It may be observed that in Orissa over the decades there has not been any significant growth in the number of NBFCs operating/functioning in the state. New NBFCs are conspicuous by their absence. This however has not affected the growth and functioning of the existing NBFCs. It was found that in the early 1991 there were a number of NBFCs in the state. They, however, failed to survive in the market because of a number of reasons including their inefficient working and mismanagement. The NBFCs operating in the state are making all efforts to satisfy their customers and expand their business and cover new areas of business. We have taken three NBFCs namely M/s Ashok Leyland Finance, M/s SREI International Finance and M/s Micro Finance Ltd for our study. We examined the performance of these companies in the Chapter-IV. From the last chapter it is clear that the collection of deposits of M/s Ashok Leyland company has declined from the year 1999 to 2000 and in the years 2000 and 2001 it has remained same. In 1999 the total deposit collection from Rourkela was Rs. 1 crore, which declined to Rs. 80 lakh and to Rs. 75 lakh in the year 2000 and 2001 respectively. This shows that there is 20% decline in deposits in the first year and 6% decline in the second year. It was Rs. 80 lakhs in Bhubaneswar in the year 1999 and this has declined to Rs. 70 lakhs and to Rs. 65 lakhs in the year 2000 and 2001 respectively. This shows that there is 12.5% decline in total deposits in the year 1999-2000 and 7.14% decline in total deposits in the year 2000-2001. In Cuttack it has declined from Rs. 50 lakhs in the year 1999 to Rs. 45 lakhs in 2000 and has again increased to Rs. 47 lakhs in 2001.
This shows that there was 10% decline in total deposits in 1999-2000 and this again increased by 4.44% in the year 2000-2001. In Balasore also its collection of deposits declined from Rs. 5 lakh in 1999 to Rs. 2 lakh in 2000 and remained same i.e. Rs. 2 lakh in the year 2001. This shows that there was 60% decline in deposits in the year 1999-2000 and the deposits remained same in the year 2000-2001.

Its performance in other areas is not different either. In Berhampur its deposits declined from Rs. 3 lakhs in 1999 to Rs. 2 lakhs in 2000 and to Rs. 1 lakh in 2001. This shows that there was 33.3% decline in total deposits in the first year and there was 50% decline in total deposits in the second year. In Angul also it was collection of Rs. 10 lakh in 1999 and this has declined to Rs. 5 lakh in the year 2000 and was Rs. 4 lakh in the year 2001. This shows that there was a 50% decline in total deposits in the first year and 20% decline in the second year. In Jaypur the deposit collection was same in the year 1999, 2000 and 2001.

The total deposits of M/s Ashok Leyland Finance declined by 19.6% in the year 1999-2000 and remained same in the year 2000-2001. It may be noted from the figures that collection of deposits is mainly high in the urban areas like Bhubaneswar, Cuttack and Rourkela. Though Bhubaneswar is the capital city of the state but deposit collection is much higher in Rourkela as compared to Bhubaneswar. As most of the people who make deposits are from service sectors in Rourkela, deposit collection is high as compared to other places. But unfortunately this has come down drastically in the last 2 years due to retrenchment of employees from the Rourkela Steel Plant and abolition of many posts in the Steel Plants. Because of the bad financial condition of the steel industry there is a deterioration in the financial conditions of the service holders which ultimately affected the business of the NBFC. The deposit collection from Bhubaneswar and Cuttack has also declined in the last 2
and 3 years, which may be due to the arrival of other financial institution like the private banks like ICICI Bank, HDFC Bank who are strong players in the field. They are also providing a number of value added services to their customers. People may prefer to invest their money in these private banks as compared to the finance companies working in the state where they find their money is not secured. It may be recalled that in the early 1990s some of the non-banking institutions including the NBFCs in the state failed to repay back their customers’ deposits and could not sustain their activities in the market. They left a bad image not only in the finance market of the state but also with the class of prospective depositors. It is but natural that people lost their confidence in these companies and even today there is a lurking suspicion in the minds of the people about the integrity and soundness of the NBFCs.

The hire purchase and leasing finance business of the company has increased from the year 1999-2000 to 2000-2001. The company mainly finances its own products and as the M/s Ashok Leyland is a reputed and reliable company in the automobile vehicle market, especially in the market of heavy commercial vehicle, people prefer to take loans from this company to buy the company’s own products. But however this business of the company has also been affected due to arrival of a number of competitors in the automobile market.

