



GROWTH PROSPECTS OF NBFC IN INDIA

Akanksha Goel

Assistant Professor

Lucknow Public College of Professional Studies

akanksha.goel111@gmail.com

ABSTRACT

Financial intermediaries like non-banking financial companies (NBFCs) have a definite and very important role in the financial sector, particularly in a prospering economy like India. NBFCs play significant role in promoting inclusive growth in the country, by catering to the diverse financial needs of customers not served by the banks. Added, NBFCs often take lead role in providing advanced financial services to Micro, Small, and Medium Enterprises (MSMEs) most suitable according to their business requirements. The NBFC sector has always played a critical role in encouraging growth of the Indian economy and hence needs to be nurtured appropriately. NBFC have traditionally complemented the role of banking sector. They have catered the needs of those borrowers who were not considered suitable by the banks. A customer falling in low or middle income group may not be able to pass the credit worthiness test of bank. Those customers can avail financial services provided by the NBFCs. Also banks play their role in semi urban and rural areas only for the purpose of accepting deposit or merely fulfilling the norms of RBI of meeting priority targets. NBFC are filling these unhealthy gaps left by bank in rural and semi urban areas. They have also helped in providing various financial services in developing small and micro business. NBFC play there role of credit supply at much faster rate than banks. In addition NBFC have helped to reach those corners of the country which are not properly served by the banks. This research paper mainly highlights the role of NBFCs in promoting economic growth of India. It also sets forth various strengths, opportunities, challenges and problems faced by this sector and the way forward.

OBJECTIVES

1. To study the growth prospects of NBFCs in India.
2. To study the problems being faced by the NBFCs
3. HDFC role as NBFC
4. To suggest measures for the speedy growth of NBFC in India.

MEANING

NBFC', is defined under sec. 45-I (f) of the Act, as under "non-banking financial company" means

- A financial institution which is a company;
- A non banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner or lending in any manner;
- such other non-banking institution or class of such institutions, as the bank



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may, with the previous approval of the Central Government and by notification in the Official Gazette, specify.

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 and is engaged in the business of loans and advances, acquisition of shares/stock/bonds/debentures/securities issued by Government or local authority or other securities of like marketable nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, sale/purchase/construction of immovable property. A non-banking institution which is a company and which has its principal business of receiving deposits under any scheme or arrangement or any other manner, or lending in any manner is also a non-banking financial company (Residuary non-banking company).

NBFCs are doing functions akin to that of banks; however there are a few differences:

- an NBFC cannot accept demand deposits;
- an NBFC is not a part of the payment and settlement system and as such an

NBFC cannot issue cheques drawn on itself; and

- deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available for NBFC depositors like banks.

GROWTH PROSPECTS OF NBFC IN INDIA

In order an economy to grow it is required that all the sections of society grow simultaneously. Inclusiveness brings overall participation from each and every sector of the economy. In simple words we can say inclusive growth signifies that all the segments of population are benefitting from the growth of the economy. Growth of any economy is always reflected in the quality life of individual living. NBFC s have shown an increasing growth in the last ten years. NBFCs is playing its part by meeting the diverse financial needs of the economy. It has channelized the savings and investments of the customers and had helped in the capital formation. By focusing on the Small and Medium Enterprises (SME) sector and stimulating microfinance, NBFCs are playing a significant role.



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FOCUS ON MSME

MSME constitute a very significant sector of the India Economy. They accounts for around 45% of the manufacturing output. Although SMEs have been growing in numbers they are unable to meet their financial requirements. Often these enterprises lack access to timely and adequate credit to meet their working capital needs, new technologies, proper infrastructure and manpower. Equity markets, private equity and venture capital close their doors to NBFC. NBFCs have extended finance to SMEs by providing a range of products according to their needs. NBFC have not only provided loan against property but also various other innovative products were introduced for SME. Services like second-hand vehicles financing, three-wheeler financing, construction equipment financing have enhanced the position of NBFC in SME world.

MICROFINANCE

Numerous Microfinance Institutions are registered with RBI as NBFC-MFI. These

institution covers the gap left by the commercial banks and private money lenders. By providing capital to the rural poor population helped in the generation of self-employment, which in turn have promoted nation growth.

