeting the funding requirements of Non-Banking Financial Companies (NBFCs). Besides, certain precautionary measures were taken by the Reserve Bank since October 2008 to enhance the availability of liquidity to NBFCs. These steps indirectly helped in dealing with the market pressure which had been building up. All India Financial Institutions (AIFIs) were extended refinance facilities of Rs.16,000 crore. Ceiling on aggregate resource mobilisation and umbrella limit were raised for EXIM Bank and NHB; select AIFIs were allowed to offer market related yield to maturity (YTM). Financial Institutions (FIs) exhibited robust performance in terms of assistance sanctioned and disbursements, balance sheet size and net profit. The weighted average cost of long term resources raised by AIFIs witnessed a mixed trend. Asset quality of FIs improved during the year vis-à-vis the previous year. Regulation of NBFIs in India was being progressively strengthened well before the onset of the global financial crisis. The Reserve Bank undertook regulatory and supervisory policy initiatives in terms of capital to risk weighted asset ratio (CRAR), exposure norms and classification of assets. While the balance sheet size of Primary Dealers (PDs) moderated during the period mainly on account of decline in secured loans and decline in Government securities, their financial indicators like net profit and return on average assets improved during 2008-09 vis-à-vis 2007-08.

1. Introduction

6.1 While the Indian financial system is dominated by banks, NBFIs play an important role by complementing banks in providing a wide range of financial services. Banks have an edge in providing payment and liquidity related services, while NBFIs tend to offer enhanced equity and risk based products. NBFIs are heterogeneous as a group, functionally as well as in terms of size and nature of activities. The major intermediaries that are included in the NBFI group are Development Finance Institutions (DFIs), insurance companies, non-banking financial companies (NBFCs), primary dealers (PDs) and capital market intermediaries such as mutual funds. The NBFIs are providing medium to long-term finance to different sectors of the economy.

6.2 In the wake of the recent global financial crisis and its fall out on the financial institutions (FIs), the Reserve Bank took a number of measures to preserve financial stability and arrest the moderation in the growth momentum. To ensure adequate availability of liquidity in the system and maintain conditions conducive for flow of credit to all productive purposes, particularly to the housing, export and industrial sectors, the Reserve Bank provided special refinance facilities to the Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB) and the Export-Import (EXIM) Bank of India in December 2008. The ceiling on aggregate resources mobilised by SIDBI, NHB and EXIM Bank, and the 'umbrella limit' for NHB and EXIM Bank were also raised. The Reserve Bank took policy initiatives for NBFCs also. As a measure aimed at expanding rupee liquidity, the Reserve Bank provided a special repo window under the LAF for NBFCs. In addition, an existing special purpose vehicle (SPV) was used as platform to provide liquidity support to NBFCs. In December 2008, systemically important non-deposit taking NBFCs (NBFCs-ND-SI) were permitted, as a temporary measure, to raise foreign currency short term borrowings under the approval route subject to certain conditions.

6.3 During 2008-09, the combined balance sheets of FIs, *viz.*, National Bank for Agriculture and Rural Development (NABARD), SIDBI, NHB and EXIM Bank, continued to expand. The financial performance of FIs also improved. Net interest income as well as non-interest income of these FIs increased during 2008-09. The asset quality of the FIs improved as net non-performing assets (NPAs) to net loans ratio declined significantly during 2008-09. The NBFIs in the Indian financial system continued to be resilient as the Reserve Bank had taken various measures to minimise the adverse effects of the ongoing financial crisis on the system.

6.4 NBFCs have been competing with and complementing the services of commercial banks for a long time. The NBFCs as a whole account for 9.1 per cent of assets of the total financial system. The Committee on Financial Sector Assessment (CFSA), 2009 observed that NBFCs are largely compliant in areas relating to licensing, permissible activities, capital adequacy, risk management process, credit risk, problem assets, large exposures, supervisory approach, supervisory techniques and supervisory reporting. However, the assessment has revealed that there are certain gaps in areas relating to home-host co-operation, transfer of significant ownership, major acquisitions, exposure to related parties, market, liquidity and operational risks, internal control and interest rate risk in the banking book. The CFSA's recommendations in this regard will be looked into by the Reserve Bank.

6.5 In order to strengthen the market infrastructure of Government securities market and make it vibrant, liquid and broad-based, the PDs system was introduced by the Reserve Bank in 1995. The PDs 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, encouraging voluntary holding of Government securities amongst a wider investor base. The PDs system developed significantly over the years and currently it serves as an effective conduit for conducting open market operations. As of end-September 2009, there were 19 PDs, of which 11 were Bank-PDs and eight stand-alone PDs.

6.6 In this perspective, spread over five sections, this chapter analyses the performance of FIs in section 2. Section 3 explains the trends and developments relating to NBFCs and RNBCs. Activities and performance of PDs have been elaborated in section 4, followed by the conclusion in section 5.

2. Financial Institutions

6.7 Based on the major activity undertaken by FIs, they are classified into three broad categories. First, there exists the term-lending institution - EXIM Bank, whose main activity is direct lending by way of term loans and investments. Second, there are refinance institutions such as NABARD, SIDBI and NHB, which mainly extend refinance to banks as well as NBFIs. In the third category, there are investment institutions such as LIC, which deploy their assets largely in marketable securities. State/

regional level institutions are a distinct group and comprise State Financial Corporations (SFCs), State Industrial and Development Corporations (SIDCs) and North Eastern Development Finance Corporation Ltd. (NEDFi). Some of these FIs have been notified as Public Financial Institutions by the Government of India under Section 4A of the Companies Act, 1956.

6.8 As on March 31, 2009, there were four FIs *viz.*, EXIM Bank, NABARD, NHB and SIDBI which were under full-fledged regulation and supervision of the Reserve Bank. Industrial Investment Bank of India (IIBI), a financial institution with headquarter at Kolkata is in the process of voluntary winding up in view of its very poor financial position.

Regulatory Initiatives for Financial Institutions

6.9 In the wake of the emerging global developments and their fall out on financial institutions, the Reserve Bank received requests from select FIs for liquidity support for on-lending to HFCs/NBFCs/MFIs and exporters, and accordingly, took a number of measures as follows:

Refinance Facility to SIDBI, EXIM Bank and NHB

6.10 As a measure to encourage flow of credit to sectors, which were coming under pressure due to the ongoing global financial crisis, in December 2008, the Reserve Bank provided refinance facilities of Rs.7,000 crore, Rs.5,000 crore and Rs.4,000 crore for SIDBI, EXIM Bank and NHB, respectively, under the relevant provisions of the Reserve Bank of India Act, 1934. The availment of refinance by the above FIs under this facility is restricted to a period of 90 days and the amount could be flexibly drawn and repaid during the period. The facility could be rolled over and would be available up to March 31, 2010. Advances under this facility are charged at the repo rate under the LAF of the Reserve Bank. The funds provided under the refinance facility should be utilised as per the policy approved by the Board of the respective financial institutions, and in adherence to the extant exposure norms for these entities. To facilitate monitoring, the financial institutions are required to submit a weekly report on the utilisation of the refinance facility to the Reserve Bank. The amount outstanding under the special refinance facility remained small up to February 2009 for each institution, but picked up in the subsequent months. The utilisation of refinance facility as at end-June 2009 is indicated in Table VI.1.

Ceiling on Aggregate Resources Mobilised by SIDBI, NHB and EXIM Bank

6.11 The ceiling on aggregate resources mobilised was raised to 12 times of the net owned funds (NOF) for SIDBI and NHB and 13 times of NOF for EXIM Bank with effect from December 8, 2008 for a period of one year from the existing norm of 10 times of NOF as per the last balance sheet, subject to meeting CRAR requirements.

Umbrella Limit for EXIM Bank and NHB

6.12 The 'umbrella limit' for FIs which consists of aggregate borrowings through five specified instruments, *viz.*, term deposits, term money borrowings, certificates of deposits (CDs), commercial papers (CPs) and inter-corporate deposits (ICDs) should not at any time exceed

Table VI.1: Utilisation of Refinance Facilities

(Amount in Rs. crore)

AIFIs	Refinance Sanctioned	Cumulative Amount drawn up to June 26, 2009	Cumulative Amount Disbursed up to June 26, 2009	No. of Beneficiaries
1	2	3	4	5
SIDBI	7,000	5,684	4,971	33 *
		988	1,043	22 **
		7,747	1,841	5,179
EXIM Bank	5,000	3,000	3,478	35
NHB	4,000	3,979	3,979	14 #
Total	**16,000**	**21,398**	**15,312**	**5,283**

* : State Finance Corporations (SFCs) and banks.
** : Non-banking Finance Companies (NBFCs).
# : Housing Finance Companies (HFCs).

100 per cent of their NOF as per its latest audited balance sheet. The umbrella limit was raised to 200 per cent of NOF for one year with effect from December 8, 2008 for EXIM Bank and January 15, 2009 for NHB, subject to review and subject to Asset Liability Management (ALM) guidelines of the Reserve Bank.

Select AIFIs Allowed to Offer Market-related Yield to Maturity

6.13 While issuing bonds/debentures, the select FIs *viz.*, SIDBI, NHB, EXIM Bank and NABARD can offer market related YTM. Accordingly, the current stipulation that the yield to maturity offered at the time of issue of bonds should not exceed 200 basis points above the YTM on the Government of India securities of equal residual maturities would not apply with effect from December 8, 2008 for a period of one year.

Prudential Guidelines on Treatment of Restructuring of Advances of Select AIFIs

6.14 The guidelines regarding treatment of restructuring of advances issued to banks have been *mutatis mutandis* applied to the select FIs. Provisions relating to certain activities generally not undertaken by FIs, such as extending working capital, overdrafts and personal loans would, however, not be applicable to them.

Operations of Financial Institutions

6.15 Financial assistance sanctioned and disbursed by FIs sharply increased during 2008-09 as compared to that in the previous year. A major part of the increase in financial sanctions and disbursements was accounted for mainly by investment institutions (especially LIC) followed by the term lending institutions (Table VI.2 and Appendix Table VI.1).

6.16 During 2008-09, though there was increase in both financial assistance sanctioned and disbursed by FIs, the increase in disbursements (93.3 per cent) was more pronounced than the sanctions (70.2 per cent) (Table VI.2) (Chart VI.1).

Assets and Liabilities of FIs

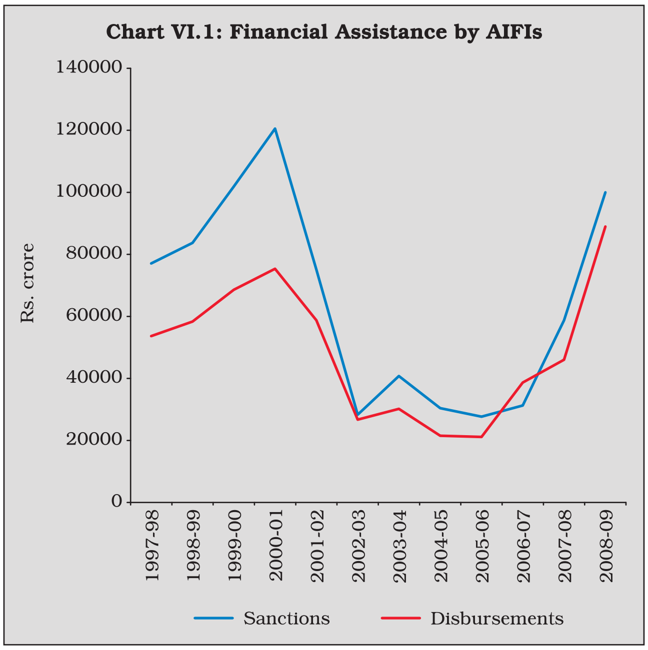
6.17 The combined balance sheets of select FIs (NABARD, NHB, SIDBI and EXIM Bank) during 2008-09 expanded sharply by 20.8 per cent over the previous year. On the liabilities side, the resources raised by way of bonds and debentures declined by 9.3 per cent during 2008-09. However, deposits and borrowings registered sharp increases of 80.7 per cent and 20.0 per cent, respectively. On the asset side, loans and advances continued to expand by 21.5 per cent and investment portfolio also recorded

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

(Amount in Rs. crore)

Category	Amount				Percentage Variation	
	2007-08		2008-09		2008-09	
	S	D	S	D	S	D
1	2	3	4	5	6	7
(i) All-India Term-Institutions*	18,696	17,379	33,660	31,604	80.0	81.9
(ii) Specialised Financial Institutions#	366	189	597	283	63.1	49.7
(iii) Investment Institutions@	39,670	28,460	65,731	57,086	65.7	100.6
Total Assistance by FIs (i+ii+iii)	**58,732**	**46,028**	**99,988**	**88,973**	**70.2**	**93.3**

S : Sanctions. D : Disbursements.
* : Relating to IFCI, SIDBI and IIBI.
# : Relating to IVCF, ICICI Venture and TFCI.
@ : Relating to LIC and GIC & erstwhile subsidiaries (NIA,UIIC & OIC).
Note: All data are provisional.
Source: Respective Financial Institutions.



an increase of 21.8 per cent. Cash and bank balances and other assets registered an increase of 22.7 per cent and 8.8 per cent, respectively. Within liability, the share of deposits increased from 20.2 per cent to 30.2 per cent while other items showed a marginal to moderate decline. Composition of assets remain roughly unchanged during 2008-09 as that of 2007-08 (Table VI.3).

