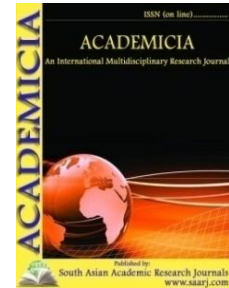




Published by: South Asian Academic Research Journals

ACADEMICIA:
An International
Multidisciplinary
Research Journal

(A Double Blind Referred & Reviewed International Journal)



LATEST TRENDS IN NON-BANKING FINANCIAL INSTITUTIONS

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ABSTRACT

In our 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.

KEYWORDS: *Non-Banking Financial Institutions, Latest Trends.*

INTRODUCTION

Non-Banking Financial Institutions (NBFIs) are a heterogeneous group of institutions that cater to a wide range of financial requirements and can broadly be grouped as financial institutions (FIs), non-banking financial companies (NBFCs) and primary dealers (PDs). This article provides an analysis of financial performance and soundness indicators related to FIs during 2012-13 and analyses the financial performance of FIs.

The Reserve Bank of India is entrusted with the responsibility of regulating and supervising the Non-Banking Financial Companies by virtue of powers vested in Chapter III B of the Reserve Bank of India Act, 1934. The regulatory and supervisory objective is to:

1. Ensure healthy growth of the financial companies.
2. Ensure that these companies function as a part of the financial system within the policy framework, in such a manner that their existence and functioning do not lead to systemic aberrations; and that
3. The quality of surveillance and supervision exercised by the Bank over the NBFCs is sustained by keeping pace with the developments that take place in this sector of the financial system.

FINANCIAL INSTITUTIONS

By the end of March 2013, there were 4 financial institutions (FIs) under the regulation and supervision of the Reserve Bank viz., the Export-Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI) as shown in Table 1. The Industrial Investment Bank of India (IIBI), the 5th FI, is in the process of voluntary winding-up. The Ministry of Finance had issued a gazette notification to this effect on September 16, 2012.

**TABLE 1: OWNERSHIP PATTERN OF FINANCIAL INSTITUTIONS
(AS AT END MARCH-2013)**

| Institutions | Ownership | Percentage |
|--------------|---------------------|------------|
| EXIM | GOI | 100 |
| NABARD | GOI | 99.3 |
| | RBI | 0.7 |
| NHB | RBI | 100 |
| SIDBI* | Public Sector banks | 62.5 |
| | Insurance companies | 21.9 |
| | FI | 5.3 |
| | Others | 10.3 |

*3 major shareholders of SIDBI are - IDBI Bank Ltd. (19.2%), State Bank of India (15.5%) and Life Insurance Corporation of India (14.4%).

OPERATIONS OF FINANCIAL INSTITUTIONS

- Decline in the financial assistance sanctioned and disbursed by Financial Institutions: The financial assistance sanctioned and disbursed by FIs decreased during 2012-13 as shown in Table 2.

TABLE 2: FINANCIAL ASSISTANCE SECTIONED AND DISBURSED BY FINANCIAL INSTITUTIONS

(Amount in ₹ billion)

| Category | Amount | | | | Percentage Variation | |
|--|----------------|----------------|--------------|--------------|----------------------|--------------|
| | 2011-12 | | 2012-13 P | | 2012-13 | |
| | S | D | S | D | S | D |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| (i) All-India Term-lending Institutions [*] | 480.1 | 474.9 | 433.4 | 421.8 | -9.7 | -11.2 |
| (ii) Specialised Financial Institutions [#] | 10.9 | 8.5 | 7.1 | 6.2 | -34.9 | -27.1 |
| (iii) Investment Institutions [@] | 544.1 | 519.7 | 447.8 | 466.6 | -17.7 | -10.2 |
| Total Assistance by FIs (i+ii+iii) | 1,035.1 | 1,003.1 | 888.3 | 894.6 | -14.2 | -10.8 |

P: Provisional; S: Sanctions; D: Disbursements.
^{*}: Relating to IFCL, SIDBI and IIBL.
[#]: Relating to IVCF, ICICI Venture and TFCL.
[@]: Relating to LIC, GIC and erstwhile subsidiaries (NIA, UIIC and OIC).

Source: www.rbi.org.in

ASSETS AND LIABILITIES OF FIs

- The combined balance sheet of all the 4 FIs expanded by 15.9% during 2012-13 as shown in Table 3. On the liability side, “deposits” along with “bonds and debentures” constituted morethan 60 per cent of total liabilities. On the assets side, “loans and advances” continued to be the single largest component, accounting for 88.8 per cent of total assets.