HOUSING FINANCE

Another area where NBFC have attracted customers is through affordable financing. Today the share of HFC is around 37-38 percent.¹ NBFC targeted the low income customers whose monthly income varies from Rs. 6000-12000. These people find it difficult to borrow from the commercial banks. Also relaxation in KYC norms and less documentation requirements have favoured the growth of NBFC. India being the world's fastest growing economy faces a big challenge of serving the needs of small savers, investors and the rural population of the country. The commercial banks have played a major role in the development of our country. But over the years, NBFCs have also maintained their space in the financial sector along with the commercial banks. NBFCs maintain very close contact with their

¹ Ashwini Kumar Hooda, deputy managing director, Indiabulls housing finance.



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customers and always provide simple ways of catering the needs of their customer's. Banks generally pay emphasis on fulfilling KYC norms and insist on maximum possible documentary evidence. However, NBFCs have a very flexible system and customers find it very easy to avail loan services. NBFCs in the past years have captured the market because of their simplified procedures and spot sanctioning of loans with least paper work. Population not served properly by banks depends heavily on unorganised and non-institutional sources of finance, becomes main target for such NBFCs. NBFCs have also played a major role in the development of transport sector. NBFCs have provided finance for acquisition of trucks, transport vehicles, tractors etc. Major population which have gained the benefit of transport finance is rural and semi urban areas. These avenues have also provided self-employment to a large number of rural populations.

SIGNIFICANCE OF NBFC

According to the Survey Dec 2015, it has been reported that NBFCs as a whole,

account for 18.8 per cent² of assets of the total financial system. With the growing magnitude assigned to financial inclusion, NBFCs have come to be regarded as significant financial intermediaries particularly for the small-scale and retail sectors. In recent times non-banking financial companies (NBFCs) have emerged as significant contributors to the Indian economics development by supplementing the effort of banks and other financial institutions. They play major role in the direction of saving and investment in wave of rapid industrial development. NBFCs intermediate between saver and investor. NBFC have turned out to be engines of growth and is an integral part of the Indian financial system thereby increasing competition and diversification in the financial sector. It helps in spreading risks particularly at times of financial distress and has been gradually recognized as complementary of banking system at competitive prices. The Banking sector has always been greatly regulated, however easy sanction procedures, flexibility and

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appropriateness in meeting the credit needs and low cost operations resulted in the NBFCs getting an edge over banks in providing funding.

PROBLEMS FACED BY NBFC IN INDIA

One of the major issue faces by NBFC is **lack of trust**. Although registration of NBFC is mandatory from RBI. But some institution gives false registration certificate and get involved in scams and make money out of people's trust. People tend to believe more in banks as they find it more trustworthy. Also recent scams in NBFC have snatched away the trust of common people from NBFC. In the same way Delhi police has unearthed the scam of 3 directors of Rs.980 crore.³ Fund raising has gradually become more difficult and challenging, specially, for the small and medium sized NBFCs. NBFCs generally have **no access to low cost funds**. Banks can easily raise financial resources at low cost through deposits, savings and current accounts. But being NBFC cannot raise capital through deposits it usually lack the availability of low cost funds. NBFC cannot

recover small loans of less than Rs 1 crore under the SARFAESI Act 2002. Earlier there were no norms regarding NBFC in **SARFAESI Act**. But according to the recent amendment NBFC with asset base of Rs. 500 crore and above can be covered under act pertaining to cases of above 1 crore.

HDFC

HDFC is the leading non-banking financial company, which came into existence in the year 1977. HDFC is a leader in providing loans and finance for houses in the country. HDFC has a strong presence in the country with over 300 outlets, which offer services to more than 2,400 towns and cities. HDFC till now has given loans of **Rs 2.5 Trillion** and financed over 50 lakh cumulative units. HDFC till now has empowered around over 5.4 million families to have their own space. Home Loans, Plot Loans, Home Improvement Loans and Loan against property are some of the products of the company. The company offers attractive interest rates on loans, which made it the most popular house financing company.

³ <http://www.financialexpress.com/archive/3-directors-held-in-rs-980-cr-nbfc-fraud/99342/>



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LITERATURE REVIEW

From the purpose of proposed research project entitle ‘Growth Prospects of Non-Banking financial Companies in India’. I went through numerous books, journals, articles, newspapers, dissertations and various reports published time to time. Some of them reviewed are as following.

