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Growth Trend of Non-Banking Finance Companies

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Abstract

The financial services sector has undergone structural changes in recent years with growing numbers of cross border mergers and acquisitions which has increased competition among different types of financial institutions. These structural trends are evident from foreign investment flows in financial services, with the developed countries being the main exporters of such services with the result the financial services sector has become an important part of overall globalized trading. It is clear from the analysis that there are ups and downs in the number of NBFC throughout 1999 to 2012 The non-significant growth rate also affirmed the same. This revealed that with the passage of 12 years, NBFCs could not get strengthened numerical. It can also be predicted that the number of NBFCs registered with RBI would increase in future.

Key words: 1.Financial Services, 2.Growth, 3.Leasing, 4.NBFC.

Introduction

Financial services constitute a large and growing sector in almost all economies as this sector is quite complex and covers a wide range of activities and instruments including advisory and consultancy services, pensions and investment fund management, corporate banking, foreign exchange management etc. This makes it difficult to characterize the financial services sector in terms of its structural features and operating norms given this complexity and range of operations. This problem is further compounded by recent advances in information technology which is revolutionizing the very nature of operations in the financial sector. The financial sector accounts for a significant share of economic activity in most countries. The sector is recognized for its contribution towards long term growth and efficiency given its intermediate role in channelling resources of the economy. Improved provision of financial services enables greater efficiency in other sectors also by expanding the range and enhancing the quality of such services, by lowering cost of funds and by encouraging savings and more efficient use of these savings. The financial services sector has undergone structural changes in recent years with growing numbers of cross border mergers and acquisitions which has increased competition among different types of financial institutions. These structural trends are evident from foreign investment flows in financial services, with the developed countries being the main exporters of such services with the result the financial services sector has become an important part of overall globalized trading (Rupa Chanda 2005).

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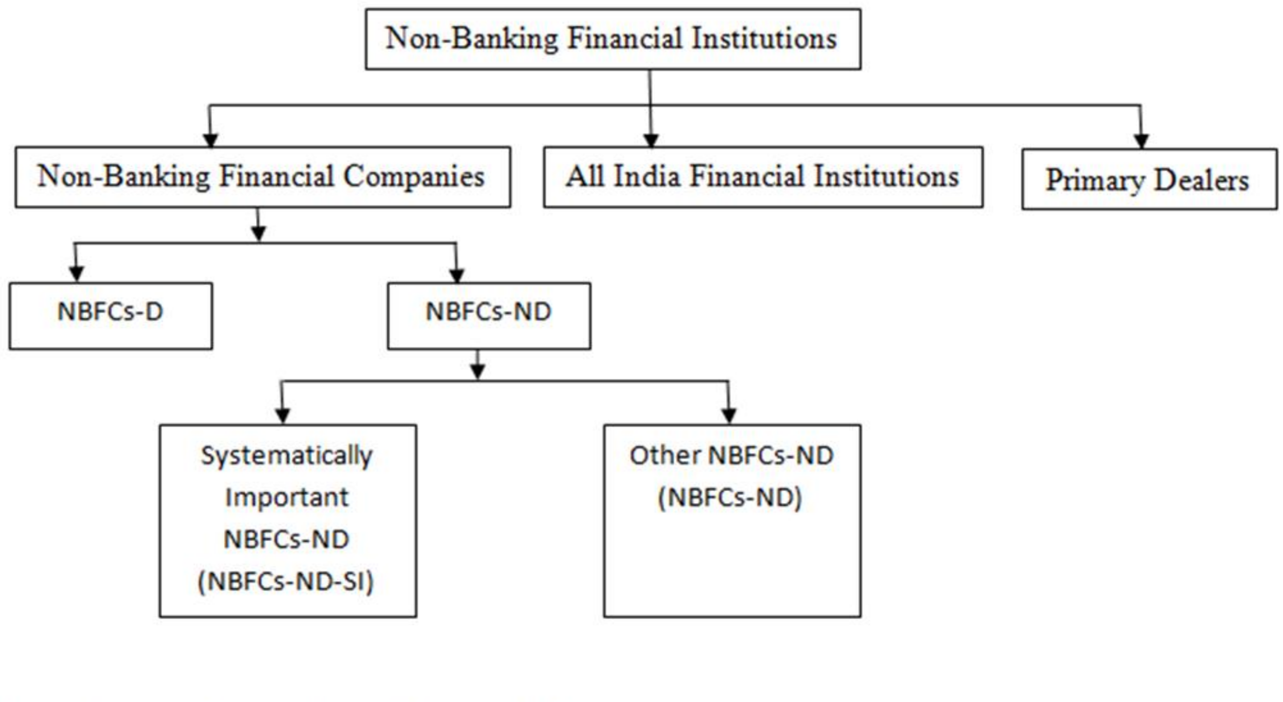
Vol-22-Issue-4-October-December-2019

Leasing is the important source of finance. It is the source of financing capital equipment. The leasing is popular in India. Land leasing is the traditional system which exists in our country since old times. It has been emerged in India since 1970. The first leasing organisation was "First Leasing Company of India Ltd.", established in Chennai. A number of other leasing companies have also come into existence such as Mazda Leasing, 20th Century of financing their ongoing projects (G. Ramesh Babu, 2005). In recent years there Leasing Company, Express Leasing Company etc. A large number of public sector undertakings like ONGC, SAIL, HMT, BHEL, Air India, ISRO etc considers the leasing as a measure has been a growing emphasis on creating new sources of long-term finance for funding leases. There are two source viz. Lease Portfolio Securitisation and Variable Rate Bonds.