TABLE 3: LIABILITIES AND ASSETS OF FINANCIAL INSTITUTIONS

(Amount in ₹ million)

| Item | 2012 | 2013 | Percentage Variation | Item | 2012 | 2013 | Percentage Variation |
|---|---------------------|---------------------|----------------------|--------------------------------------|---------------------|---------------------|----------------------|
| 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| Liabilities | | | | Assets | | | |
| 1. Capital | 62,000 (1.8) | 79,594 (2.0) | 28.4 | 1. Cash & Bank Balances | 67,398 (2.0) | 91,802 (2.4) | 36.2 |
| 2. Reserves | 4,65,243 (13.8) | 4,89,948 (12.6) | 5.3 | 2. Investments | 1,25,589 (3.7) | 1,17,610 (3.0) | -6.4 |
| 3. Bonds & Debentures | 10,72,973 (31.9) | 12,33,408 (31.6) | 15.0 | 3. Loans & Advances | 29,81,996 (88.7) | 34,59,842 (88.8) | 16.0 |
| 4. Deposits | 10,90,780 (32.4) | 13,09,191 (33.6) | 20.0 | 4. Bills Discounted/ Rediscounted | 29,636 (0.9) | 42,733 (1.1) | 44.2 |
| 5. Borrowings | 4,95,207 (14.7) | 5,65,741 (14.5) | 14.2 | 5. Fixed Assets | 5,364 (0.2) | 6,258 (0.2) | 16.7 |
| 6. Other Liabilities | 1,77,085 (5.3) | 2,20,384 (5.7) | 24.5 | 6. Other Assets | 1,53,306 (4.6) | 1,80,020 (4.6) | 17.4 |
| Total Liabilities/Assets | 33,63,288 | 38,98,265 | 15.9 | | | | |
| Notes: 1. Data pertain to four FIs - EXIM Bank, NABARD, NHB and SIDBI. 2. Figures in parentheses are percentages to total liabilities/assets. | | | | | | | |

Source: www.rbi.org.in

RESOURCES MOBILISED BY FIs

- **LOWER RESOURCES RAISED, BUT INCREASE DEPENDENCE ON FOREIGN CURRENCY RESOURCES:** Total resources raised by FIs during 2012-13 were lower than the previous year. Both short-term and long-term resources raised declined, while those raised through foreign currency recorded a sharp increase as shown in Table 4. Rise in foreign currency borrowings was mainly with respect to EXIM Bank as it more than doubled its external borrowings during the year. In the money market, among the 4 FIs, NABARD raised the largest amount of resources followed by EXIM Bank, SIDBI and NHB as shown in Table 5. Commercial papers (CPs) were the major instruments for raising funds from the money market for all the 4 FIs during 2012-13.

TABLE 4: RESOURCE MOBILISED BY FIS

(Amount in ₹ billion)

| Institution | Total Resources Raised | | | | | | | | Total Outstanding (As at end-March) | |
|--------------|------------------------|------------|-------------|------------|------------------|------------|--------------|--------------|--|--------------|
| | Long-Term | | Short-Term | | Foreign Currency | | Total | | 2011-12 | 2012-13 P |
| | 2011-12 | 2012-13 P | 2011-12 | 2012-13 P | 2011-12 | 2012-13 P | 2011-12 | 2012-13 P | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| EXIM Bank | 88 | 111 | 55 | 59 | 84 | 194 | 227 | 364 | 547 | 645 |
| NABARD | 179 | 174 | 90 | 85 | - | - | 269 | 259 | 423 | 447 |
| NHB* | 555 | 87 | 827 | 466 | - | - | 1,382 | 553 | 607 | 341 |
| SIDBI | 139 | 98 | 80 | 49 | 20 | 7 | 239 | 154 | 440 | 480 |
| Total | 961 | 470 | 1052 | 659 | 104 | 201 | 2,117 | 1,330 | 2,016 | 1,913 |

P: Provisional.

-: Indicates nil/ negligible.

*: Position as at end-June.