In case of SREI International Finance the picture is slightly different. The collection of deposits of the company has increased from Rs. 2.05 crores in the year 1999 to Rs. 3.05 crores in the year 2000 which further increased to Rs. 4 crores in the year 2001. This shows there was 48.78% increase in deposits in the year 1999-2000 and the deposits further increased by 31.14% in the year 2000-2001. This implies that the performance of SREI Finance is better as compared to Ashok
Leyland Finance. The company has collected Rs. 2.02 crores from Bhubaneswar in 1999 and Rs. 2.07 crores in the year 2000 and Rs. 2.96 crore in 2001. This shows there was 2.47% increase in total collection of deposits in the year 1999-2000 which further increased by 42.99% in the year 2000-2001. Company's collection of deposits at Rourkela was Rs. 16 lakhs in the year 1999 and this has increased to Rs. 65 lakhs in the year 2000 but declined to Rs. 57 lakhs in the year 2001. This shows there was 306.25% increase in the total deposits in the first year which however declined to 12.30% in the second year. In Talcher it was Rs. 2 lakhs in 1999 and this increased to Rs. 2.75 lakhs in 2000 and further increased to Rs. 5 lakhs in 2001. This shows that in the first year there was 37.5% increase in total deposits and 81.81% increase in the second year. In Badbil its collections increased from Rs. 13 lakhs to Rs. 20 lakhs from 1999 to 2000 and remained same at Rs. 20 lakhs in the year 2001. This shows that the collection of deposits of M/s SREI International Finance is high in the capital city of the state, i.e. in Bhubaneswar and Cuttack as compared to other places of the state. Next to Bhubaneswar and Cuttack the deposit collection is high in Rourkela. But there was a decline in the collection of deposit to Rs. 8 lakhs as compared to the previous year. This company is doing well in Bhubaneswar, Cuttack and Rourkela because the company may be providing better facilities to its agents who can mobilize more deposits for their company. As the company is doing foreign exchange business it has more transactions with the middle class and upper middle class people. Indians coming from foreign countries may deposit their foreign exchange in this company for which the business of the company has been increasing. Its mobilization of fixed deposits has increased from 1999-2000 to 2000-2001 and to 2001-2002.
The company's business in hire purchase and leasing finance is also satisfactory. Its business has shown growth from the year 1999-2000 to 2000-2001. It mainly finances all utility vehicle and heavy commercial vehicles, earth moving equipment etc. Its performance has been much better by virtue of good collection and effective utilization of funds in business and in taking good care of customers' requirements.

In case of M/s Micro Finance Ltd, one important aspect of the company is that it covers both rural and interior areas as well as the urban areas of the state. Minimum deposit amount of the company is Rs. 1000, whereas in Ashok Leyland and SREI Finance it is Rs. 5000 for which many people from the lower middle income group are also able to invest their money in the company. Another significant aspect of the company is that it has better schemes and better loan facilities. As it is the only Orissa based NBFC which has received recognition from the RBI authorities and good rating from a national rating agency like CARE, it has been able to create confidence in the local people about the safety of their money when deposited with it. People have developed faith in the company and they prefer to invest their money in a recognized company than in any unknown companies. This made the company successful in its business in the financial market of the state. The company received Rs. 3.95 crores of deposits in the year 2000-2001 as against Rs. 1.29 crore in the preceding year. The Net Owned Fund of the company has increased from Rs. 54 lakhs in 2000 to Rs. 221 lakhs in 2001. Loans given by the company to its customers have also increased from Rs. 48 lakhs in 2000 to Rs. 170 lakhs in the year 2001. Profit of the company has also increased from Rs. 1,85,706 in the year 2000 to Rs. 2,36,185 in the year 2001. By all standards, Micro-Finance is doing better business in the state.
Though all the three NBFCs are doing satisfactory job in the state, this sector has been struggling a lot for the last 3-4 years not only in the financial market of the state but also in the country. We may discuss some of the factors contributing to the failure of the NBFCs.

1) **NBFCs are not following the proper accounting system and they do not have proper management.**

The NBFCs are mostly managed by some individuals or a group of individuals. The practice of management of the company sometime is influenced by personal likings and whims rather than a long term professional vision and business ethics. For example- companies like JVG Finance and ALPIC Finance initially started doing well and earned a good amount of profit within 2-3 years but the surplus instead of being ploughed back into the business to further the growth of companies was rather utilized in less significant areas like acquisition of real estate including flat in the posh areas, establishing glamorous offices, providing comfort to the officers, which these organizations could hardly bear. This extravaganza had its toll on the financial health of the company. The companies could no longer sustain the business activity in the right direction. This could contribute to the bankruptcy of the company. This is an important reason which may partly explain the failure of NBFCs in the country.