Resources Mobilised by FIs

6.18 Resources raised by the FIs during 2008-09 were considerably higher than those during the previous year. While the short-term resources raised witnessed a sharp rise during 2008-09 as compared with that a year ago, the long-term and foreign currency resources raised declined. NHB mobilised the largest amount of resources, followed by EXIM Bank and SIDBI. Foreign currency resources raised by EXIM Bank moderated while that by SIDBI expanded sharply during 2008-09 (Table VI.4 and Appendix Table VI.2).

6.19 Resources raised by FIs from the money market rose sharply during 2008-09 with the utilisation of umbrella limit reaching 58.0 per cent as compared to 22.9 per cent in the previous year (Table VI.5).

Table VI.3: Liabilities and Assets of Financial Institutions
(As at end-March)

(Amount in Rs. crore)

Item	Amount		Percentage Variation
	2008	2009	2008-09
1	2	3	4
Liabilities			
1. Capital	4,000 (2.2)	4,300 (2.0)	7.5
2. Reserves	17,137 (9.5)	19,069 (8.8)	11.3
3. Bonds and Debentures	57,741 (32.1)	52,390 (24.1)	-9.3
4. Deposits	36,298 (20.2)	65,591 (30.2)	80.7
5. Borrowings	33,716 (18.7)	40,443 (18.6)	20.0
6. Other Liabilities	31,020 (17.2)	35,579 (16.4)	14.7
Total Liabilities/Assets	**1,79,912 (100.0)**	**2,17,372 (100.0)**	**20.8**
Assets			
1. Cash and Bank Balances	15,835 (8.8)	19,430 (8.9)	22.7
2. Investments	6,694 (3.7)	8,155 (3.8)	21.8
3. Loans and Advances	1,47,008 (81.7)	1,78,595 (82.2)	21.5
4. Bills Discounted / Rediscounted	2,044 (1.1)	2,145 (1.0)	5.0
5. Fixed Assets	539 (0.3)	570 (0.3)	5.6
6. Other Assets	7,792 (4.3)	8,477 (3.9)	8.8

Note: 1. Data pertain to four FIs, *viz.*, NABARD, NHB, SIDBI and EXIM Bank. IIBI Ltd. was under voluntary winding up as on March 31, 2009.
2. Figures in parentheses are percentages to total liabilities/ assets.

Source: 1. Balance sheets of respective FIs.
2. Unaudited OSMOS Returns of NHB.

Sources and Uses of Funds

6.20 Total sources/deployment of funds of FIs increased sharply by 39 per cent during 2008-09. 65.0 per cent of the funds of FIs were raised internally, which recorded a growth of 91.5 per cent. External sources, which contributed 30.7 per cent of sources of funds during 2008-09 as

Table VI.4: Resources Mobilised by Financial Institutions

(Amount in Rs. crore)

Institution	Total Resources Raised								Total Outstanding (As at end-March)	
	Long-term		Short-term		Foreign Currency		Total			
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2008	2009
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	6,825	3,197	2,180	8,905	5,553	3,800	14,558	15,902	31,716	37,202
NABARD	12,198	4,252	1,422	3,494	–	–	13,620	7,746	32,630	26,867
NHB	3,100	3,124	8,016	16,881	–	–	11,116	20,005	17,313	16,503
SIDBI	4,531	5,625	461	8,811	92	1,361	5,084	15,797	14,665	24,487
Total	**26,654**	**16,198**	**12,079**	**38,091**	**5,645**	**5,161**	**44,378**	**59,450**	**96,324**	**1,05,059**

– : Nil/Negligible

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

Source: Respective FIs.

compared to 51.7 per cent during previous year, recorded a decline of 17.4 per cent due to turmoil in global financial markets. A large part of the funds raised were used for fresh deployments (65.5 per cent), followed by repayment of past borrowings (19.0 per cent) during 2008-09. The fresh deployment registered a growth of 55.1 per cent and other deployment 137.9 per cent during 2008-09 over 2007-08. (Table VI.6 and Appendix Table VI.3)

Cost and Maturity of Borrowings

6.21 The weighted average cost of long-term resources raised by AIFIs recorded a mixed trend during 2008-09 (Table VI.7 and Appendix Table VI.4). The weighted average maturity of long-term resources raised by FIs increased, except for EXIM Bank and NHB during 2008-09.

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

(Amount in Rs. crore)

Instrument	2006-07	2007-08	2008-09
1	2	3	4
A. Total	**3,293**	**4,458**	**15,247**
i) Term Deposits	89	508	2,222
ii) Term Money	–	250	1,184
iii) Inter-corporate Deposits	–	–	–
iv) Certificate of Deposits	663	2,286	5,633
v) Commercial Paper	2,540	1,414	6,207
Memo:			
B. Umbrella Limit	**19,001**	**19,500**	**26,292**
C. Utilisation of Umbrella limit (A as percentage of B)	**17.3**	**22.9**	**58.0**

- : Nil/Negligible.

Source: Fortnightly Return of Resource mobilised by Financial Institutions.

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

(Amount in Rs. crore)

Item	2007-08	2008-09	Percentage Variation 2008-09
1	2	3	4
A) Sources of Funds (i+ii+iii)	**2,13,954 (100.0)**	**2,97,296 (100.0)**	**39.0**
(i) Internal	1,00,944 (47.2)	1,93,294 (65.0)	91.5
(ii) External	1,10,604 (51.7)	91,314 (30.7)	-17.4
(iii) Others@	2,406 (1.1)	12,688 (4.3)	427.3
B) Deployment of Funds (i+ii+iii)	**2,13,954 (100.0)**	**2,97,296 (100.0)**	**39.0**
(i) Fresh Deployment	1,25,522 (58.7)	1,94,711 (65.5)	55.1
(ii) Repayment of past borrowings	69,096 (32.3)	56,592 (19.0)	-18.1
(iii) Other Deployment	19,333 (9.0)	45,993 (15.5)	137.9
of which:			
Interest Payments	6,916 (3.2)	8,809 (3.0)	27.4

* : EXIM Bank, NABARD, NHB and SIDBI.

@ : Includes cash and balances with banks, balances with the Reserve Bank and other banks.

Note: Figures in parentheses are percentages to the totals.

Source: Respective FIs.

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

Institution	Weighted Average cost (per cent)		Weighted Average Maturity in years	
	2007-08	2008-09	2007-08	2008-09
1	2	3	4	5
EXIM Bank	8.2	9.0	3.0	2.5
SIDBI	8.2	6.5	1.0	3.4
NABARD	9.5	9.5	4.0	4.3
NHB	7.7	7.4	2.8	2.8

Note: Data are provisional.
Source: Respective FIs.

Lending Rates

6.22 NHB, SIDBI and EXIM Bank raised their Prime Lending Rates (PLRs) marginally during 2008-09 as compared to the previous year (Table VI.8).

Table VI.8: Long-term PLR Structure of Select Financial Institutions

(Per cent)

Effective	NHB	EXIM Bank	TFCI
1	2	3	4
March 2008	10.50	13.50	12.00
March 2009	10.75	14.00	12.50

Source: Respective FIs.

Financial Performance of Financial Institutions

6.23 Net interest income and non-interest income of FIs increased by 22.5 per cent and 31.1 per cent, respectively. However, in contrast with the decline in the previous year, the wage bill increased by 26.1 per cent during 2008-09. The operating profit increased by 33.5 per cent during the year. The net profit of FIs also increased despite higher provisions for taxation (Table VI.9).

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

(Amount in Rs. crore)

Item	2007-08	2008-09	Variation 2007-08		Variation 2008-09	
			Amount	Percentage	Amount	Percentage
1	2	3	4	5	6	7
A) Income (a+b)	**11,541**	**14,274**	**2,467**	**27.2**	**2,733**	**23.7**
a) Interest Income	9,934	12,169	1,796	22.1	2,234	22.5
	(86.1)	(85.3)				
b) Non-Interest Income	1,607	2,106	671	71.8	499	31.1
	(13.9)	(14.8)				
B) Expenditure (a+b)	**8707**	**10,492**	**1,812**	**26.3**	**1,785**	**20.5**
a) Interest Expenditure	7,277	8,977	1,362	22.9	1,699	23.4
	(83.6)	(85.6)				
b) Operating Expenses	1,430	1,516	450	46.6	86	6.0
	(16.4)	(14.4)				
of which : Wage Bill	287	362	-139	-32.7	76	26.4
C) Provisions for Taxation	**936**	**1,190**	**304**	**48.1**	**254**	**27.2**
D) Profit						
Operating Profit (PBT)	2,834	3,782	656	30.1	948	33.5
Net Profit (PAT)	1,898	2,592	352	22.7	694	36.6
E) Financial Ratios@						
Operating Profit	1.6	1.7				
Net Profit	1.1	1.2				
Income	6.4	6.6				
Interest Income	5.5	5.6				
Other Income	0.9	1.0				
Expenditure	4.8	4.8				
Interest Expenditure	4.0	4.1				
Other Operating Expenses	0.8	0.7				
Wage Bill	0.2	0.2				
Provisions	0.5	0.6				
Spread (Net Interest Income)	1.4	1.4				

@ : As percentage of total assets.
Note: Figures in parentheses are percentage shares to the respective total.
Source: Annual Accounts of respective FIs.2) Unaudited OSMOS returns of NHB (As at June-end).

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

(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)	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	7.6	7.8	1.2	0.8	2.3	2.4	1.0	1.2	1.5	2.1
NABARD	6.1	6.5	0.1	0.1	2.0	1.9	1.4	1.3	0.3	0.3
NHB*	7.5	8.0	0.3	0.3	1.1	1.7	0.6	1.2	..	..
SIDBI	8.5	8.8	0.7	1.1	3.1	5.3	1.6	3.1	0.2	0.3

.. : Not Available.
* : Position as at end-June as per OSMOS returns. In case of NHB, total assets have been taken in lieu of average working funds.
Source: 1. Respective FIs,
2. Unaudited off-site Returns for NHB.

6.24 The interest income and the non-interest income as percentage of working funds (except EXIM Bank) increased for all FIs. Operating profit as percentage of working funds and return on average assets (ROA) improved for all FIs except NABARD. The ROA was the highest for SIDBI followed by NABARD, EXIM Bank and NHB (Table VI.10).

Soundness Indicators: Asset Quality

6.25 It is significant to note that the FIs recorded improvement in their asset quality during 2008-09 notwithstanding the fall out of the ongoing global financial crisis. In terms of net NPA to net loans ratio, the asset quality of SIDBI and EXIM Bank improved during the year. Net NPA ratio of NABARD, however, increased marginally (Table VI.11).

6.26 Improvement in asset quality was also observed in terms of a substantial increase in standard assets of the FIs except NHB in which there is a slight decrease in the standard assets. Furthermore, none of the FIs had any assets in the 'loss' assets category as at end-March 2009 (Table VI.12).

Capital Adequacy

6.27 The capital adequacy ratio of all the FIs continued to be significantly higher than the minimum stipulated norm of 9 per cent. Notwithstanding this, CRARs of NABARD, NHB and SIDBI at end-March 2009 were lower than those in the previous year, while CRAR of EXIM Bank increased at end-March 2009 compared to the previous year (Table VI.13).

3. Non-Banking Financial Companies

6.28 The Reserve Bank of India Act, 1934 was amended in January 1997 to provide a comprehensive legislative framework for regulation of NBFCs. The amended Act, *inter alia*, provided for compulsory registration and minimum NOF for all NBFCs. It also gave the

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

(Amount in Rs. crore)

Institution	Net NPAs		Net NPAs/ Net Loans (per cent)	
	2008	2009	2008	2009
1	2	3	4	5
EXIM Bank	83	79	0.29	0.23
NABARD	19	30	0.02	0.03
NHB*	–	–	–	–
SIDBI	49	26	0.25	0.08
All FIs	151	135	0.10	0.07

- : Nil/Negligible.
* : Position as at end-June as per OSMOS returns
Source: Respective FIs.

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

(Amount in Rs. crore)

Institution	Standard		Sub-Standard		Doubtful		Loss	
	2008	2009	2008	2009	2008	2009	2008	2009
1	2	3	4	5	6	7	8	9
EXIM Bank	28,694	34,077	41	21	42	58	–	–
NABARD	82,853	98,822	2	7	17	23	–	–
NHB*	17,427	16,851	–	–	–	–	–	–
SIDBI	19,927	30,854	24	23	25	3	–	–
All FIs	1,48,901	1,80,605	67	51	84	85	–	–

- : Nil/Negligible.
* : Position as at end-June.
Source: 1. Respective FIs.
2. Unaudited Off-site returns for NHB.

Reserve Bank powers to determine policies and issue directions to NBFCs regarding income recognition, accounting standards, NPAs, capital adequacy, deployment of funds as well as purposes for which advances would be made, *etc.*

Regulatory and Supervisory Initiatives

6.29 Regulation of non-banking entities is being progressively strengthened and the process had started before the onset of the global financial crisis. Issues relating to the level playing field between bank sponsored NBFCs and non bank associated NBFCs and other issues of regulatory convergence and regulatory arbitrage were examined with respect to systemic implications. Non Deposit taking NBFCs with asset size of Rs.100 crore and above were defined as systemically important and an elaborate prudential framework was put in place.