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

Source: www.rbi.org.in

**TABLE 5: RESOURCES RAISED BY FIS FROM MONEY MARKET
(AS AT END- MARCH 2013)**

(Amount in ₹ billion)

| Instrument | EXIM | NABARD | NHB | SIDBI | Total |
|--|-------------|--------------|-------------|-------------|--------------|
| 1 | 2 | 3 | 4 | 5 | 6 |
| A. Total | 65.2 | 85.0 | 11.0 | 27.3 | 188.5 |
| i) Term Deposits | 6.1 | 0 | 0.7 | 6.7 | 13.5 |
| ii) Term Money | 0 | 3.1 | 0 | 0 | 3.1 |
| iii) Inter-Corporate Deposits (ICDs) | 0 | 0 | 0 | 0 | 0 |
| iv) Certificate of Deposits (CDs) | 6.3 | 0 | 0 | 0 | 6.3 |
| v) Commercial Paper (CPs) | 52.8 | 81.9 | 10.3 | 20.6 | 165.6 |
| vi) Short-term loans from banks | 0 | 0 | 38.3 | 0 | 38.3 |
| Memo: | | | | | |
| B. Umbrella Limit | 85.8 | 164.1 | 47.3 | 64.0 | 361.1 |
| C. Utilisation of Umbrella limit# (A as percentage of B) | 76.0 | 51.8 | 23.3 | 42.6 | 52.2 |

#: Resources raised under the Umbrella Limit include A (i) through A (v).

Source: www.rbi.org.in

SOURCES AND USES OF FUNDS

- **SHARP RISE IN EXTERNAL SOURCES OF FUNDS RAISED BY FIs:** During 2012-13, funds raised by FIs from external sources increased by 73.4 %, while that from internal sources decreased by 9.3 % as shown in Table 6. Share of “other” sources of funds for the FIs more than doubled to 8.1 %. In case of deployment of funds, the share of fresh deployments declined sharply to 43.8 %, whereas the funds used in other deployments surged significantly to 28.2 %.

TABLE 6: PATTERN OF SOURCES AND DEPLOYMENT OF FUNDS OF FIS

(Amount in ₹ billion)

| Item | 2012 | 2013 P | Percentage Variation |
|--|--------------|--------------|----------------------|
| 1 | 2 | 3 | 4 |
| A. Sources of Funds (i+ii+iii) | 4,252 | 5,406 | 27.1 |
| | (100) | (100) | |
| i. Internal | 2,623 | 2,378 | -9.3 |
| | (61.7) | (44.0) | |
| ii. External | 1,495 | 2,592 | 73.4 |
| | (35.2) | (48.0) | |
| iii. Others [@] | 134 | 436 | 225.4 |
| | (3.2) | (8.1) | |
| B. Deployment of Funds (i+ii+iii) | 4,252 | 5,406 | 27.1 |
| | (100) | (100) | |
| i. Fresh Deployment | 2,739 | 2,365 | -13.6 |
| | (64.4) | (43.8) | |
| ii. Repayment of Past Borrowings | 1,292 | 1,517 | 17.6 |
| | (30.4) | (28.1) | |
| iii. Other Deployment | 221 | 1,524 | 586.5 |
| | (5.2) | (28.2) | |
| <i>of which: Interest Payments</i> | 145 | 183 | 26.2 |
| | (3.4) | (3.4) | |

P: Provisional.

@: Includes cash and balances with banks and the Reserve Bank of India

Notes: 1. Data pertain to EXIM Bank, NABARD, NHB and SIDBI.

2. Figures in parentheses are percentages to total.

Source: www.rbi.org.in

MATURITY AND COST OF BORROWINGS AND LENDING

- During 2012-13, while the weighted average cost (WAC) of rupee resources raised by NHB and NABARD decreased, that for SIDBI increased marginally and for EXIM Bank, it remained at the previous level of 9 % as shown in Table 7. NABARD had the highest WAC of rupee resources raised and SIDBI had the least. Insofar as weighted average maturity (WAM) is concerned, while SIDBI had the longest WAM of 4.9 years,

NABARD had the shortest WAM of 1.8 years. During 2012-13, while NHB lowered its long-term prime lending rate (PLR), EXIM Bank and SIDBI kept their PLRs unchanged as shown in Table 8.

TABLE 7: WEIGHTED AVERAGE COST AND MATURITY OF RUPEE RESOURCES RAISED BY FIS

| Institution | Weighted Average Cost (Per cent) | | Weighted Average Maturity (Years) | |
|-------------|-------------------------------------|-----------|--------------------------------------|-----------|
| | 2011-12 | 2012-13 P | 2011-12 | 2012-13 P |
| 1 | 2 | 3 | 4 | 5 |
| EXIM Bank | 9.0 | 9.0 | 2.8 | 3.5 |
| SIDBI | 7.5 | 7.6 | 4.9 | 4.9 |
| NABARD | 9.5 | 9.3 | 1.9 | 1.8 |
| NHB* | 8.8 | 7.7 | 0.9 | 2.9 |

P: Provisional.
*: Position as at end-June.