Structure of the NBFIs Sector in India

The Reserve Bank regulates and supervises three categories of NBFIs, viz. All-India financial institutions (AIFIs), primary dealers (PDs) and NBFCs.



Source: Reserve Bank of India Bulletin 2017

Based on deposit mobilisation, NBFCs are classified into two major categories: NBFCs-D (deposit taking) and NBFCs-ND (non-deposit taking). In view of the phenomenal increase in their number and deposits, a comprehensive legislative framework for NBFCs-D was introduced in 1997 to protect the interests of depositors. A conscious policy was pursued to discourage acceptance of deposits by NBFCs so that only banks

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Vol-22-Issue-4-October-December-2019

accept public deposits. Hence, no new license has been given to NBFCs-D after 1997. NBFCs-ND were sub-divided into two categories in 2006 - Systemically Important Non-Deposit taking NBFCs (NBFCs-ND-SI) and other Non-Deposit taking NBFCs (NBFCs-ND) based on asset size. NBFCs with an asset size greater than 1 billion were considered as NBFC-ND-SI. The threshold for recognition of NBFCs-ND-SI was increased to 5 billion in 2014. This classification was made in order to ensure greater regulatory control over NBFCs-NDSI, which were expected to pose greater systemic risks on account of their larger size. NBFCs-ND-SI, as a result, were subjected to stricter prudential regulations as compared to NBFCs-ND.

Growth Trends in the Number of NBFCs registered with RBI

It is important to evaluate the growth trends in the number of Non-Banking Financial Companies registered with the Reserve Bank of India. The data on the number of NBFCs was taken from 1999-2012. The data were split into two sub-periods and one as a whole. First period covers 7 years from 1999 to 2005 and the second period also covers 7 years from 2006 to 2012. The third set of data covers the period of 12 years from 1999-2012. The existing growth trends were worked out for each period, while the future projections were made on the basis of the whole period of 12 years. The results of the analysis have been shown in Table 1, Table 2 and Table 3.

First Period: 1999-2005

The analysis given in Table 1 showed that the number of NBFCs registered with RBI was 7855 in 1999 which increased to 13815 in 2001 and further to 14077 in 2002. It then declined to 13849 in 2003 and further to 13266 in 2005.

Table 1: No. of NBFCs registered with the RBI: 1999-2005

Year	No. of NBFCs
1999	7855
2000	8451
2001	13815
2002	14077
2003	13849
2004	13764
2005	13266
Average	12153.86
C.V.	22.62
C.G.R.	9.54
t-value	2.58*

Source: Reserve Bank of India

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

However, the last figures were greater than the previous year figures. Due to this there was an overall positive growth of the number of NBFCs registered with RBI. The rate of growth worked at 9.54 percent compounded annually, significant at the 5 percent level of probability as indicated by the calculated t-value of 2.58.

Second Period: 2006-2012

The data given in Table 2 indicated that the number of NBFCs registered with RBI was 13106 in 2006, which 12625 in 2008 and increased to 12709 in the next year. However, it again declined to 12641 in 2010 and ultimately increased to 13215 in 2012.

Table 2: No. of NBFCs registered with the RBI: 2006-2012

Year	No. of NBFCs
2006	13106
2007	12834
2008	12625
2009	12709
2010	12641
2011	13014
2012	13215
Average	12877.71
C.V.	1.83
C.G.R.	0.19
t-value	0.52

Source: Reserve Bank of India

The data showed that the number of companies could not depict a definite trend. It fluctuated between 12625 in 2008 to 13215 in 2012. The compound growth rate of 0.19 percent per annum also came to be non-significant, which revealed that the number of NBFCs registered with the companies could not fetch the pace of growth of the period 1999-2005 during 2006-2012.

Overall: 1999-2012

It is clear from Table 3 that the number of NBFCs registered with RBI was 7855 in 1999 which increased to 14077 in 2002 and then declined up to 12625 in 2008. It again increased to 12709 in 2009, but decreased to 12641 in the next year. However, there was again an increase to the level of 13215 in 2012. Hence, we can observe the ups and downs in the number of NBFC throughout 1999 to 2012. The non-significant growth rate also affirmed the same. The growth rate was though positive to the tune of 2.07 compounded annually, but non-significant. This revealed that with the passage of 12 years, NBFCs could not get strengthened numerically.

