Chapter-II
Review of Literature

An attempt is being made in this chapter to review the literature concerning the growth, organization and performance of the NBFCs in India. This gives an opportunity to know the contributions of authors and scholars in the field. This may help us in assessing the relevance of their contributions for this study.

Verma (1997) in his book “Concept, Practice and Procedure of Non-Banking Financial Companies” throws light on the role of NBFCs in various sectors of the economy and examines their contributions to the economic growth of the country by serving as king-pins in the financial system of the Indian Economy. The author examines the engagement of these NBFCs in various activities rendering both fund based services including lease finance, hire purchase finance, consumer finance, working capital loans, inter corporate investment, bill discounting, factoring, venture capital financing, mutual funds, housing finance etc, and the non-fund based services which include managing mergers, amalgamations, lease broking, corporate counselling and capital restructuring, project counselling, credit rating liaisoning, managing fixed deposits, money market operations, dealings in foreign exchange, money charging and doing other business for the depositors etc. This work explains the structure, regulation and operations of NBFCs in India in a systematic manner elaborating laws applicable to NBFCs, practices and procedures in vogue in NBFCs. The work, though rich and valuable does not help us in understanding the particular
problems faced by most of the NBFCs in the market for the last 5 to 6 years and fails to examine the main causes of failure of NBFCs working in India.

**Sarkar and Agrawal (1997)** in their work “Banking : The Challenges of Deregulation” refer to the financial sector reform in India and the role of non-bank financial intermediaries in the mobilization of funds. The authors refer to the creation of a competitive environment both for the banks and the NBFCs as well.

**Kuchhal (1998)** in his work “Corporate Finance” examines the working of the financial sector of the Indian economy during the last one decade after the reforms were introduced. The author provides a comprehensive and critical analysis of new developments affecting the various spheres of corporate finance and in that context analyses financial sector reforms, Corporate Securities, Marketing of Securities, Merchant Banking, Non-Bank Finance Companies, Credit Rating Agencies, Capital Market, Stock Exchange, OTC Exchange in India, Public Deposits, Foreign Capital and Collaborations, Unit Trust of India, Development and Finance Co-operations. The book may also be used as a supplement to my financial management. Though the work offers a comprehensive and critical review of the Indian financial sector, its study of the Non-Bank Finance Companies provides only the basic concepts about NBFCs and the Regulation Act of RBI relating to these companies. The author makes no contribution to further our understanding of NBFCs and their working either at the national level or at the state level.

**Pandey (1999)** in his work “Venture Capital” examines the developmental role and the factors contributing to the venture capital in India. The work presents a detailed case analysis of the Venture Capital experience in India by examining -
i) The strategic role of Venture Capital in the development of technology innovative entrepreneurship and small enterprises in India.

ii) The development process of Venture Capital by a systematic analysis of the practices and policies adopted in India.

iii) The policy initiative necessary for the success of Venture Capital in developing countries based on the Indian experience.

The work is very useful to understand an important segment of India's emerging financial system, that is, Venture Capital. This, however, does not help us in relating this experience to the organizational and operational aspects of the NBFCs in India.

Khan (1999) in his work "Financial Services" examines the various financial services provided by Non-Banking Financial Companies in the Indian market. The efficiency of any financial system to an extent also depends upon the quality and range of financial services provided by the Non-Banking Financial Companies. Although some of these services in India are at a nascent stage, they represent development of considerable significance for the financial system.

Khan discusses about the non banking financial companies/intermediaries which provide the services as well as their users, the legal procedures, tax and accounting procedures. In fact the work provides a judicious mixture of theory and business practices of the contemporary Indian Financial Services sector. It also gives an overview of Non-Banking Financial Companies within the framework stipulated by RBI Act and RBI directions.

Though this is an excellent effort to understand the financial market of the Indian economy and different services provided by the financial sector of the Indian economy, it does not give any idea about the peculiar problems faced by the NBFCs
in different places of the country. The financial market is not uniform in the country. In some places the NBFCs are doing good business and in other places their performance is very poor. The work does not offer us any insight about the working of the NBFCs and their problems in our state.

Rao (2000) in 'India's Financial System: Liberalisation and Reform' refers to the 'widening and deepening' of the financial sector in India and in that context examines financial reforms following the recommendations of the Chakravarty Committee Report (1985) and the Narasimham Committee Report (1991). While many of the important issues like the Asset-Liability Management (ALM), Asset-Reconstruction Fund (ARF), Prudential Supervision, Systemic Stability and the Capital Market etc have been discussed in the paper, there is, however, no discussion of the emergence of NBFC in the Indian Financial market after the launching of economic reforms in 1991.