2) **Most of the NBFCs do not have well defined investment policy**

Though the RBI has issued clear directives regarding the functioning of the NBFCs, these directives however have not been strictly followed by the companies in the management of their finance and assets. The money collected from the public has to be properly managed with utmost care so as
to bring requisite earning and hence profit for the companies and provide a reasonable return to the customers. However portfolio management by the NBFCs is yet to confirm to the directives as recommended by the RBI. It has been found that many of the NBFCs do not follow the guidelines of RBI and invest their money in some risky areas preferred by them because of higher returns. This is one of the reasons which explains the lack of transparency in the portfolio management of these companies.

3) Poverty and Low Income in Orissa

The per capita income of Orissa is very less as compared to other developed states like Punjab and Maharashtra. Inhabitants of Orissa mostly belong to poor, lower middle class and middle class income groups depending upon their access to resources in agriculture, government services and small household business and small number of jobs in the cities. If we take a close look at the status of Orissa’s economy since independence, it will be revealed that the economy of Orissa has not made much progress in comparison to other states. In case of agriculture no modernization has been possible. The age old practice of conventional method of agriculture is still prevalent in most parts of the state which explains low productivity in agriculture. As a result Orissa is still considered a poor state. Many NBFCs are doing well in other developed states like Punjab, Gujarat, Andhra Pradesh, Karnataka and Maharashtra. They do not find Orissa offering good business.

Again the super cyclone in the year 1999 in the coastal districts of Orissa brought record devastation in term of loss of human life, houses, loss of agriculture and infrastructural facility like road, electricity, telephone etc. The unprecedented heavy toll has surpassed all the previous natural calamities.
like flood, drought and cyclone put all together. This has pushed back the economy of Orissa by 20 to 30 years.

The performance of some of the NBFCs which were doing well was badly affected by the super cyclone. Because of damage to life and property income of the people has suffered and this has adversely affected the business of the NBFCs working in the state.

4) The survival of any company depends on its managerial expertise, operational efficiency and good services to the customers. Their success is also determined by the quality of their products. It has been observed that large number of NBFCs are offering a very high rate of interest to their customers as compared to the rate of interest offered by the public sector and private banks to attract more customers towards them. However the increase in differential has to be meticulously calculated and compared with the profit that would accrue to the company’s kitty by virtue of their portfolio management. The whole assessment exercise has to be professionally and pragmatically managed.

5) The minimum net worth required by non-banking financial companies (NBFCs) for registration with the Reserve Bank of India has progressively been raised from Rs. 25 lakh to Rs. 2 crore. For which many small NBFCs in the state had to close down their offices.

Thus the non-banking financial sector has been hit from all sides.

First: The new RBI norms call for stricter monitoring of resources. Capital adequacy and income recognition norms are also fairly stringent.
Second: The new guidelines restrict flow of funds through hitherto most popular route, fixed deposit. Mobilisation of fixed deposits is now dependent on credit rating and therefore the scope is much reduced.

Third: Banks and financial institutions are still shy of lending to the NBFCs. The CRB fiasco, followed by the fall of names like ITC Classic and Anargran have unsettled lenders, who have become extremely cautious about their borrowers' profile. Even if companies are well managed and performing reasonably, they are not welcome wholeheartedly. The problem is that there is a distinct lack of confidence in the entire financial system.

In such a scenario, it has become important for NBFCs to downsize their growth and maintain a comfortable cash flow position in the wake of general decline in asset formation within the economy.

There is a greater concern about risk and managing them adequately. Credit dispensation has become a very serious exercise.

With the downturn in the commercial vehicle segment, the biggest among the businesses done by NBFCs, companies are trying to even look at the second hand vehicle market, which is fairly active in the country. Some of the well known names in the business of vehicle financing are giving a very serious thought to financing of second hand vehicles. The vehicle market of late, has become more active and offers better business prospects.

Some NBFCs are also taking a hard look at the two-wheeler sector which has shown a modest gain in the past one year. Also the switch seems to have been made in favour of individuals rather than institutions, where default rates have been very high in the past couple of years.