6.30 Initially, with a view to protect the interests of depositors, regulatory attention was mostly focused on NBFCs accepting public deposits (NBFCs-D). Over the years, however, this regulatory framework has been widened to include issues of systemic significance. The sector is being consolidated and while deposit taking NBFCs have decreased both in size as well as in terms of the quantum of deposits held by them, NBFCs-ND have increased in terms of number and asset size. NBFCs-ND-SI (NBFCs-ND with asset size of Rs.100 crore and above) are subject to CRAR and exposure norms prescribed by the Reserve Bank.

Table VI.13: Capital Adequacy Ratio of Select Financial Institutions
As at end-March

(Per cent)

Institution	2002	2003	2004	2005	2006	2007	2008	2009
1	2	3	4	5	6	7	8	9
EXIM Bank	33.1	26.9	23.5	21.6	18.4	16.4	15.1	16.8
NABARD	36.9	39.1	39.4	38.8	34.4	27.0	26.6	25.9
NHB*	22.1	27.9	30.5	22.5	22.3	21.7	24.7	17.7
SIDBI	45.0	44.0	51.6	50.7	43.2	37.5	41.8	34.2

* : Position as at end-June.
Source: 1. Respective FIs.
2. Unaudited Off-site returns for NHB.

6.31 The changing regulatory policy also recognised that those activities of NBFCs which are creating productive asset must be given special consideration. Accordingly, reclassification of NBFCs was effected in December 2006, in terms of which companies financing real/physical assets for productive/economic activities would be classified as Asset Finance Companies (AFCs). The other two categories of NBFCs would be Loan Companies (LCs) and Investment Companies (ICs).

Monitoring of Frauds in NBFCs

6.32 In July 2008, the Reserve Bank revised the approach towards monitoring of frauds in NBFCs issued in March 2008. Accordingly, NBFCs were advised to report frauds in their subsidiaries and affiliates/joint ventures.

Guidelines for Securitisation Companies (SCs) and Reconstruction Companies (RCs)

6.33 The Reserve Bank revised the formats of quarterly statements to be submitted by Securitisation Companies/Reconstruction Companies (SCs/RCs) in September 2008. The revised statements would capture, *inter alia*, data on position of owned fund of the SCs/RCs (including FDI component); position of acquisition/realisation of financial assets from banks/FIs by the SCs/RCs in terms of the SARFAESI Act, 2002; and information as regards security receipts (SRs) issued, redeemed and outstanding at the end of particular quarter.

6.34 It was clarified that a SC/RC was neither a 'bank' nor a 'financial institution' under the provisions of the SARFAESI Act. Therefore, the acquisition of financial assets by a SC/RC from another SC/RC would not be in conformity with the provisions of the said Act. There was, however, no bar on SCs/RCs deploying their funds for undertaking restructuring of acquired loan accounts with the sole purpose of realising their dues.

Treatment of Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL) for Computation of Capital

6.35 As creation of DTA or DTL gives rise to certain issues impacting on the balance sheet of the company, NBFCs were advised on July 31, 2008 that the balance in DTL account will not be eligible for inclusion in Tier I or Tier II capital for capital adequacy purpose. Further, DTA will be treated as an intangible asset and should be deducted from Tier I capital. In this connection, it was further clarified that DTL created by debit to opening balance of Revenue Reserves or to Profit and Loss Account for the current year should be included under 'others' of "Other Liabilities and Provisions" and DTA created by credit to opening balance of Revenue Reserves or to Profit and Loss account for the current year should be included under item 'others' of "Other Assets."

Prevention of Money Laundering Act, 2002 – Obligation of NBFCs

6.36 In August 2008, NBFCs, as a part of transaction monitoring mechanism, were required to put in place an appropriate software application to throw alerts when the transactions are inconsistent with risk categorisation and updated profile of customers. In the case of NBFCs, where all the branches are not yet fully computerised, the Principal Officer of the NBFC was required to cull out the transaction details from branches which are not computerised and suitably arrange to feed the data into an electronic file with the help of the editable electronic utilities of Cash Transaction Report (CTR) and Suspicious Transaction Reports (STR) as have been made available by Financial Intelligence Unit-India (FIU-IND) on their website. It was further clarified that cash transaction reporting by branches/offices of NBFCs to their Principal Officer should invariably be submitted on a monthly basis and the Principal Officer, in turn, should ensure to submit CTR for every month to FIU-IND within the prescribed time schedule.

Regulation of Excessive Interest charged by NBFCs

6.37 The Reserve Bank issued directions regarding excessive rates of interest in January 2009. Accordingly, now the Board of each NBFC should adopt an interest rate model taking into account the relevant factors such as cost of funds, margin and risk premium, and determine the rate of interest to be charged for loans and advances. The rate of interest should be an annualised rate so that the borrower is aware of the exact rate that would be charged to the account.

Ratings of NBFCs

6.38 In February 2009, all NBFCs (both deposit taking and non-deposit taking) with asset size of Rs.100 crore and above were required to furnish the information about downgrading/upgrading of assigned rating of any financial product issued by them, within fifteen days of such a change in rating, to the Regional Office of the Reserve Bank under whose jurisdiction their registered office is functioning.

Policy Initiatives for NBFCs-ND-SI

Guideline on Capital Adequacy, Liquidity and Disclosure Norms for NBFC-ND-SI

6.39 The Reserve Bank reviewed the extant guidelines regarding NBFCs-ND-SI and the final guidelines were issued on August 1, 2008. In terms of these guidelines, the minimum CRAR for each NBFC-ND-SI was raised from the existing 10 per cent to 12 per cent to be reached by March 31, 2009 and further to 15 per cent by March 31, 2010. In view of the economic downturn and based on several requests received, this requirement was postponed for one year. The NBFCs-ND-SI are required to make additional disclosures relating to CRAR, exposure to real estate sector and maturity pattern of assets and liabilities in their balance sheet from the year ending March 31, 2009.

Enhancement of NBFCs' Capital Raising Option for Capital Adequacy Purposes

6.40 In October 2008, taking into consideration, the need for enhanced funds for increasing business and meeting regulatory requirements, the Reserve Bank decided that NBFCs-ND-SI may augment their capital funds by issue of Perpetual Debt Instruments (PDIs). Such PDIs shall be eligible for inclusion as Tier I Capital to the extent of 15 per cent of total Tier I capital as on March 31 of the previous year.

Raising of Short Term Foreign Currency Borrowings

6.41 In December 2008, systemically important NBFCs-ND-SI were permitted, as a temporary measure, to raise foreign currency short term borrowings under the approval route subject to certain conditions. In this connection, all the NBFCs-ND-SI that have availed short term foreign currency loans were advised to furnish a monthly return as per the prescribed format within ten days from the end of the month to which it pertains.

Acceptance of Deposits by Chit Fund Companies

6.42 In order to regulate the credit system of the country to its advantage, MNBCs were prohibited with effect from August 18, 2009 from accepting deposits from public except from the shareholders, which was subject to the conditions specified in the MNBC (RBI) Directions 1977. Any deposit accepted and held by the MNBCs other than from its shareholders as on date shall be repaid on maturity and shall not be eligible for renewal.

Requirement for obtaining prior approval of RBI in cases of acquisition/transfer of control of NBFCs accepting deposits

6.43 To enable RBI to verify the 'fit and proper' character of the management of NBFCs is continuously maintained, it has been decided that any takeover/acquisition of shares or merger/ amalgamation of a deposit taking NBFC with another entity or any merger/amalgamation of an entity with a deposit taking NBFC that would give the acquirer/another entity control of the deposit taking NBFC, would require prior permission of RBI with effect from September 17, 2009. Applications in this regard are to be submitted to the Regional Office of the Department of Non-Banking Supervision in whose jurisdiction the Registered Office of the Company is located.

Introduction of Interest Rate Futures-NBFCs

6.44 To hedge the underlying exposures, directions were issued covering the framework for trading of Interest Rate Futures by NBFCs in exchanges in India recognized by SEBI subject to RBI/SEBI guidelines in the matter.

Profile of NBFCs (including RNBCs)

6.45 Total number of NBFCs registered with the Reserve Bank, consisting of NBFCs-D (deposit-taking NBFCs), RNBCs, mutual benefit companies (MBCs), miscellaneous non-banking companies (MNBCs) and Nidhi companies, declined from 12,809 at end-June 2008 to 12,740 at end-June 2009 (Table VI.14). The number of NBFCs-D also declined from 364 at end-June 2008 to 336 at end-June 2009, mainly due to the exit of many NBFCs from deposit taking activity. Of the 336 deposit taking NBFCs, 275 NBFCs filed annual returns for the year ended March 2009 by the cut off date of September 30, 2009. The number of RNBCs declined to two at end-March 2009.

Table VI.14: Number of NBFCs Registered with the Reserve Bank

End-June	Number of Registered NBFCs	Number of NBFCs-D
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
2006	13,014	428
2007	12,968	401
2008	12,809	364
2009	12,740	336

6.46 Total assets of NBFCs declined to Rs.95,727 crore during 2008-09 from Rs.99,014 crore in previous year. Public deposits also recorded a decline to Rs.21,548 crore at end-March 2009 from Rs.24,400 crore at end-March 2008. Net owned funds (NOF) witnessed a growth of 8.8 percent and stood at Rs.13,458 crore as on end-March 2009. The share of RNBCs in NBFCs in terms of total assets, public deposits and NOF recorded marginal decline during 2008-09 over previous year (Table VI.15).

6.47 The ratio of deposits of reporting NBFCs to the aggregate deposits of scheduled commercial banks dropped to 0.53 per cent at end-March 2009 from 0.73 per cent at end-March 2008 mainly due to the decline in deposits of reporting NBFCs. The share of NBFC deposits in broad liquidity aggregate (L3) also declined over the year (Chart VI.2).

Table VI.15: Profile of NBFCs

(Amount in Rs. crore)

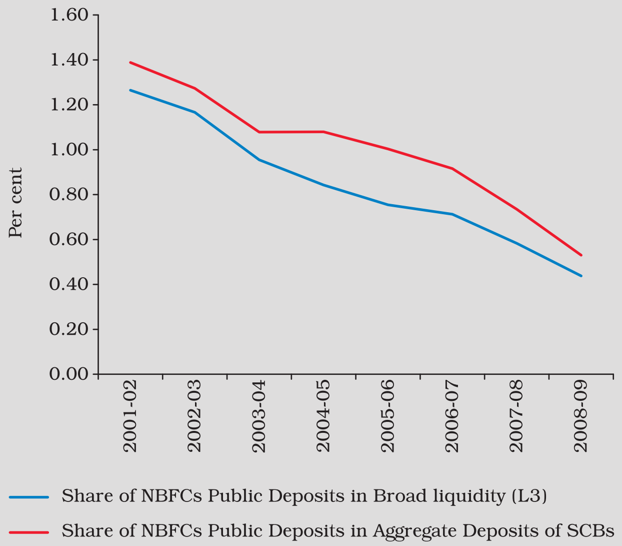
Item	As at end-March			
	2008		2009 P	
	NBFCs	*of which:* RNBCs	NBFCs	*of which:* RNBCs
1	2	3	4	5
Total Assets	99,014	24,452 (24.7)	95,727	20,211 (21.1)
Public Deposits	24,400	22,358 (91.6)	21,548	19,607 (91.0)
Net Owned Funds	11,921	1,718 (14.4)	13,458	1,870 (13.9)

P: Provisional.

Note: 1. NBFCs comprise NBFCs-D and RNBCs.
2. Figures in parentheses are percentages to respective total of NBFCs.

Source: Annual Returns.

Chart VI.2: Share of Public Deposits of NBFCs in Broad Liquidity (L3) and Aggregate Deposits of SCBs



Operations of NBFCs (excluding RNBCs)

6.48 Total assets/liabilities of NBFCs (excluding RNBCs) expanded at the rate of 1.3 per cent during 2008-09 as compared with 53.6 per cent during 2007-08 (Table VI.16). Borrowings, which is the major source of funds for NBFCs, increased by 9.3 per cent during the year, while public deposits declined by 4.9 per cent indicating the continuing shift in the pattern of resources raised. On the assets side, hire purchase assets and loans and advances, which are major items of assets witnessed growth of 6.3 per cent and 12.0 per cent, respectively as compared with 27.9 per cent and 70.2 per cent, respectively, during previous year. Growth of total investments of NBFCs decelerated mainly due to deceleration in investment in approved

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

(Amount in Rs. crore)

Item	As at End-March		Variation			
			2007-08		2008-09	
	2007-08	2008-09 P	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7
Liabilities						
1. Paid up Capital	3,266 (4.4)	3,508 (4.6)	998	44.0	242	7.4
2. Reserves & Surplus	8,695 (11.7)	9,337 (12.4)	2,834	48.4	642	7.4
3. Public Deposit	2,042 (2.7)	1,941 (2.6)	-35	-1.7	-101	-4.9
4. Borrowings	50,577 (67.8)	55,289 (73.2)	18,125	55.9	4,712	9.3
5. Other Liabilities	9,982 (13.4)	5,441 (7.2)	4,087	69.3	-4,541	-45.5
LIABILITIES/ASSETS	74,562	75,516	26,008	53.6	954	1.3
Assets						
1. Investments	11,210 (15.0)	14,813 (19.6)	3,798	51.2	3,603	32.1
i) Approved Securities @	7,146	9,230	2,859	66.7	2,084	29.2
ii) Other Investments	4,064 (5.5)	5,583 (7.4)	939	30.0	1,519	37.4
2. Loan & Advances	18,823 (25.2)	21,073 (27.9)	7,764	70.2	2,250	12.0
3. Hire Purchase Assets	33,525 (45.0)	35,647 (47.2)	7,303	27.9	2,122	6.3
4. Equipment Leasing Assets	1,048 (1.4)	585 (0.8)	-317	-23.2	-463	-44.2
5. Bill Business	12 (0.0)	23 (0.0)	5	71.4	11	91.7
6. Other Assets	9,944 (13.3)	3,375 (4.5)	7,456	299.7	-6,569	-66.1

P : Provisional
@ : SLR Asset comprises 'Approved Securities' and 'unencumbered term deposits' in Scheduled Commercial Banks
Note: Figures in parentheses are percentage shares in respective total
Source: Annual Returns.

securities. Other investments increased by 37.4 per cent during 2008-09 as compared with 30.0 per cent during 2007-08.