Shollapur M.R in his article in ‘The Indian Journal of Commerce’ has revived concept of NBFCs. As per him the abstract NBFCs constituted a significant part of financial system and compliment the service provide by commercial bank in India. The efficiency of financial services and flexibilities helped them build a large body of client including small borrower and bigger corporate establishment. The pace of financial liberalization has a intensified the competition. As a result, there has been a shift towards strategic perspective marketing process of NBFCs. This perspective enable them to predict the future impact of change and help to move out of week area and grab new opportunity through continuous monitoring system.

R.M Srivastava & Divya Nigam in his book Management of Indian Financial Institution background material for economic growth and financial institution, types of financial institution, recent trend Indian financial market. He put enfaces on the fact that the money market has passed through a phase of substantial adjustment and advancement in recent year.

K.C Shekhar & Lakshmy Shekhar in his book has explain role of NBFCs in India has shown rapid development especially in 1990 owing to their high degree of orientation towards consumers and implication of section requirement. The role of NBFCs as effective financial intermediaries arise has been well recognized as they have inherent abilities to take quicker decision, assume risk and customize their services provided by bank and market the components on a conceptual basis.

E. N. Murty suggests the advantage and outlook of NBFCs. In remarkable surgeon under stringent production like prudential limit and capital adequacy just like M&M Finance, DBS Chula, Sundaram Finance Sri Ram Transport Finance etc. In outlook NBFCs has been searching for avenue for



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future growth, if they get regulatory treatment on for with the bank. So that large NBFC will be converting and making available credit to credit.

L M Bhole in his book define the NBFCs perform a diversified range of function and other various financial services to individual, corporate and institutional client. It also play positive role in accessing certain depositor segment and clearing credit requirement of borrowers. It also discussing the major financial market in India. Along with related financial instrument and services i.e. call money, call loan, other short term interest rate instrument and the recent development in money market.

Shashi K. Gupta, Nisha Gupta & Neeti Gupta in his book define money market is an opportunity for balancing the short term surplus fund of the investor with the short term requirement to borrowers. Another feature of money market is that they are liquid with varying degree. It also define NBFCs play an important role in financial intermediaries because they can take quick decision making assume greater risks and design their product to the need of customer.

RESEARCH METHODOLOGY

The research methodology adopted is secondary in nature .My research methodology requires gathering relevant data through journals, newspapers, books, magazines and internet. Also self-interpretation is made with the help of collected material. The bulletin from RBI, are gathered in order to access the problem related to NBFC.

RESEARCH HYPOTHESIS

It is hypothesised that the NBFCs are operating under strict control and vigilance of the Reserve Bank of India. In recent years there have been frauds and instance of failure of NBFCs in the country. The NBFCs face severe competition from the banking sector

CONCLUSION

NBFCs have been playing a very significant role from the view point macroeconomic outlook and the structure of the Indian financial system. NBFCs are the perfect or even better alternatives to the traditional Banks for meeting a range of financial requirements of a business activity. They offer rapid and efficient services without going through complex formalities. However



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in order to survive and to continuously grow, NBFCs have to focus on their core strengths while recovering their weaknesses. They need to be very vibrant and constantly try to search for new products and services in order to carry on in this competitive financial market.

Since NBFCs small loans are not covered in the SARFAESI Act, a reform in this area is quite immediately needed. An appropriate legislative amendment regarding NBFCs would go a long way in stimulating the faith of the investors and which in turn would greatly contribute to the growth of this sector. The upcoming years will be very vital for NBFCs and only those who will be able to meet the challenge and prove themselves will survive in the long run. NBFCs though active in various parts of the country need to present a transparent image of itself before the society. Some foul play act of various NBFCs and duping of innocent customers has distort the image of NBFC network. A strict compliance regarding the registration is needed as most of the rural population is

indulged with the NBFC. Although NBFC cannot raise funds through deposits but it can offer other products in order to procure funds at low cost. The market for NBFC is rapidly growing and in order to survive and compete with commercial banks it need to gain trust of people.

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