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Non-Banking Financial Companies (NBFCs): A Review

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ABSTRACT

NBFC are latest financial institutions which are meeting financial requirements of small and medium enterprises. They disburse loans on the basis of hire purchase, mortgage, chits, etc. Many of the studies were already made and published to explore the functions and working of NBFCs and evaluation of NBFCs in India. Few of the recent studies are reviewed in the paper to find out the research gap in the NBFCs.

KEYWORDS

Introduction:
Non-Banking Financial Companies (NBFCs) constitute a heterogeneous lot of privately-owned, small-sized financial intermediaries which provide a variety of services including equipment leasing, hire purchase, loans, investments and chit fund activities. These companies play an important role in providing credit to the unorganized sector and to the small borrowers at the local level.

NBFCs have turned out to be engines of growth and are integral part of the Indian financial system, enhancing competition and diversification in the financial sector, spreading risks specifically at times of financial distress and have been increasingly recognized as complementary of banking system at competitive prices. The Banking sector has always been highly regulated, however simplified sanction procedures, flexibility and timeliness in meeting the credit needs and low cost operations resulted in the NBFCs getting an edge over banks in providing funding. The research on the NBFCs is going in different parts of the world to review the policies and functions of the NBFCs in the world. To look into the changes and developments in the structure, functions, regulations, progress, etc, many of the studies were already made and a few latest studies are reviewed as under.

NBFCs: Review of Literature
Jafor Ali Akhan (2010) writes on **"Non-Banking Financial Companies (NBFCs) in India".** The book discussed the financial system in India. It covers the financial intermediaries including commercial banks, regional rural banks, cooperative banks and Non-Banking Financial Companies in India. The book is good source in getting information on businesses, classification, management of assets, risk coverage, etc of the NBFCs in India.

Shailendra Bhushan Sharma and **Lokesh Goel (2012)** write on **"Functioning and Reforms in Non-Banking Financial Companies in India".** Non-Banking Financial Companies do offer all sorts of banking services, such as loans and credit facilities, retirement planning, money markets, underwriting and merger activities. These companies play an important role in providing credit to the unorganized sector and to the small borrowers at the local level. Hire purchase finance is by far the largest activity of NBFCs. The rapid growth of NBFCs has led to a gradual blurring of dividing lines between banks and NBFCs, with the exception of the exclusive privilege that commercial banks exercise in the issuance of cheques. This paper provides an exhaustive account of the functioning of and recent reforms pertaining to NBFCs in India.

Subina Syal and **Menka Goswami (2012)** writes on **"Financial Evaluation of Non-Banking Financial Institutions: An Insight"**in **'Indian Journal of Applied Research'.** The Indian financial system consists of the various financial institutions, financial instruments and the financial markets that facilitate and ensure effective channelization of payment and credit of funds from the potential investors of the economy. Non-banking financial institutions in India are one of the major stakeholders of financial system and cater to the diversified needs by providing specialized financial services like investment advisory, leasing, asset management, etc. Non-banking financial sector in India has been a considerable growth in the recent years. The aim of the present study is to analyze the financial performance and growth of non-banking financial institutions in India in the last 5 years. The study is helpful for the potential investors to get the knowledge about the financial performance of the non-banking financial institutions and be helpful in taking effective long-term investment decisions.

Sornaganesh and **Maria Navis Soris[17] (2013) B "A Fundamental Analysis of NBFCs in India"** in **'Outreach'.** The study was made to analyze the performance of five NBFCs in India. The annual reports of these companies are evaluated so as to ascertain investments, loans disbursed, growth, return, risk, etc. To sum up, the study is concluded that the NBFCs are earning good margins on all the loans and their financial efficiency is good.

Taxmann's (2013) published **"Statutory Guide for Non-Banking Financial Companies"** is published by Taxmann's Publications, New Delhi. The book listed the laws relating to Non-Banking Financial Companies. The rules and laws governing the kinds of businesses undertaken by different types of NBFCs are also discussed.

Amit Kumar and **Anshika Agarwal (2014)** published a paper entitled **"Latest Trends in Non-banking Financial Institutions" in 'Academicia: An International Multidisciplinary Research Journal'.** In Indian Economy, there are two major Financial Institutions, one is banking and other is Non-Banking. The Non-Banking Financial Institutions plays an important role in our economy as they provide financial services on wide range, they also work to offer enhanced equity and risk-based products, along with this they also provide short to long term finance to different sectors of the economy, and many other functions. This paper examines the latest trends in Non-Banking Financial Institutions. This paper analyzes the growth and enhanced prosperity of financial institutions in India.