6.49 Among NBFC groups, asset finance companies (AFCs) held the largest share in total assets/liabilities (70.3 per cent), followed by loan companies (28.9 per cent), hire purchase companies (0.6 per cent) and equipment leasing (0.3 per cent) (Table VI.17). The increase in assets/liabilities of AFCs was mainly on account of reclassification of NBFCs, which was initiated in December 2006 and the process of which is still continuing. The share of equipment leasing companies declined to below 1 per cent subsequent upon the re-classification of NBFCs in 2006-07. The relative significance of various NBFC groups reflected largely the pattern of their borrowings as deposits constituted a small share (2.6 per cent) of their total liabilities. Of the total deposits held by all NBFCs, asset finance companies held the largest share in total deposits of NBFCs (70.3 per cent), followed distantly by loan companies with a 19.9 per cent share and by hire purchase companies with a share of 9.6 per cent (Table VI.17).

Deposits: Profile of Public Deposits of Different Categories of NBFCs

6.50 Continuing the trend of the previous year, public deposits held by all groups of NBFCs taken together, declined moderately during 2008-09. This trend is indicative of the shift in preference of NBFCs from public deposits to bank loans/ debentures. The decline in public deposits was mainly evident in the case of loan companies and equipment leasing companies due to reclassification of some of these companies as asset finance companies. Deposits of asset finance companies increased by 17.5 per cent during 2008-09 (Table VI.18).

Size-wise Classification of NBFCs Deposits

6.51 Deposits held by NBFCs ranged from less than Rs.0.5 crore to above Rs.50 crore (Table VI.19). The deposits held by NBFCs in all deposit-groups declined during 2008-09, except in the deposit-class 'more than Rs.10 crore and up to Rs.20 crore' and 'more than Rs.20 crore and up to Rs.50 crore'. The share of the deposit class 'Rs.50 crore and above' in total deposits

Table VI.17: Major Components of Liabilities of NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification of NBFCs	Liabilities		Deposits		Borrowings	
	2007-08	2008-09 P	2007-08	2008-09 P	2007-08	2008-09 P
1	2	3	4	5	6	7
Asset Finance	50,998 (68.4)	53,068 (70.3)	1,161 (56.9)	1,364 (70.3)	34,093 (67.4)	40,232 (72.8)
Equipment Leasing	162 (0.2)	192 (0.3)	10 (0.5)	3 (0.2)	76 (0.2)	54 (0.1)
Hire Purchase	178 (0.2)	425 (0.6)	169 (8.3)	186 (9.6)	38 (0.1)	43 (0.1)
Investment	402 (0.5)	–	19 (0.9)	–	358 (0.7)	–
Loan	22,819 (30.6)	21,831 (28.9)	682 (33.4)	388 (19.9)	16,012 (31.7)	14,960 (27.1)
MNBC	3 (0.0)	–	1 (0.1)	–	0	–
Total	**74,562**	**75,516**	**2,042**	**1,941**	**50,577**	**55,289**

– : Nil/Negligible.
P : Provisional.
Note: Figures in parentheses are percentage shares in respective total.
Source: Annual Returns.

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

(Amount in Rs. crore)

NBFC Group	As at end-March				Percentage Variation
	Number of NBFCs		Public Deposits		
	2007-08	2008-09 P	2007-08	2008-09 P	2008-09
1	2	3	4	5	6
Asset Finance	185	147	1,161 (56.9)	1,364 (70.3)	17.5
Equipment Leasing	15	11	10 (0.5)	3 (0.2)	-70.6
Hire Purchase	76	74	169 (8.3)	186 (9.6)	10.1
Investment	1	1	19 (0.9)	–	–
Loan	70	42	683 (33.4)	388 (19.9)	-43.3
MNBCs	3		1	–	–
Total	**350**	**275**	**2,042**	**1,941**	**-4.9**

– : Nil/Negligible.
P : Provisional
Note: Figures in parentheses are percentage shares in respective total.
Source: Annual Returns.

was 80 per cent, while that of other deposit classes combined together was only about 20 per cent of total public deposits of the NBFC sector.

Table VI.19: Public Deposits held by NBFCs-D by Deposit Ranges

(Amount in Rs. crore)

Deposit Range	As at end-March			
	No. of NBFCs		Amount of Deposit	
	2007-08	2008-09P	2007-08	2008-09P
1	2	3	4	5
Less than Rs. 0.5 crore	213	177	28 (1.4)	22 (1.1)
More than Rs.0.5 crore and up to Rs.2 crore	85	53	82 (4.0)	51 (2.6)
More than Rs.2 crore and up to Rs.10 crore	38	30	186 (9.1)	133 (6.9)
More than Rs.10 crore and up to Rs.20 crore	4	6	61 (3.0)	76 (3.9)
More than Rs.20 crore and up to Rs.50 crore	2	3	56 (2.7)	115 (5.9)
Rs.50 crore and above	8	6	1,629 (79.8)	1,544 (79.5)
Total	350	275	2,042	1,941

P : Provisional.
Note: Figures in parentheses are percentage shares in respective total.
Source: Annual Returns.

Region-wise Composition of Deposits held by NBFCs

6.52 Following the trend of the previous year, deposits held by NBFCs across all the regions declined during 2008-09 except western region (Table VI.20). Western region recorded the growth of 85.7 per cent in the public deposits. As in the previous year, the southern region accounted for the largest share of deposits (around 76 per cent), followed by the northern region (around 15 per cent) and the western region (around 8 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

6.53 The share of public deposits held by NBFCs contracted in the interest rates up to 10 per cent declined from 73.0 per cent in 2007-08 to 30.1 per cent in 2008-09, while those contracted in the bracket 'more than 10 per cent and up to 12 per cent' witnessed a

Table VI.20: Public Deposits held by NBFCs-D - Region-wise

(Amount in Rs. crore)

Region	As at end-March			
	2007-08		2008-09 P	
	Number of NBFCs-D	Public Deposits	Number of NBFCs-D	Public Deposits
1	2	3	4	5
Central	54	25 (1.2)	42	20 (1.0)
East	9	18 (0.9)	5	8 (0.4)
North	180	284 (13.9)	139	283 (14.6)
South	84	1,631 (79.9)	66	1,474 (75.9)
West	23	84 (4.1)	23	156 (8.0)
Total	**350**	**2,042**	**275**	**1,941**
Metropolitan cities:				
Kolkata	6	15	3	8
Chennai	46	1,565	33	1,407
Mumbai	10	76	11	148
New Delhi	63	204	47	207
Total	**125**	**1,860**	**94**	**1,770**

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

sharp rise from 25.4 per cent to 65.0 per cent (Table VI.21).

Maturity Pattern of Public Deposits

6.54 Deposits with the maturity period of 'less than 1 year', 'more than 1 year and up to 2 years'

Table VI.21: Public Deposits held by NBFCs-D - Deposit Interest Rate Range-wise

(Amount in Rs. crore)

Deposit Interest Rate Range	As at end-March	
	2007-08	2008-09 P
1	2	3
Upto 10 per cent	1,491 (73.0)	584 (30.1)
More than 10 per cent and up to 12 per cent	518 (25.4)	1,261 (65.0)
12 per cent and above	33 (1.6)	96 (4.9)
Total	**2,042**	**1,941**

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

Table VI:22 Maturity Pattern of Public Deposits held by NBFCs-D

(Amount in Rs. crore)

Maturity Period	As at end-March	
	2007-08	2008-09 P
1	2	3
1. Less than 1 year	611 (29.9)	698 (36.0)
2. More than 1 and up to 2 years	491 (24.0)	506 (26.1)
3. More than 2 and up to 3 years	663 (32.5)	593 (30.6)
4. More than 3 and up to 5 years	211 (10.3)	84 (4.3)
5. 5 years and above	66 (3.2)	60 (3.0)
Total	**2,042**	**1,941**

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

and '5 years and above' increased during the year. Deposits in the maturity bucket of 'more than 2 years and up to 3 years' and 'more than 3 years and less than 5 years' declined significantly at end-March 2009. As a result, their share in total deposits recorded a decline in total deposits (Table VI.22).

Borrowings by NBFCs

6.55 The outstanding borrowings by NBFCs increased by 9.3 per cent during 2008-09 (Table VI.23). Borrowings by equipment leasing companies and loan companies declined, while those by asset finance companies and hire purchase companies increased during the year. AFCs continued to hold the largest share (72.8 per cent) of borrowings of all NBFCs, followed by loan companies (27.1 per cent).

6.56 Borrowings by NBFCs from banks and financial institutions increased sharply by 29.3 per cent while borrowings by way of bonds and debentures remained at the same level during 2008-09. The borrowings from Government declined by 21.4 per cent during 2008-09. Other deposits (which include, *inter alia*, money borrowed from other companies, unsecured loans from directors/promoters, commercial paper,

Table VI.23: Borrowings by NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification	As at end-March				Percentage Variation
	No. of NBFCs		Total Borrowings		
	2007-08	2008-09 P	2007-08	2008-09 P	2008-09
1	2	3	4	5	6
Asset Finance	185	147	34,093	40,232	18.0
			(67.4)	(72.8)	
Equipment Leasing	15	11	76	54	-28.8
			(0.2)	(0.1)	
Hire Purchase	76	74	38	43	13.2
			(0.1)	(0.1)	
Investment	1	1	358	–	–
			(0.7)		
Loan	70	42	16,012	14,960	-6.6
			(31.7)	(27.1)	
MNBCs	3		–	–	–
Total	**350**	**275**	**50,577**	**55,289**	9.3

P : Provisional

Note: Figures in parentheses are percentages to respective total.

Source: Annual Returns.

borrowings from mutual funds and any other type of funds which are not treated as public deposits) also registered a decline of 2.6 per cent during 2008-09 (Table VI.24).

Assets of NBFCs

6.57 The total assets of deposit-taking NBFCs registered a marginal growth of 1.3 per cent during 2008-09 mainly on account of decline in assets of loan companies (Table VI.25). Loans and advances (7.3 per cent) as well as investments (32.1 per cent) of NBFCs also increased during the year. At end-March 2009, 73.0 per cent of total assets, 75.4 per cent of total loans and advances and 23.9 per cent of total investments by all NBFCs were held by AFCs.

Table VI.24: Sources of Borrowings by NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification	As at end-March									
	Government		External Sources @		Banks and Financial Institutions		Debentures		Others	
	2008	2009 P	2008	2009 P	2008	2009 P	2008	2009 P	2008	2009 P
1	2	3	4	5	6	7	8	9	10	11
Asset Finance	0	0	828	832	16,330	21,775	10,216	11,620	6,719	6,005
				(0.5)		(33.3)		(13.7)		(-10.6)
Equipment Leasing	0	0	0	0	4	7	0	0	72	47
						(83.2)				-34.8
Hire Purchase	0	0	0	0	0	13	3	2	35	28
								(-33.3)		(-19.7)
Investment	72	0	0	0	82	0	0	0	204	0
Loan	2,247	1,824	627	631	2,579	2770	2,835	1,444	7,723	8,291
		(-18.8)		(0.7)		7.4		-49.1	434.8	7.4
MNBC	0	0	0	0	0	0	0	0	0	0
Total	2,319	1,824	1,455	1,463	18,995	24,565	13,054	13,066	14,753	14,371
		(-21.4)		(0.6)		(29.3)		(0.1)		(-2.6)

P : Provisional.

@ : Comprises (i) Foreign Government, (ii) Foreign Authority, and (iii) Foreign Citizen or Person

Note: Figures in parentheses are percentage variations over the previous year.

Source: Annual Returns.

Table VI.25: Major Components of Assets of NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification	As at end-March					
	Assets		Advances		Investment	
	2008	2009 P	2008	2009 P	2008	2009 P
1	2	3	4	5	6	7
Asset Finance	50998	55115	42368	43607	4060	3545
	(68.4)	(73.0)	(79.3)	(75.4)	(36.2)	(23.9)
Equipment Leasing	162	156	92	65	48	41
	(0.2)	(0.2)	(0.2)	(0.1)	(0.4)	(0.3)
Hire Purchase	178	194	136	153	40	6390
	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)	(43.1)
Investment	402	–	146	–	256	–
	(0.5)	(0.0)	(0.3)		(2.3)	
Loan	22819	20051	10653	13480	6807	4837
	(30.6)	(26.6)	(20.0)	(23.5)	(60.7)	(32.7)
MNBCs	3	–	2	–	0	–
	(0.0)		(0.0)		(0.0)	
Total	74562	75516	53397	57305	11211	14813

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

Distribution of NBFCs-D According to Asset Size

6.58 The asset size of NBFCs varies significantly between less than Rs.25 lakh to above Rs.500 crore. The asset holding pattern remained skewed in 2008-09, with 12 NBFCs with asset size of 'above Rs.500 crore' holding 95.8 per cent of total assets of all NBFCs, while the remaining 263 NBFCs held about 4.2 per cent of total assets at end-March 2009 (Table VI.26).