Source: www.rbi.org.in

TABLE 8: LONG-TERM PRIME LENDING RATE STRUCTURE OF FIS

| Effective | (Per cent) | | |
|------------|------------|-------|-------|
| | EXIM Bank | SIDBI | NHB |
| 1 | 2 | 3 | 4 |
| March 2012 | 15.0 | 12.75 | 10.50 |
| March 2013 | 15.0 | 12.75 | 9.75 |

Source: www.rbi.org.in

FINANCIAL PERFORMANCE OF FIs

- **RISE IN PROFITABILITY DUE TO INCREASE IN NONINTEREST INCOME:** Financial performance of FIs improved during 2012-13 as both their operating and net profits increased. Increase in FIs' operating expenses during 2012-13 was mainly led by higher wage bill as shown in Table 9. Return on Assets (ROA) in respect of all the FIs remained almost stable during 2012-13. Amongst the FIs, SIDBI had the highest ROA followed by NHB, EXIM Bank and NABARD as shown in Table 10.

TABLE 9: FINANCIAL PERFORMANCE OF FIs

(Amount in ₹ million)

| Items | 2011-12 | 2012-13 | Variation | |
|--|--------------------|--------------------|---------------|--------------|
| | | | Amount | Percentage |
| A) Income (a+b) | 2,26,650 | 2,75,010 | 48,360 | 21.34 |
| a) Interest Income | 2,16,887 (95.7) | 2,60,884 (94.9) | 43,997 | 20.3 |
| b) Non-Interest Income | 9,764 (4.3) | 14,126 (5.1) | 4,362 | 44.7 |
| B) Expenditure (a+b) | 1,62,933 | 1,99,626 | 36,693 | 22.50 |
| a) Interest Expenditure | 1,48,850 (91.4) | 1,83,811 (92.1) | 34,961 | 23.5 |
| b) Operating Expenses | 14,082 (8.6) | 15,815 (7.9) | 1,733 | 12.3 |
| <i>of which:</i> | | | | |
| Wage Bill | 10,193 | 11,154 | 961 | 9.4 |
| C) Provisions for Taxation | 16,170 | 17,486 | 1,316 | 8.1 |
| D) Profit | | | | |
| Operating Profit (PBT) | 48,810 | 55,863 | 7,053 | 14.5 |
| Net Profit (PAT) | 32,640 | 38,377 | 5,737 | 17.6 |
| E) Financial Ratios[@] | | | | |
| Operating Profit | 1.8 | 1.5 | - | - |
| Net Profit | 1.0 | 1.1 | - | - |
| Income | 7.1 | 7.6 | - | - |
| Interest Income | 6.8 | 7.2 | - | - |
| Other Income | 0.3 | 0.4 | - | - |
| Expenditure | 5.1 | 5.5 | - | - |
| Interest Expenditure | 4.0 | 5.1 | - | - |
| Other Operating Expenses | 0.4 | 0.4 | - | - |
| Wage Bill | 0.3 | 0.3 | - | - |
| Provisions | 0.5 | 0.5 | - | - |
| Spread (Net Interest Income) | 2.1 | 2.1 | - | - |

PBT: Profit Before Tax; PAT: Profit After Tax.
[@]: As per cent of total average assets.
Note: Figures in parentheses are percentages to total income/expenditure.

Source: www.rbi.org.in

TABLE 10: SELECT FINANCIAL PARAMETERS OF FIS (AS AT END-MARCH)

| Institution | Interest Income/ Average Working Funds (Per cent) | | Non-Interest Income/ Average Working Funds (Per cent) | | Operating Profit/ Average Working Funds (Per cent) | | Return on Average Assets (Per cent) | | Net Profit per Employee (₹ million) | |
|-------------|---|------|---|------|--|------|---|------|---|------|
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| EXIM Bank | 7.1 | 7.9 | 0.6 | 0.5 | 2.5 | 2.4 | 1.1 | 1.1 | 26.7 | 27.0 |
| NABARD | 6.5 | 6.9 | 0.1 | 0.1 | 1.4 | 1.5 | 1.0 | 0.9 | 3.6 | 4.1 |
| NHB* | 8.6 | 8.5 | 0.04 | 0.05 | 2.1 | 2.2 | 1.4 | 1.1 | 40.7 | 48.4 |
| SIDBI | 8.5 | 8.6 | 0.2 | 0.3 | 3.4 | 3.4 | 2.0 | 2.0 | 5.5 | 7.9 |

*: Position as at end-June.