Tadas (2000) in his paper 'Structure and Growth of India's Financial Sector' has not made any discussion relating to the growth and functioning of NBFCs in the Indian financial market.

Tadas (2000) in another paper 'Output and Productivity in India's Financial Sector', however, looks at the non-banking financial institutions as a part of the banking and insurance sector and attempts an estimation of value addition by the Non-Banking Financial Companies and Corporations.

Gordan and Natarajan (2003) in their work "Financial Market and Services" look at the developments in the financial market and relate these developments like the financial innovations in terms of products and instruments, adoption of modern technologies, opening up of the market to the global economy and streamlining of
the regulatory framework etc to the working of India’s financial market. The work is exhausting as it deals with the (i) The financial system in India, (ii) Money Market, (iii) New Issues Market, (iv) Secondary Market, (v) Securities and Exchange Board of India (vi) Depository System.

The work also throws light on (i) Financial Services (ii) Merchant Banking (iii) Hire Purchase (iv) Leasing (v) Venture Capital (vi) Mutual Funds (vii) Discounting factoring and forfeiting and (vii) Credit Rating. The work does not devote much space or writing to study the working of NBFCs in the fast changing financial situation in India.

Stijn (2005) in his paper ‘How Important are Financial Markets in Spurring Growth and Investment?’ examines the catalytic role of the financial markets in promoting development. The role of NBFCs in particular has not been examined.

Economic Times (29.04.1998) highlights the need to have a strong regulatory framework for NBFCs and in that light feels the creation of compulsory deposit insurance scheme for NBFCs by government and strengthening of the Securities and Exchange Board of India’s powers so that it can award damages to investors who are victims of the malpractices of capital market intermediaries like the NBFCs.

Economic Times (09.06.1998) while speaking about the failure of JVG Finance refers to the efforts of the RBI to start criminal activities against the group’s chairman Mr. V.K. Sharma and three directors for gross violation of Non-Banking Financial Company Rules and allegedly taking the public for a ride.

The company is accused of collecting Rs. 88.87 crores while it was eligible to collect only Rs. 3 crore.
The company's Net Owned Fund (NOF) was Rs. 11.33 lakh with inter corporate deposits (ICDs) worth Rs. 1.51 crore.

**Economic Times (05.05.2000)** discusses the decision of the Reserve Bank of India in raising the minimum net worth required by NBFCs for registration with RBI from Rs. 25 lakhs to Rs. 2 crores.

**Economic Times (16.11.2001)** gives relevant data on fund mobilization by a state owned NBFCs [West Bengal Government owned finance company]. The article not only gives data on total public deposits mobilized by this state owned company but also gives data about the total outstanding public deposits mobilized by NBFCs sector in India.

**Economic Times (April, 2002)** throws light on revision of RBI regulatory norms relating to the NBFCs. The RBI has decided to introduce changes in norms for accounting for investment and provisioning against non-performing assets (NPAs) in response to advise received from the Institute of Chartered Accountants of India. The Reserve Bank of India has also prohibited NBFCs for extending fresh loans and making new investments in case of default in repayment of public deposits.

**RBI yearly Bulletin (2001)** examines the business of the NBFCs in the country as a whole and then gives data on region wise composition of deposits held by NBFCs, asset profile of NBFCs, distribution of assets of NBFCs according to activity, Net owned funds of NBFCs and capital adequacy ratio. This helps the scholars and investigators considerably. But to examine the working of NBFCs in a specific region or state, the data given are not enough.

**Financial Development Bulletin (September, 2000)** examines new tools for assessing the soundness of a financial system. It explains about Macro Prudential
Indicators (MPI) which defined broadly, are indicators of the health and stability of the financial system and which can therefore help countries to assess their Banking System's vulnerability to crisis. In recent years an increasing amount of work has been done on such indicators as part of efforts to strengthen the international financial system.

All these studies broaden our understanding of India's financial system. They do not however help us in acquiring a critical understanding of the functioning of NBFCs in different regions including Orissa. We need to have a study that will explain the success and the failure of NBFCs and the causes thereof. The present study is an attempt to understand the behavior, performance, financial soundness and health of the NBFCs in the state of Orissa.