Distribution of Assets of NBFCs – Type of Activity

6.59 During the year 2008-09, assets held in the form of investments and loans and inter-corporate deposits witnessed a robust growth. While growth in assets in the form of hire purchase moderated considerably, equipment leasing assests and other assets witnessed sharp decline during 2008-09. The hire purchase activity continued to constitute the largest share (47.2 per cent) in total assets, followed by loans and inter-corporate deposits (27.9 per cent) and investments (19.6 per cent) (Table VI.27).

Financial Performance of NBFCs

6.60 Financial performance of NBFCs in terms of income and net profit improved during 2008-09. Both fund based income (16.9 per cent) and fee based income (46.0 per cent)

Table VI.26: Assets of NBFCs-D by Asset-Size Ranges

(Amount in Rs. crore)

Asset-Size	As at end-March			
	No. of reporting companies		Assets	
	2007-08	2008-09 P	2007-08	2008-09 P
1	2	3	4	5
Less than 0.25 crore	40	2	4 (0.0)	0 (0.0)
More than 0.25 crore and upto 0.50 crore	28	19	11 (0.0)	7 (0.0)
More than 0.50 crore and upto 2 crore	119	107	133 (0.2)	118 (0.2)
More than 2 crore and upto 10 crore	91	85	385 (0.5)	383 (0.5)
More than 10 crore and upto 50 crore	38	36	779 (1.0)	783 (1.0)
More than 50 crore and upto 100 crore	10	10	620 (0.8)	649 (0.9)
More than 100 crore and upto 500 crore	9	4	2,055 (2.8)	1,263 (1.7)
Above 500 crore	15	12	70,575 (94.7)	72,313 (95.8)
Total	**350**	**275**	**74,562**	**75,516**

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

Table VI.27: Assets of NBFCs-D by Activity

(Amount in Rs. crore)

Activity	As at end-March		Percentage Variation	
	2007-08	2008-09 P	2007-08	2008-09
1	2	3	4	5
Loans and Inter-corporate deposits	18,823 (25.2)	21,073 (27.9)	70.2	12.0
Investments	11,210 (15.0)	14,813 (19.6)	51.2	32.1
Hire Purchase	33,525 (45.0)	35,647 (47.2)	27.9	6.3
Equipment and Leasing	1,048 (1.4)	585 (0.8)	-45.6	-44.2
Bills	13 (0.0)	23 (0.0)	85.7	76.9
Other assets	9,944 (13.3)	3,375 (4.5)	219.4	-66.1
Total	**74,563**	**75,516**	53.6	1.3

P : Provisional

Note: Figures in parentheses are percentages to respective total.

Source: Annual Returns.

registered robust growth. While growth in expenditure decelerated over the previous year, it, however, witnessed higher growth than income resulting in decline in operating profit by 2.2 per cent. Net profit registered a moderate growth mainly due to lower provisioning for tax. The cost to income ratio deteriorated from 68.9 per cent 2007-08 to 74.1 per cent in 2008-09 (Table VI.28).

6.61 Non-interest cost at 97.6 percent continued to constitute the dominant share in total cost of the NBFCs during 2008-09. Concomitantly, the interest cost constituted a smaller share of the total cost (Table VI. 29).

6.62 Expenditure (including provisions) as a percentage of assets witnessed a rise during 2008-09. However, income as a percentage of assets increased at a higher pace resulting in a rise in the net profits to asset ratio (Chart VI.3).

Soundness Indicators: Asset Quality of NBFCs-D

6.63 In contrast to the trend during the last few years, Gross NPA ratio increased to 2.7 per cent during 2008-09 from 2.1 per cent in 2007-08. Net NPA remained negative with provisions exceeding NPA at end-March 2009 (Table VI.30).

Table VI.28: Financial Performance of NBFCs-D

(Amount in Rs. crore)

Indicator	As at end-March		Percentage Variation	
	2008	2009 P	2007-08	2008-09
1	2	3	4	5
A. Income (i+ii)	10,038	11,799	75.5	17.5
(i) Fund Based	9,832 (98.0)	11,498 (97.0)	75.9	16.9
(ii) Fee-Based	206 (2.0)	301 (3.0)	57.4	46.0
B. Expenditure (i+ii+iii)	6,913	8,742	43.1	26.5
(i) Financial	4,525 (60.0)	5,641 (66.0)	63.7	24.7
of which Interest Payment	226 (6.0)	211 (2.3)	-55.5	-6.6
(ii) Operating	2,178 (30.5)	2,369 (27.6)	72.7	8.8
(iii) Others	210 (3.4)	732 (4.1)	-73.9	248.6
C. TAX Provisions	1,213	1,002	215.1	-17.4
D. Operating Profit (PBT)	**3,125**	**3,057**	**251.1**	**-2.2**
E. Net Profit (PAT)	**1,912**	**2,055**	**279.4**	**7.5**
F. Total Assets	**74,562**	**75,516**	**53.6**	**1.3**
G. Financial Ratios (as percentage to Total Assets)				
i) Income	13.5	15.6		
ii) Fund Based Income	97.9	15.2		
iii) Fee Based Income	0.3	0.4		
iv) Expenditure	9.3	11.6		
v) Financial Expenditure	6.1	7.5		
vi) Operating Expenditure	2.9	3.1		
vii) Tax Provision	1.6	1.3		
viii) Net Profit	2.6	2.7		
H. Cost to Income Ratio	**68.9**	**74.1**		

P : Provisional.

Note: Figures in parentheses are percentages to respective total.

Source: Annual Returns.

Table VI.29: Interest Cost of NBFCs-D

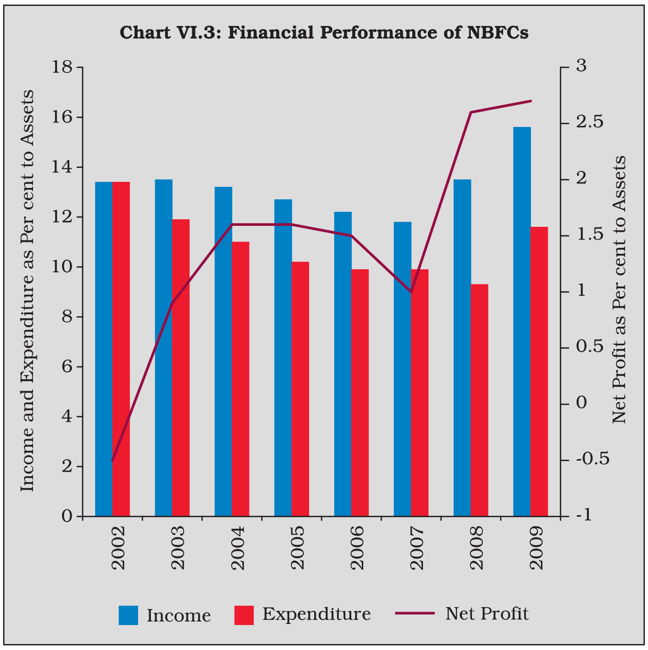
(Amount in Rs. crore)

End-March	Total Income	Total Cost	Interest Cost	Non-Interest Cost
1	2	3	4	5
2007-08	10,038	6,913	226	6,687
2008-09 P	11,799	8,742	211	8,531

P : Provisional.

Note: Figures in parentheses are percentages to respective total.

Source: Annual Returns.



6.64 Gross NPAs (as percentage of gross advances) of asset finance companies, equipment leasing companies and investment companies and hire purchase companies declined during 2008-09. Net NPAs (as percentage of net advances) increased marginally in case of asset finance companies and hire purchase companies, while those of equipment leasing companies and investment companies decreased. NPAs of loan companies remained negative during 2008-09 also (Table VI.31).

Table VI.30 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	2.1	0*
2009 P	2.7	0*

P : Provisional.
* : Provision exceeds NPA
Source: Half-Yearly Returns.

6.65 Asset quality of various types of NBFCs as reflected in various categories of NPAs (substandard, doubtful and loss) shows that there was sharp improvement in the asset quality of equipment leasing companies and deterioration in the asset quality of hire purchase companies during 2008-09 over previous year (Table VI.32).

Capital Adequacy Ratio

6.66 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 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 declined to 9 at end-March 2009 from 47 at end-March 2008 (Table VI.33). At end-March 2009, 198 out of 207 NBFCs had CRAR of 12 per cent or more as against 280 out of 327 NBFCs at end-March 2008. The number of NBFCs with CRAR more than 30 also declined to 168 at end-March 2009 from 239 at end-March 2008. 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.

6.67 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 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

Table VI.31: NPAs of NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification End-March	Gross Advances	Gross NPAs			Net Advances	Net NPAs		
		Amount	Per cent to Gross Advances	Per cent to Assets		Amount	Per cent to Net Advances	Per cent to Assets
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	37,233	652	1.8	1.7	36,609	28	0.1	0.1
2009 P	34,240	573	1.7	1.6	34,023	356	1.0	1.0
Equipment Leasing								
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	26	6	24.3	7.2	-10	-29	293.6	-34.2
2009 P	26	2	7.7	2.5	4	-20	-491.2	-24.6
Hire Purchase								
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	324	158	48.8	43.8	244	78	32.0	21.6
2009 P	205	138	67.6	61.8	133	67	50.1	29.8
Investment								
2004	63	15	23.8	2.6	55	7	12.7	1.2
2005	58	10	17.2	1.8	58	10	18.0	1.8
2006	59	0	0.4	0.0	59	0	0.4	0.0
2007	31	1	2.8	0.1	31	1	2.8	0.1
2008	732	108	14.8	7.7	732	108	14.8	7.7
2009 P	1,729	87	5.0	3.6	1,729	87	5.0	3.6
Loan								
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	16,631	132	0.8	0.6	10,832	-5,667	-52.3	-27.6
2009 P	15,039	547	3.6	3.6	10,148	-4,344	-42.8	-28.3

P : Provisional.

Source: Half-Yearly Returns.

per cent of owned fund). Information on NOF can complement the information on CRAR. The ratio of public deposits to NOF in the case of loan companies and hire purchase declined during the year ended March 2009, while that of other category companies witnessed a marginal increase. The ratio of hire purchase companies continued to be negative because of negative NOF. The ratio of public deposits to NOF for all categories of NBFCs taken together was unchanged at 0.2 per cent at end-March 2009 (Table VI.34).

Table VI.32: Classification of Assets of NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification/ End-March	Standard Assets	Sub-Standard Assets	Doubtful Assets	Loss Assets	Gross NPAs	Gross Advances
1	2	3	4	5	6	7
Asset Finance						
2007	11,562	242	17	3	262	11,824
	(97.8)	(2.1)	(0.1)	(0.0)	(2.2)	(100.0)
2008	36,581	584	41	27	652	37,233
	(98.2)	(1.6)	(0.1)	(0.1)	(1.8)	(100.0)
2009P	33,667	520	35	18	573	34,240
	(98.3)	(1.5)	(0.1)	(0.1)	(1.7)	(100.0)
Equipment Leasing						
2006	2,809	12	21	36	69	2,878
	(97.6)	(0.4)	(0.7)	(1.2)	(2.4)	(100.0)
2007	1,013	4	2	38	45	1,057
	(95.8)	(0.4)	(0.2)	(3.6)	(4.3)	(100.0)
2008	19	1	1	4	6	26
	(75.7)	(4.7)	(4.5)	(15.0)	(24.3)	(100.0)
2009P	24	0	1	1	2	26
	(92.3)	(1.1)	(2.6)	(3.9)	(7.7)	(100.0)
Hire Purchase						
2006	17,163	184	47	212	444	17,607
	(97.5)	(1.0)	(0.3)	(1.2)	(2.5)	(100.0)
2007	17,817	194	81	188	464	18,280
	(97.5)	(1.1)	(0.4)	(1.0)	(2.5)	(100.0)
2008	166	7	7	144	158	324
	(51.2)	(2.0)	(2.3)	(44.4)	(48.8)	(100.0)
2009P	66	4	3	131	138	205
	(32.4)	(1.8)	(1.6)	(64.2)	(67.6)	(100.0)
Investment						
2006	59	0	0	0	0	59
	(99.6)	(0.0)	(0.2)	(0.2)	(0.4)	(100.0)
2007	31	1	0	0	1	31
	(97.2)	(2.8)	(0.0)	(0.0)	(2.8)	(100.0)
2008	624	100	8	0	108	732
	(85.2)	(13.7)	(1.1)	(0.0)	(14.8)	(100.0)
2009P	1,643	38	49	0	87	1,729
	(95.0)	(2.2)	(2.8)	(0.0)	(5.0)	(100.0)
Loan						
2006	438	19	99	134	252	690
	(63.5)	(2.7)	(14.3)	(19.4)	(36.5)	(100.0)
2007	7,470	9	91	24	124	7,594
	(98.4)	(0.1)	(1.2)	(0.3)	(1.6)	(100.0)
2008	16,499	22	81	29	132	16,631
	(99.2)	(0.1)	(0.5)	(0.2)	(0.8)	(100.0)
2009P	14,492	465	66	16	547	15,039
	(96.4)	(3.1)	(0.4)	(0.1)	(3.6)	(100.0)

P : Provisional.