Source: www.rbi.org.in

SOUNDNESS INDICATORS

- **IMPAIRED ASSETS INCREASED DURING THE YEAR:** As compared to last year, net NPAs of FIs at aggregate level increased mainly on account of higher net NPAs in respect of EXIM Bank, SIDBI and NHB. The largest quantum of net NPAs was held by SIDBI, followed by EXIM Bank, and NHB. NABARD had the least NPAs among the FIs and its NPA position, in fact, improved during the year as shown in Table 11. The rise in net NPAs of NHB was on account of restructured loan accounts being classified as “sub-standard” asset as shown in Table 12. During 2012-13, while the FIs’ total loss assets declined, the quantum of sub-standard and doubtful assets increased. EXIM Bank and SIDBI’s sub-standard assets increased, whereas those of NABARD declined substantially.

TABLE 11: NET NON-PERFORMING ASSETS OF FIS (AS AT END-MARCH)

| Institution | Net NPAs | | Net NPAs/Net Loans (Per cent) | |
|----------------|--------------|--------------|----------------------------------|-------------|
| | 2012 | 2013 | 2012 | 2013 |
| 1 | 2 | 3 | 4 | 5 |
| EXIM Bank | 1,558 | 3,047 | 0.29 | 0.47 |
| NABARD | 371 | 237 | 0.02 | 0.01 |
| NHB* | 0 | 1,561 | 0.00 | 0.45 |
| SIDBI | 1,847 | 3,073 | 0.36 | 0.55 |
| All FIs | 3,776 | 7,917 | 0.13 | 0.23 |

*: Position as at end-June.

Source: www.rbi.org.in

TABLE 12: ASSETS CLASSIFICATION OF FIS (AS AT END-MARCH)

(Amount in ₹ million)

| Institution | Standard | | Sub-standard | | Doubtful | | Loss | |
|----------------|------------------|------------------|--------------|---------------|--------------|--------------|--------------|------------|
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| EXIM Bank | 5,37,340 | 6,40,483 | 4,044 | 8,545 | 3,871 | 6,559 | 44 | 44 |
| NABARD | 16,49,324 | 19,51,980 | 221 | 8 | 682 | 1,093 | 10 | 10 |
| NHB* | 2,85,159 | 3,44,671 | 0 | 1,806 | 0 | 34 | 0 | 0 |
| SIDBI | 5,36,034 | 5,57,606 | 2,123 | 4,477 | 385 | 352 | 1,227 | 713 |
| All FIs | 30,07,857 | 34,94,740 | 6,388 | 14,836 | 4,938 | 8,038 | 1,281 | 767 |

*: Position as at end-June.

Source: www.rbi.org.in

CAPITAL ADEQUACY

- **CAPITAL ADEQUACY POSITION OF FIS REMAINS COMFORTABLE:** The CRAR of all the FIs was lower during 2012-13 than the previous year. However, all the four FIs maintained a CRAR higher than the minimum stipulated norm of 9 % as shown in Table 13.

TABLE 13: CAPITAL TO RISK-WEIGHTED ASSETS RATIO OF FIs

(Per cent)

| Institution | 2012 | 2013 |
|-------------|------|------|
| 1 | 2 | 3 |
| EXIM Bank | 16.4 | 15.3 |
| NABARD | 20.6 | 18.3 |
| NHB* | 19.7 | 16.7 |
| SIDBI | 29.2 | 28.2 |

*: Position as at end-June.

Source: www.rbi.org.in

CONCLUSION

The non-banking financial sector as a whole witnessed a significant expansion in its balance sheet; though there was consolidation as some companies exited and migrated to other business models. The net profits of FIs had increased during 2012-13. The overall asset quality of a large

part of the Non-Banking Financial Institutions sector deteriorated during the year, partly reflecting a slowdown in the overall economy. With regard to capital adequacy, the entire Non-Banking Financial Institutions sector was comfortably placed. Regulatory interventions for the sector were guided by concerns relating to financial stability as also for promoting healthy growth of the sector. Besides issuing public notices, the Reserve Bank has been carrying out outreach and sensitisation programmes, cautioning the general public not to fall prey to fictitious offers by individuals, unincorporated bodies and companies promising unsustainable returns.

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