Dash Saroj K, et al (2014) writes on **"Housing Loan Disbursement in India: Suggestive Metrics to Prevent Bad**

Debts" in **'International Journal of Management, IT and Engineering'.** Non-Banking Financial Corporation (NBFC) in each of the countries involved in the business of lending mortgage loans took stock of their policies and terms & conditions while disbursement of loans. Critics and some experts might argue that given the technologically advanced systems in place to do credit scoring, it is enough to have certain set of quantitative parameters to do a check. The parameters, which are discussed in the credit scoring software, are primarily quantitative parameters and some qualitative features whose measurements are also quantified.

Naresh Makhijani (2014) writes on **"Non-Banking Finance Companies: Time to Introspect" in 'Analytique'.** Over the last few years the Non Banking Finance Companies (NBFC) sector has gained significant advantages over the banking system in supplying credit under-served and unbanked areas given their reach and niche business model. However, off late the Reserve Bank of India has introduced and suggested various changes in the existing regulatory norms governing NBFCs with a view to bring NBFCs regulations at par with the banks. The ongoing and proposed regulatory changes for the NBFCs in terms of increased capital adequacy, tougher provision norms, removal from priority sector status and changes in securitization guidelines could bring down the profitability and growth of the NBFC sector. NBFCs will need to introspect and rethink their business models as they will now not only have to combat stringent regulatory norms but also have to face the challenge of rising cost of funds, scare capital and direct competition from banks.

Ravi Puliani and Mahesh Puliani (2014) writes a book entitled **"Manual of Non-Banking Financial Companies".** The book discussed the glossary of terms that are used in banking operations and non-banking activities. The book covers the circulars and directions issued by Reserve Bank of India from time to time to control, manage and regulate the business of NBFCs.

Shail Shakya (2014) published a working paper entitled **"Regulation of Non-banking Financial Companies in India: Some Visions & Revisions".** Non-Banking Financial Companies are pioneer in their cash deployment, accessibility to the markets and others to count. NBFCs are known for their higher risk taking capacity than the banks. Despite being an institution of attraction for the investors, NBFCs have played a significant role in the financial system. Many specialized services such as factoring, venture capital finance, and financing road transport were championed by these institutions. NBFC sector has more significantly seen a fair degree of consolidation, leading to the emergence of large companies with diversified activities. However, the recent financial crisis has highlighted the importance of widening the focus of NBFC regulations to take particular account of risks arising from the regulatory gaps, from arbitrage opportunities and from inter-connectedness of various activities and entities associated with the financial system. The regulatory regime is lighter and different than the banks. The steady increase in bank credit to NBFCs over the recent years means that the possibility of risks being transferred from more lightly regulated NBFC sector to the banking sector in India can't be ruled out.

Thilakam and Saravanan (2014) writes on **"CAMEL Analysis of NBFCs in Tamil Nadu" in 'International Journal of Business and Administration Research Review'.** Financial intermediation is a crucial function of Banks, Non Banking financial companies (NBFCs) and Development Financial Institutions (DFIs) the post reform period in India is characterized by phenomenal growth of NBFCs complementing the role of banks in mobilizing funds and making it available for investment purposes. During the last decade NBFCs have undergone wide volatility and change as an industry and have been witnessing considerable business upheaval over the last decade because of market dynamics, public sentiments and regulatory environment. To evaluate the soundness of NBFCs in Tamil Nadu over a decade, the authors made an attempt of CAMEL criteria for analysis of selected Companies. Based on findings the suggestions were offered to overcome the difficulties face by selected NBFCs in their development.

Conclusion:

To conclude, the NBFCs are playing significant role in meeting financial requirements of the medium sized and small sized industries and development of Indian economy indirectly. On the other hand, policies of NBFCs are also providing investment security for the investors. It is highlighted that due to the regulations of the Reserve Bank of India, still the NBFCs are not extending more credit. It is suggested to the NBFC credit policy to reduce rate of interests, which helps to small enterprises to get loans for their different capital requirements. The review made above shows that the research in NBFCs is not so progressive as many of the published research papers shows only basics of the NBFCs and still it is essential to study the evaluate the performance of NBFCs in India.

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