Note: Figures in parentheses are percentages to credit-exposures

Source: Half-Yearly Returns.

Table VI.33: Capital Adequacy Ratio of NBFCs-D

(Per cent)

CRAR Range	As at end-March									
	2007-08					2008-09 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)	19	4	15	9	47	0	2	4	3	9
a) Less than 9 per cent	4	4	15	9	32	0	2	3	3	8
b) More than 9 and up to 12 per cent	0	0	0	0	0	0	0	0	0	0
2) More than 12 and up to 15 per cent	3	0	0	1	4	3	0	0	0	3
3) More than 15 and up to 20 per cent	5	0	0	3	8	4	0	0	2	6
4) More than 20 and up to 30 per cent	25	0	1	3	29	17	0	2	2	21
5) Above 30 per cent	117	10	66	46	239	99	8	34	26	168
Total	**169**	**14**	**82**	**62**	**327**	**123**	**10**	**40**	**33**	**207**

AFC : Asset Finance Company. EL : Equipment Leasing. HP : Hire Purchase. LC/IC : Loan Companies/ Investment Companies.
P : Provisional
Source: Half-Yearly Returns.

6.68 NOF 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 up to 25 lakh and 'more than Rs.25 lakh and and up to Rs.2 crore' declined, while the ratio of 'more than 10 crore up to 50 crore' and 'more than 100 crore and up to 500 crore' registered a rise. NBFCs in all other ranges of NOF generally remained constant (Table VI.35).

Table VI.34: Net Owned Fund *vis-à-vis* Public Deposits of NBFCs-D

(Amount in Rs. crore)

Classification	As at end-March			
	Net Owned Funds		Public Deposits	
	2008	2009 P	2008	2009 P
1	2	3	4	5
Asset Finance	6,939	7,632	1,161 (0.2)	1,364 (0.2)
Equipment Leasing	-50	10	10 -(0.2)	3 (0.3)
Hire Purchase	-76	-72	169 -(2.2)	186 -(2.6)
Investment	83	0	19 (0.2)	–
Loan	3,306	4,018	682 (0.2)	388 (0.1)
MNBC	1	–	1	–
Total	10,203	11,588	2,042 (0.2)	1,941 (0.2)

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

Residuary Non-Banking Companies (RNBCs)

6.69 Assets of the RNBCs declined by 17.3 per cent during the year ended March 2009. Their assets in the form of unencumbered approved securities registered a sharp rise, while those in bonds/debentures and fixed deposits/ certificates of deposit of SCBs recorded a decline. NOF of RNBCs increased by 8.9 per cent during 2008-09 on top of the rise of 25.8 per cent witnessed during 2007-08 (Table VI.36).

6.70 The increase in income of RNBCs during 2008-09 was less than the increase in expenditure, as a result of which the operating profit of RNBCs declined during the year. The provision for taxation also registered a fall. As a result, net profit of RNBCs declined by 33.7 per cent during 2008-09 as against the increase of 406.8 per cent during 2007-08.

Regional Pattern of Deposits of RNBCs

6.71 Of the two RNBCs, one is based in the Eastern region (Kolkata) and the other in the

Table VI.35: Range of Net Owned Fund *vis-à-vis* Public Deposits of NBFCs-D

(Amount in Rs. crore)

Ranges of Net Owned Fund	As at end-March					
	2007-08			2008-09 P		
	No. of Companies	Net Owned Funds	Public Deposits	No. of Companies	Net Owned Funds	Public Deposits
1	2	3	4	5	6	7
1. Upto 0.25 crore	18	-552	178 -(0.3)	3	-201	153 -(0.8)
2. More than 0.25 crore and up to 2 crore	231	167	91 (0.5)	172	126	48 (0.4)
3. More than 2 crore and up to 10 crore	63	267	136 (0.5)	66	249	133 (0.5)
4. More than 10 crore and up to 50 crore	21	440	145 (0.3)	20	358	158 (0.4)
5. More than 50 crore and up to 100 crore	3	226	91 (0.4)	2	127	45 (0.4)
6. More than 100 crore and up to 500 crore	7	1,507	636 (0.4)	4	649	389 (0.6)
7. Above 500 crore	7	8,148	764 (0.1)	8	10,280	1,015 (0.1)
Total	**350**	**10,203**	**2,041 (0.2)**	**255**	**11,588**	**1,941 (0.2)**

P : Provisional.
Note: Figures in parentheses are Public Deposit as ratio of respective Net Owned Fund.
Source: Annual Returns.

Central region. The RNBCs are in the process of migrating to other business models as agreed upon and the companies would reduce their deposit liabilities to 'nil' by 2015. Concomitantly, the public deposits held by the two RNBCs registered a decline. Only one RNBC has headquarters in a metropolitan city, *i.e.*, Kolkata (Table VI.37).

Investment Pattern of RNBCs

6.72 The investment pattern of RNBCs as prescribed in the Residuary Non-Banking (Reserve Bank) Directions, 1987 was reviewed and modified on March 31, 2006. The aggregate liability to depositor (ALD) was bifurcated under two heads, *viz.*, 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.

6.73 ALD declined by 12.3 per cent during 2008-09. While fixed deposits with banks and bonds and debentures declined, unencumbered approved securities and other investments registered a rise (Table VI.38).

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

6.74 The turbulence in the international financial markets in 2008 also affected the domestic financial sector including the NBFC Sector, particularly a few NBFCs-ND-SI. These

Table VI.36: Profile of RNBCs

(Amount in Rs. crore)

Item	As at end-March		Percentage Variation	
	2007-08	2008-09 P	2007-08	2008-09
1	2	3	4	5
A. Assets (I to V)	**24,452**	**20,211**	**5.5**	**-17.3**
(i) Investment in Unencumbered Approved Securities	3,137	5,247	-5.4	67.3
(ii) Investment in Fixed deposits/Certificates of Deposits of Scheduled Commercial Banks/Public Financial Institutions	6,562	5,999	17.1	-8.6
(iii) Debentures/Bonds/Commercial Papers of Govt. Companies/ Public Sector Banks/Public Financial Institution/Corporation	12,320	6,993	5.3	-43.2
(iv) Other investments	573	299	-50.4	-47.8
(v) Other Assets	1,860	1,743	33.5	-6.3
B. Net Owned Funds	**1,718**	**1,870**	**25.8**	**8.9**
C. Total Income (i+ii)	**2,326**	**2,416**	**22.9**	**3.8**
(i) Fund Income	2,303	2,315	22.1	0.5
(ii) Fee Income	23	101	182.6	346.0
D. Total Expenses (i+ii+iii)	**1,725**	**2,069**	**4.7**	**19.9**
(i) Financial Cost	1,322	1,604	7.5	21.3
(ii) Operating Cost	329	379	15.5	15.4
(iii) Other cost	74	86	-44.8	16.2
E. Taxation	**224**	**149**	**409.6**	**-33.7**
F. Operating Profit (PBT)	**601**	**347**	**144.3**	**-42.3**
G. Net profit (PAT)	**377**	**198**	**87.3**	**-47.4**

P : Provisional. PBT : Profit Before Tax. PAT : Profit After Tax.
Source: Annual Return.

entities have been financing long term assets with short term commercial paper and non-convertible debentures which were subscribed to mainly by MFs. Such NBFCs-ND-SI faced difficulties as MFs were not in a position to roll over these instruments during the crisis period.

Table VI.37: Public Deposit Held by RNBCs - Region-wise

(Amount in Rs. crore)

Region	As at end-March			
	2008		2009 P	
	No. of RNBCs	Amount	No. of RNBCs	Amount
1	2	3	4	5
Central	1	18,056 (80.8)	1	15,672 (79.9)
Eastern	1	4,303 (19.2)	1	3,935 (20.1)
North-Eastern	–	–	–	–
Northern	–	–	–	–
Southern	–	–	–	–
Western	–	–	–	–
Total	**2**	**22,358**	**2**	**19,607**
Metropolitan Cities:				
Chennai	–	–	–	–
Kolkata	1	4,303	1	3,935
Mumbai	–	–	–	–
New Delhi	–	–	–	–
Total	**1**	**4,303**	**1**	**3,935**

– : Nil/ Negligible. P : Provisional.
Note: Figures in parentheses are percentages to respective totals.
Source: Annual Return.

Table VI.38: Investment Pattern of RNBCs

(Amount in Rs. crore)

	End- March	
	2007-08	2008-09 P
1	2	3
Aggregated Liabilities to the Depositors (ALD)	**22,358**	**19,607**
(i) Unencumbered approved securities	3,137 (14.0)	5,247 (26.8)
(ii) Fixed Deposits with banks	6,562 (29.3)	5,999 (30.6)
(iii) Bonds or debentures or commercial papers of a Govt. company/ public sector bank/ public financial institution/ corporations	12,320 (55.1)	6,993 (35.7)
(iv) Other investments	573 (2.6)	299 (1.5)

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

There were also reports that banks which have sanctioned credit facilities were not willing to release funds in the wake of financial turbulence.

6.75 The Reserve Bank initiated discussions with a large number of NBFCs-ND-SI in October and November 2008 and studied their balance sheets to examine liquidity issues, if any, faced by them. As long as there was liquidity in the market, rolling over of CPs was smooth but when the market including the CP market became illiquid, rollover became a problem, resulting in redemption pressures as most of the assets were long term and quick unwinding was not possible. Though only a few large NBFCs had such liquidity issues, the general lack of confidence encompassed the whole sector leading to banks' refusal to lend / rollover sanctioned lines of credit. The Reserve Bank's timely and adequate liquidity interventions could address these problems. Details of measures are provided in Box VI.1.

6.76 In terms of extant Reserve Bank of India regulations, all NBFCs with assets size of Rs 100 crore and above, and not accepting / holding public deposits (NBFCs-ND-SI) are required to submit a Monthly Return on Important Financial Parameters to RBI. Once an NBFC reaches an asset size of Rs.100 crore or above, it comes under the regulatory requirement for NBFCs-ND-SI as stated above, despite not having such assets as on the date of last balance sheet. The NBFCs-ND-SI raise funds mainly by way of issuing debentures, borrowing from banks and FIs, commercial papers etc. In the recent past they have witnessed significant growth in terms of number as well as size.

Box VI.1: Measures by the Reserve Bank in view of the Financial Stress faced by NBFCs

The measures undertaken by the Reserve Bank in respect of NBFCs sector following the financial crisis were as follows:

i) NBFCs-ND-SI were permitted as a temporary measure to raise short- term foreign currency borrowings under the approval route subject to fulfillment of certain conditions. While the resources raised were to be used only for refinancing of short-term liabilities and not for creation of fresh assets, it was also advised that the maturity of such borrowing should not exceed three years and the maximum amount should not exceed 50 per cent of the NOF or USD 10 million (or its equivalent), whichever was higher. Eleven companies were granted permission under the facility to borrow funds to the tune of US$ 834.95 million + foreign currency equivalent of Rs 1,566.38 crore (not availed of) out of which seven have borrowed so far to the extent of US$ 645.58 million.

ii) Banks were permitted, on a temporary basis, to avail of liquidity support under the LAF window through relaxation in maintenance of SLR to the extent of up to 1.5 per cent of their NDTL, exclusively for meeting the funding requirements of NBFCs and mutual funds.

iii) The risk weight on banks' exposure to NBFCs-ND-SI was reduced to 100 per cent from 125 per cent irrespective of credit rating, while exposure to AFCs which attracted risk weight of 150 per cent was also reduced to 100 per cent.

iv) NBFCs-ND-SI were permitted to augment their capital funds by issue of Perpetual Debt Instruments. The amount of PDI raised by NBFCs-ND-SI would not be treated as 'public deposit' within the meaning of Reserve Bank directives.

v) Deferred the proposed increase in the CRAR to be maintained by NBFCs-ND-SI to 12 per cent and subsequently to 15 per cent by one year, *i.e.* 12 per cent by March 31, 2010 and 15 per cent by March 31, 2011.

vi) Provided direct lending facility as a Lender of Last Resort (LOLR) where RBI lends to NBFCs-ND-SI against their rated CPs through a SPV by subscribing to its bonds. The facility was operationalised in January 2009 through an SPV called 'IDBI SASF Trust' to provide liquidity support against investment grade paper of NBFCs, subject to their fulfilling certain conditions. It was designed as a LOLR facility to facilitate an orderly downsizing of balance sheet of financially sound NBFCs which faced short term temporary liquidity requirement. The facility has been availed by only one NBFC so far which has drawn Rs.1,040 crore under the scheme and there is no outstanding balance as on date. Government of India had extended the facility to be available for any paper issued till September 30, 2009 and the SPV would cease to make fresh purchases after December 31, 2009 and would recover all dues by March 31, 2010.