Table 3: No. of NBFCs registered with the RBI: 1999-2012

Year	No. of NBFCs
1999	7855

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

2000	8451
2001	13815
2002	14077
2003	13849
2004	13764
2005	13266
2006	13106
2007	12834
2008	12625
2009	12709
2010	12641
2011	13014
2012	13215
Average	12515.79
C.V.	15.28
C.G.R.	2.07
t-value	1.85
Trend Coefficients	
a	11019.90
b	199.25
Future Projections	
2019-20	15403.40
2024-25	16399.65
% change over 2012	
2019-20	16.56
2024-25	24.10

The trend coefficients came to 11019.90 as constant and 199.25 as regression coefficient. On the basis of these coefficients, it was predicted that in 2019-20, the number of NBFCs registered with RBI would increase to 15403 and in 2024-25 to 16400. It would be a respective increase of 16.56 percent and 24.10 percent over that in 2012. Therefore, it can be predicted that the number of NBFCs registered with RBI would increase in future.

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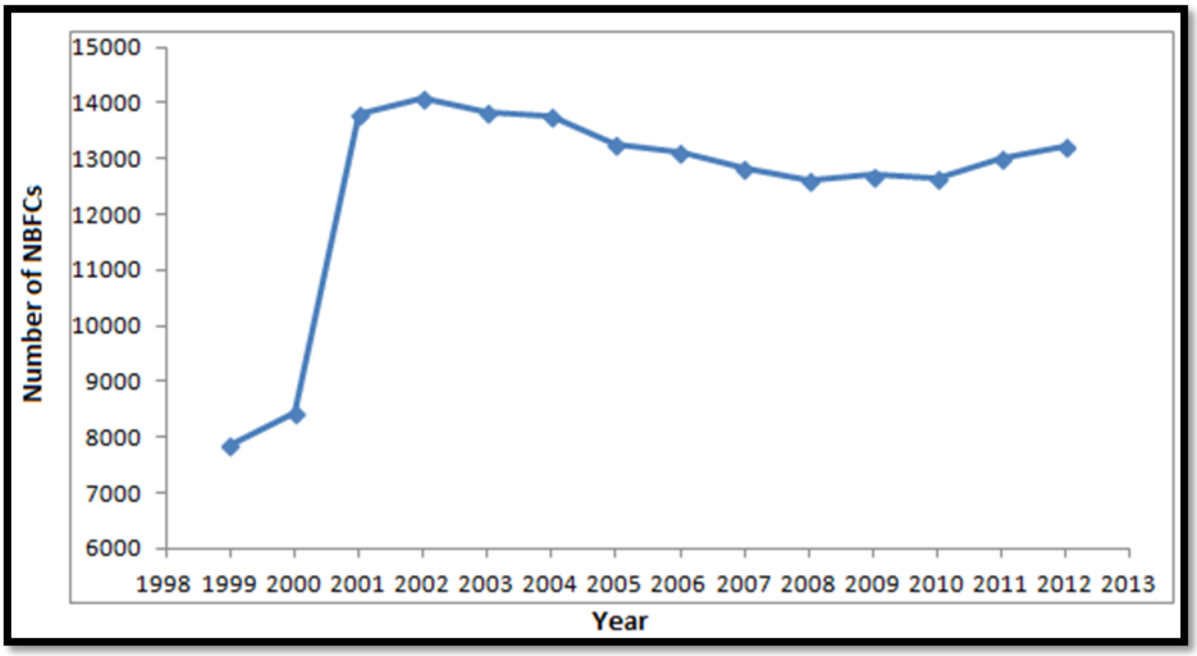

Among NBFCs-ND-SI, credit extension is the main business for loan companies, NBFCs-IFC, NBFCs-MFI, and AFCs. While all these categories of NBFCs posted double-digit growth till 2015-16, they showed divergent patterns in 2016-17. Loan companies and NBFCs-IFC maintained positive credit growth, whereas NBFCs-MFI and AFCs shrank their asset portfolios mainly due to conversion of large NBFCs- MFI into small finance banks during the year. AFCs, which mainly lend to finance vehicles and retail loans, were affected by the postponement of purchase decisions by their customers due to uncertainty in the wake of demonetisation (RBI, 2017).

Table 4 : Growth rate of credit of major categories of NBFCs

Category	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Loan Companies	11.3	7.7	20.5	22.7	22.1
NBFCs-IFC	24.4	17.8	24.6	7.6	5.6
NBFCs-MFI	34.3	21.3	47.6	36.3	-3.4
AFCs	30.0	10.4	13.2	23.1	-17.1

Source: Supervisory returns, RBI.

Conclusion

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It is clear from the above analysis that the number of NBFCs registered with RBI was 7855 in 1999 which increased to 14077 in 2002 and then declined up to 12625 in 2008. It again increased to 12709 in 2009, but decreased to 12641 in the next year. However, there was again an increase to the level of 13215 in 2012. Hence, we can observe ups and downs in the number of NBFC throughout 1999 to 2012. The non-significant growth rate also affirmed the same. The growth rate was though positive to the tune of 2.07 compounded annually, but non-significant. This revealed that with the passage of 12 years, NBFCs could not get strengthened numerically.

It could be predicted that in 2019-20, the number of NBFCs registered with RBI would increase to 15403 and in 2024-25 to 16400. It would be a respective increase of 16.56 percent and 24.10 percent over that in 2012. Therefore, it can be predicted that the number of NBFCs registered with RBI would increase in future.

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