Composition of Liabilities

6.77 Liabilities of NBFCs-ND-SI can be classified into (i) Owned Fund, (ii) Borrowings, and (iii) Other Liabilities. Borrowings comprise (i) Debentures, (ii) Loans from banks, (iii) Commercial paper (CPs), (iv) Inter-Corporate Loans (ICLs or ICDs), and (v) Others. The consolidated balance sheet size of NBFCs-ND-SI as at end March 2009 stood at Rs.4,94,673 crore as compared to Rs.4,08,705 crore at end March 2008 recording a growth of 27.3 per cent. Significant increase in balance sheet size of NBFCs-ND-SI during the period ended March 2009 is mainly attributed to sharp increase in owned funds, debentures and other liabilities (Table VI.39).

6.78 Owned funds increased by 27.3 per cent and formed 28.3 per cent of total liabilities during the month ended March 2009. Debentures issued by NBFCs-ND-SI increased by 28.3 per cent during the year ended March 2009 and accounted for 23.0 per cent of total liabilities as compared with 21.7 per cent in the previous year. The share of borrowings from banks and FIs declined marginally to 18.5 per cent at end-March 2009 as compared with 19.8 per cent in the previous year. In contrast, inter-corporate borrowings declined by 36.7 per cent and formed only 2.8 per cent of total liabilities as at end-March 2009. Borrowings by way of commercial paper constituted 4.5 per cent of total liabilities and increased by 11.6 per cent during the year under review. Others, mainly comprising interest accrued and other borrowings, constituted 15.2 per cent of total liabilities and increased by 30.4 per cent during the year ended March 2009. Leverage ratio decreased marginally and stood at 2.5 as at end-March 2009.

6.79 Secured loans increased by 22.5 per cent and constituted 30 per cent of total liabilities during the period ended March 2009 whereas unsecured loans increased by 13.8 per cent and accounted for slightly higher at 34.6 per cent of total liabilities during the same period (Table VI.39).

Table VI.39: Sources of Funds of NBFCs-ND-SI

(Amount Rs. crore)

Item	March 2008	March 2009	Percentage Variation
1	2	3	4
Owned Fund	1,10,118 (26.9)	1,40,210 (28.3)	27.3
Debentures	88,871 (21.7)	1,14,018 (23.0)	28.3
Borrowings from Banks and FIs	80,961 (19.8)	91,527 (18.5)	13.1
Inter-corporate loans	22,019 (5.4)	13,937 (2.8)	-36.7
Commercial paper	20,068 (4.9)	22,392 (4.5)	11.6
Loans from Relatives	1,822 (0.4)	2,370 (0.5)	30.1
Others	57,547 (14.1)	75,064 (15.2)	30.4
Current Liabilities & Provisions	27,299 (6.7)	35,155 (7.1)	28.8
Total Liabilities	**4,08,705**	**4,94,673**	**21.0**
Memo Items:			
1. Secured Loans	1,21,082 (29.6)	1,48,314 (30.0)	22.5
2. Un-secured Loans	1,50,206 (36.8)	1,70,994 (34.6)	13.8
3. Leverage Ratio	2.71	2.53	

Note: Figures in the parentheses are percentages to total liabilities.
Source: Monthly Returns on NBFCs-ND-SI.

6.80 Information based on the returns received from NBFCs-ND-SI for the year ended March 2009 showed an increase of 21.0 per cent in their liabilities/assets over the year ended March 2008. 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.40).

Borrowings

6.81 Total borrowings (secured and unsecured) by NBFCs-ND-SI increased by 17.7 per cent to Rs.3,19,308 crore during the year ended March 2009, constituting 64.5 per cent of their total liabilities. During the quarter ended June 2009, the total borrowings increased further by 3.4 per cent to Rs.3,30,288 crore (Table VI.41).

Table VI.40: Liabilities of NBFCs-ND-SI

(Rs. crore)

Item	As at end		
	March 2008	March 2009	June 2009
1	2	3	4
No. of Companies	**189**	**234**	**232**
Total Liabilities	**4,08,705**	**4,94,673**	**5,08,026**
Paid-up Capital	24,490 (6.0)	30,173 (6.1)	30,358 (6.0)
Preference Shares	4,573 (1.1)	4,311 (0.9)	3,835 (0.8)
Reserves & Surplus	81,055 (19.8)	1,05,726 (21.4)	1,07,191 (21.1)
Secured Borrowings	1,21,082 (29.6)	1,48,314 (30.0)	1,48,576 (29.2)
Un-Secured Borrowings	1,50,206 (36.8)	1,70,994 (34.6)	1,81,712 (35.8)

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

Deployment of Funds

6.82 The pattern of deployment of funds by NBFCs-ND-SI during the year ended March 2009 remained broadly in line with the pattern witnessed during the previous year. The secured loans continued to constitute the largest share (45.6 per cent), followed by unsecured loans with a share of 23.2 per cent (Table VI.42).

Financial Performance

6.83 NBFCs-ND-SI earned a profit of Rs.11,850 crore during the year ended March 2009, which was higher by 36.1 per cent as compared with the profit earned during the year ended March 2008 (Rs.8,705 crore) (Table VI.43).

6.84 The gross NPAs to total assets ratio of NBFCs-ND-SI remained unchanged at 2.3 per cent for the year ended March 2009 but recorded a marginal increase for the quarter ended June 2009. The net NPAs to total assets ratio declined from 1.6 per cent as at end March 2008 to 0.7 per cent as at end March 2009, but increased to 0.9 per cent during the quarter ended June 2009 (Table VI.44).

Table VI.41:Borrowings by NBFCs-ND-SI

(Rs. crore)

Item	As at end		
	March 2008	March 2009	June 2009
1	2	3	4
No. of Companies	**189**	**234**	**232**
A. Secured Borrowings	1,21,082 (44.6)	1,48,314 (46.4)	1,48,576 (45.0)
(i). Debentures	44,439 (16.4)	49,078 (15.4)	49,530 (15.0)
(ii) Loans from Banks	25,774 (9.5)	35,571 (11.1)	38,300 (11.6)
(iii) Loans from FIs	5,988 (2.2)	6,038 (1.9)	6,543 (20.0)
(iv) Interest accrued	2,017 (0.7)	2,800 (0.9)	2,441 (0.7)
(v). Others	42,864 (15.8)	54,827 (17.2)	51,761 (15.7)
B. Un-Secured Borrowings	1,50,206 (55.4)	1,70,994 (53.6)	1,81,712 (55.0)
(i) Loans from Relatives	1,822 (0.7)	2,370 (0.7)	2,210 (0.7)
(ii) Inter-corporate Loans	22,019 (8.1)	13,937 (4.4)	18,347 (5.6)
(iii) Loans from banks	46,243 (17.0)	43,880 (13.7)	43,464 (13.2)
(iv) Loans from FIs	2,956 (1.1)	6,038 (1.9)	6,543 (2.0)
(v) Commercial Papers	20,068 (7.4)	22,392 (7.0)	26,530 (8.0)
(vi) Debentures	44,432 (16.4)	64,940 (20.3)	67,971 (20.6)
(vii) Interest Accrued	1,819 (0.7)	3,167 (1.0)	3,692 (1.1)
(viii) Others	10,847 (4.0)	14,270 (4.5)	12,955 (3.9)
Memo Items:			
Total Borrowings	2,71,288	3,19,308	3,30,288
Total Liabilities	4,08,705	4,94,673	5,08,026

Note: Figures in parentheses are percentages to Total Borrowings.
Source: Monthly Return on NBFCs-ND-SI.

4. Primary Dealers

6.85 As at end-September 2009, there were 19 Primary Dealers, of which 11 were banks carrying on Primary Dealership business departmentally (Bank-PDs) and the remaining eight stand-alone Primary Dealers registered as NBFCs under section 45IA of the RBI Act, 1934

Table VI.42: Select Indicators on Application of Funds by NBFCs-ND-SI

(Rs. crore)

Item	As at end		
	March 2008	March 2009	June 2009
1	2	3	4
Secured Loans	1,60,017 (44.7)	1,90,818 (45.6)	2,08,097 (47.8)
Un-Secured Loans	88,783 (24.8)	97,287 (23.2)	90,556 (20.8)
Hire Purchase Assets	29,832 (8.3)	36,051 (8.6)	37,017 (8.5)
Long-term Investments	53,856 (15.0)	64,316 (15.4)	65,879 (15.1)
Current Investments	25,758 (7.2)	30,360 (7.2)	33,670 (7.7)
Total	**3,58,246**	**4,18,832**	**4,35,219**
Memo Items:			
Capital Market Exposure	1,11,630	86,881	90,750
of which:			
Equity Shares	35,957	39,437	39,301

Note: Figures in parentheses are percentages to Total.
Source: Monthly Return on NBFCs-ND-SI.

and engaged predominantly in the Government Securities business. Morgan Stanley India Primary Dealer Pvt. Ltd and Nomura Fixed Income Securities Pvt. Ltd. were given authorization to undertake Primary Dealership with effect from July 20, 2009 and September 7, 2009 respectively.

Table VI.43: Financial Performance of NBFCs-ND-SI

(Rs. crore)

Item	As at end		
	March 2008	March 2009	June 2009
1	2	3	4
Total Assets	4,08,705	4,94,673	5,08,026
Total Income@	39,537 (9.7)	61,921 (12.5)	14,502 (2.9)
Total Expenses@	27,291 (6.7)	44,271 (8.9)	10,948 (2.2)
Net Profit@	8,705 (2.1)	11,850 (2.4)	2,373 (0.5)

@ : Cumulative
Note: Figures in parentheses are percentages to Total Assets.
Source: Monthly Return on NBFCs-ND-SI.

Table VI.44: Gross and Net NPAs of NBFCs-ND-SI

(Per cent)

Item	As at end		
	March 2008	March 2009	June 2009
1	2	3	4
Gross NPA to Total Credit Exposure	3.1	3.0	3.3
Net NPA to Total Credit Exposure	2.0	1.0	1.1
Gross NPA to Total Assets	2.3	2.3	2.5
Net NPA to Total Assets	1.6	0.7	0.9

Source: Monthly Return on NBFCs-ND-SI.

6.86 During the year 2008-09, many policy initiatives were taken to strengthen the PD system. First, in order to enable the PDs to raise more capital from the market through issue of subordinated debts, the extant ceiling of 200 basis points on the interest rate spreads at the time of issue of the subordinated instruments for the purpose of Tier II and Tier III capital requirements, was removed. Primary Dealers are now allowed to issue subordinated Tier II and Tier III bonds at coupon rates as decided by their Boards of Directors. Second, stand-alone PDs were allowed to hold up to 100 per cent of their paid up capital in Held- to- Maturity (HTM) category to insulate their financials from the price fluctuations caused during extreme stress times. Third, in the context of the Interest Rate Futures (Reserve Bank) Directions, 2009 dated August 28, 2009, stand-alone Primary Dealers (PDs) were allowed to deal in Interest Rate Futures (IRFs) for both hedging and trading on own account and not on client's account, subject to adherence to the prescribed prudential norms. Fourth, the limit on borrowing by the PDs from the call / notice money market, on an average in a reporting fortnight, was increased from the existing ceiling of 200 per cent of their NOF to 225 per cent of NOF, as at the end March of the preceding financial year. Fifth, to ensure stability of Primary Dealers in times of volatile interest rates, the minimum capital requirement increased from Rs.50 crore to Rs.150 crore. PDs which intend to diversify into other permissible activities need to have net owned funds of Rs.250 crore as against Rs.100 crore earlier.

6.87 The recommendations of the Internal Working Group on Auction Process of Government of India Securities (Chairman: Shri H.R. Khan), such as reduction of the time gap between the bid submission and the declaration of auction results, withdrawal of the facility of bidding in physical form and submission of competitive bids only through the NDS; and submission of a single consolidated bid on behalf of all its constituents by the bank/PD in respect of non-competitive bids have been implemented. In response to the Government borrowing programme in 2008-09 and 2009-10 so far, the underwriting income of PDs has registered a steady growth (Box VI.2).

Operations and Performance of PDs

6.88 The actual bids of dated securities during 2008-09 tendered by the PDs (Rs.3,49,393 crore) in the primary market were 1.3 times the notified amount (Rs.2,61,000 crore) as compared with 1.6 times the notified amount in the previous year.

6.89 The cumulative bidding commitments of the PDs in case of Treasury Bills were 111 per cent of the notified amount in each auction. The actual bids submitted by PDs collectively (including bank-PDs) were Rs.5,09,794 crore against their bidding commitment of Rs.2,84,985 crore translating into a bid-cover ratio of 1.8. The amount of bids accepted was for Rs.1,72,474 crore, at a success ratio of 59.1 per cent. All the PDs have achieved the minimum prescribed success ratio of 40 per cent in both the halves of the year. The PDs' share in the primary auctions of Treasury Bills issued increased to 60.5 per cent during 2008-09 from 51.7 per cent during 2007-08.

6.90 During the fiscal year 2008-09, dated securities were issued for Rs.2,61,000 crore by the Government of India under the market borrowing programme. PDs, including bank-PDs, offered to underwrite Government dated securities amounting to Rs.4,24,723 crore and the Bank had accepted Rs.2,53,786 crore covering around 97.2 per cent of the notified amount.

6.91 During the fiscal year 2008-09, out of total 56 primary auctions of dated Government securities for Rs.2,61,000 crore, the PDs tendered bids for Rs.3,49,393 crore, *i.e.*, 1.3 times of the notified amount. PDs were allotted securities for Rs.1,11,094 crore and the success ratio decreased to 42.6 per cent during 2008-09 from 46.2 per cent during 2007-08. During the year 2008-09, total devolvement on PDs was Rs.10,773 crore as compared to Rs.957 crore during the previous year. The share of the PDs in the primary market issuance of dated securities decreased to 42.6 per cent in 2008-09 from 46.2 per cent in 2007-08. (Table VI.45).

6.92 During 2008-09, PDs' turnover (both outright and repo) in the secondary market amounted Rs.26,17,283 crore. The share of PDs' total turnover to the total market turnover declined from 16.1 per cent in 2007-08 to 12.8 per cent in 2008-09 (Table VI.46).

Sources and Application of Funds

6.93 The consolidated balance sheet size of the seven stand-alone PDs declined marginally by 5.3 per cent during the year ended March 2009. Though the number of PDs has declined from nine at end-March 2008 to seven at end-March 2009, the reserves and surplus of stand-alone PDs increased by 13.8 per cent as compared to the previous year, mostly on

Box VI.2: Underwriting of Central Government Dated Securities

Concomitant with the objectives of Primary Dealer (PD) system, PDs are required to support auctions for issue of Government dated securities, through underwriting the dated securities and meeting the underwriting/bidding commitments. In terms of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, the Reserve Bank of India's participation in the primary issues of Government securities stood withdrawn with effect from April 1, 2006, except under exceptional circumstances. To address the emerging needs, an Internal Technical Group on Central Government Securities Market was constituted, which recommended the restructuring of the institutional process of bidding commitment by introducing a revised methodology for Primary Dealers' obligations. Under the new scheme, Primary Dealers are required to meet 100 per cent underwriting commitment in each auction, replacing the earlier requirement of bidding commitment and voluntary underwriting. The scheme of underwriting was put in place from April 1, 2006. The Scheme was further reviewed in November, 2007 and it was decided that the minimum bidding requirement for each PD in the ACU auction would be equal to the amount of MUC.

Under the scheme, the underwriting commitment on dated securities of Central Government is divided equally into two parts - Minimum Underwriting Commitment (MUC) and Additional Competitive Underwriting (ACU). The MUC of each PD is computed to ensure that at least 50 percent of the notified amount of each issue is mandatorily underwritten equally by all PDs. The share under MUC will be uniform for all PDs, irrespective of their capital or balance sheet size. The remaining portion of the notified amount is underwritten through an Additional Competitive Underwriting (ACU) auction. The commission payable on the amount accepted in the ACU is discriminatory (multiple-price) whereas the commission payable on the MUC amount is made differential in order to make the ACU bidding competitive. The PDs which are successful in the ACU auction for 4per cent or more of the notified amount are eligible to receive the commission on the MUC at the weighted average rate of all the accepted bids in the ACU auction whereas the PD which are successful by less than 4per cent or not successful in the ACU auction, get the commission on the MUC at the weighted average rate of lowest three bids in the ACU.

The amount so allotted in the underwriting auction becomes the minimum bidding obligation for the PD in the main auction. Devolvement of securities, if any, on PDs takes place on pro-rata basis, depending upon the amount of underwriting obligation of each PD after setting off the successful bids in the main auction. During the fiscal year 2008-09, total devolvement on PDs was to the tune of Rs.10,773 crore as against Rs.957 crore in the previous year. In current fiscal year, total devolvement of securities till end of September, 2009 stood at Rs.6050 crore.

The comparison of underwriting fee quoted by the Primary Dealers during the period 2006-07, 2007-08 and 2008-09 (till end-September 2009) is given in the table below:

Table: Comparison of underwriting cut-off fees accepted

Quarter	Range of U/W cut - off price accepted Paise/Rs 100		
	2007-08	2008-09	2009-10
1	2	3	4
April-June	1.72-5.00	0.97-16.00	1.07 – 39.00
July-Sept	0.39-1.99	0.37-49.00	0.37 – 15.60
Oct-Dec	0.39-1.45	0.46-15.98	–
Jan-March	0.28-0.54	1.24-99.00	–

The underwriting scheme promoted active participation by the PDs and ensured that the Government securities are fully subscribed. The share of PDs (ratio of bids accepted from PDs to the total notified amount) in primary auctions of Central Government dated securities has been very significant since the year 2006 when RBI stopped participating in primary auctions and has provided depth and volume to the domestic debt market.

Table: Performance of PDs in primary auctions of Government securities

(In Rs. crore)

Details	2006-07	2007-08	2008-09	2009-10*
1	2	3	4	5
Notified Amount	1,46,000	1,56,000	2,61,000	2,95,000
Bids Submitted by PDs	2,02,462	2,54,253	3,49,393	3,61,325
Bids accepted of PDs	64,727	72,122	1,11,094	1,17,023
Bid-to-cover ratio	1.39	1.63	1.34	1.22
Success Ratio (per cent)	31.97	28.37	31.80	32.39
Share of PDs (per cent)	44.33	46.23	42.56	39.67

* - till end-September 2009.

In view of the reform measures taken over the years, the Indian Government securities market has become increasingly broad-based, characterized by an efficient auction process, an active secondary market, a liquid yield curve up to 30 years and supported by an active Primary Dealer (PD) system.

Performance of the PDs in primary issuances of G.Secs

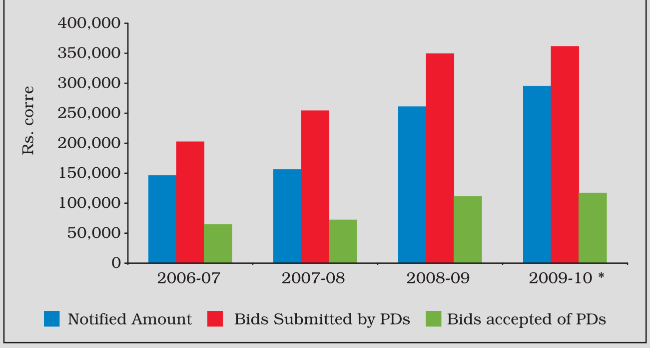


Table VI.45: Performance of the PDs in the Primary Market (At end-March)

(Amount in Rs. crore)

Item	2008	2009
1	2	3
Treasury Bills		
Bidding Commitment	1,04,385	2,84,985
Actual Bids Submitted	3,18,201	5,09,794
Bid to Cover Ratio	3.0	1.8
Bid Accepted	1,04,819	1,72,474
Success Ratio (in per cent)	100.4	59.1
Central Govt. Securities		
Notified Amount	1,56,000	2,61,000
Actual Bids submitted	2,54,253	3,49,393
Bid to Cover Ratio	1.6	1.3
Bid Accepted	72,122	1,11094
Success Ratio (in per cent)	46.2	42.6

account of plough back of profit made in December quarter. During the year, the operations of ABN AMRO Securities India Private Limited were taken over by its parent bank, ABN AMRO Bank, with effect from December 16, 2008 and Lehman Brothers was barred from participating in the primary market. This resulted in reduction of capital funds of stand-alone PDs by 25.7 per cent as on March 31, 2009. On the sources side, secured loans decreased sharply by 35.7 per cent, while unsecured loans increased significantly by 41.3 per cent. On the deployment side, investments in Government securities decreased by 3.7 per cent, while investments in commercial papers increased marginally by 2.3 per cent over previous year. Investment in corporate bonds decreased by 19.8 per cent from Rs.621 crore to Rs.498 crore in contrast to increase of 4.3 per cent witnessed during 2007-08 (Table VI.47).

6.94 The share of Government securities and Treasury Bills in total assets of PDs increased from 70 per cent at end-March 2008 to 70.9 per cent at end-March 2009. Investment in equity and Mutual Funds registered sharp decline of 85.3 per cent at end-March 2009 as compared with the position at end-March 2008.

Financial Performance of PDs

6.95 The income earned by the PDs increased by around 40 per cent during the year 2008-09 as compared with 2007-08 due to higher trading profits posted by the PDs by making use of the lower yields prevailed in the third quarter of the year (Table VI.48).

6.96 In view of increase in trading profits and reduction in interest expenditure, profits of the

Table VI.46: Performance of the PDs in the Secondary Market

(Amount in Rs. crore)

Item	Apr-Jun 2008	Jul-Sep 2008	Oct-Dec 2008	Jan-Mar 2009	2008-09	2007-08
1	2	3	4	5	6	7
Outright						
PDs Turnover	1,38,895	1,65,252	2,78,915	2,13,125	7,96,187	6,37,768
Market Turnover	7,03,669	7,60,791	14,25,305	13,65,587	42,55,352	32,68,551
Share of PDs (per cent)	19.7	21.7	19.6	15.6	18.7	19.5
Repo						
PDs Turnover	3,39,292	3,41,826	5,16,341	6,23,637	18,21,096	24,00,106
Market Turnover	38,76,794	29,18,136	39,22,851	55,16,951	1,62,34,732	1,55,75,515
Share of PDs (per cent)	8.8	11.7	13.2	11.3	11.2	15.4
Total						
PDs Turnover	4,78,187	5,07,079	7,95,254	8,36,763	26,17,283	30,37,873
Market Turnover	45,80,463	36,78,927	53,48,156	68,82,538	2,04,90,084	1,88,44,065
Share of PDs (per cent)	10.4	13.8	14.9	12.2	12.8	16.1

Table VI.47: Sources and Applications of Funds of Primary Dealers

(Amount in Rs. crore)

Item	End-March 2008	End-March 2009	Percentage Variation 2008	Percentage Variation 2009
1	2	3	4	5
Sources of Funds	10,882	10,307	-19.7	-5.3
1. Capital	1,508	1,121	-27.8	-25.7
2. Reserves and Surplus	1,944	2,213	-37.3	13.8
3. Loans (a+b)	7,430	6,973	-11.2	-6.2
a) Secured	4,580	2,945	17.1	-35.7
b) Unsecured	2,850	4,028	-36.1	41.3
Application of Funds	10,882	10,307	-19.7	-5.3
1. Fixed Assets	14	13	-80.5	-7.1
2. Investments (a to c)	8,291	7,891	-10.3	-4.8
a) Government Securities	7,584	7,305	2.3	-3.7
b) Commercial Papers	86	88	-93.1	2.3
c) Corporate Bonds	621	498	4.3	-19.8
3. Loans and Advances	429	959	-62.2	123.5
4. Non-current Assets	0	0		
Equity, Mutual Funds *etc*.	150	22	-83.9	-85.3
Others*	1,998	1,422	-1.2	-28.8

* : Others include cash+ bank balances + accrued interest + DTA – current liabilities and provisions.
Source: Annual Reports of respective PDs.

PDs increased sharply during the year. Overall, ROA rose sharply during the year as net profit of PDs almost doubled and average assets decreased by 24.5 per cent from Rs.15,039 crore in 2007-08 to Rs.11,348 crore in 2008-09 (Table VI.49).

Table VI.48: Financial Performance of Primary Dealers

(Amount in Rs. crore)

Item	2007-08	2008-09	Percentage Variation Amount	Percentage Variation Percentage
1	2	3	4	5
A. Income (i to iii)	1,307	1,825	518	39.6
i) Interest and discount	914	878	-36	-3.9
ii) Trading Profit	255	843	588	230.6
iii) Other income	138	104	-34	-24.6
B. Expenses (i+ii)	775	692	-83	-10.7
i) Interest	595	546	-49	-8.2
ii) Administrative Costs	180	146	-34	-18.9
Profit Before Tax	532	1,133	601	113.0
Profit After Tax	373	749	376	100.8
No. of PDs $	9	7		

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

6.97 Stand-alone PDs continued to be adequately capitalized. The CRAR of individual stand-alone PDs remained above the prescribed minimum CRAR of 15 per cent as at end-March 2009. The CRAR of the stand-alone PDs as a

Table VI.49: Financial Indicators of Primary Dealers

(Amount in Rs. crore)

Indicator	2007-08	2008-09
1	2	3
i) Net profit	373	749
ii) Average Assets	15,039	11,348
iii) Return on average assets (in per cent)	2.5	6.6
iv) Capital Funds	3,611	3,464
v) No. of PDs	9	7

Source: Primary Dealers' Return (PDR).

group was at 34.8 per cent as at end-March 2009 (Table VI.50).

Table VI.50: Select Indicators of Primary Dealers
(At end-March)

(Amount in Rs. crore)

Item	2008	2009
1	2	3
Total Assets	10,882	10,307
of which: Government securities	7,584	7,305
Government securities as percentage of total assets	70.0	70.9
Total Capital Funds	3,611	3,464
CRAR (in per cent)	38.0	34.8
Liquidity Support Limit	3,000	3,000
No. of PDs	9	7

Source: Primary Dealers' Returns (PDRs).

5. Conclusion

6.98 The recent financial crisis has posed the problem to NBFIs in terms of accessing low cost funds leading them to recourse to unsecured loans for funding their asset base. CFSA 2009 has advised that given the limited access to low cost funding of NBFCs, there is a need to develop alternative funding source like an active corporate bond market. Alternative funding source will facilitate in their asset base growth as well as in asset diversification. In the present scenario, NBFCs-ND is a growth driver of NBFCs, however, there is a need for an appropriate structure for regulation and supervision to bridge up the gap in areas relating to transfer of significant ownership, major acquisition, risk management, internal control and home host relationship for systematically important NBFCs-ND.