Chapter – VI
Summary & Conclusion

This being the final chapter of the investigation, its aim is to summarise the research effort, pool together the end points of discussion, make observation, draw inferences and conclusion. For orderly discussion of this chapter is set out under 3 sections. Brief summaries of the introductory chapter are presented in section I. Major observations, finding and conclusion pertaining Chapter -II to Chapter-V are brought together in section-II. The final section is concerned with few suggestions based on the field experience and observations to give certain guidelines to the investors in NBFCs and to the NBFCs working in the state for their better performance.

Section-I

The introductory chapter begins with a discussion of the problem chosen for investigation. In India the role of NBFCs has been well recognized by the Government. Economic liberalization and globalization of India’s financial market began in 1991. This meant that Indian industry had access to both domestic and foreign equity resulting in the creation of a larger financial market. This meant lower interest rate and more importantly the transfer of risk from the government to the individual forcing the individual to protect his own investment. In the introductory chapter it is observed that Indian financial system since 1991 has been experiencing rapid changes in its functioning and scope. NBFCs have been subject of focused attention during the nineties. The working of NBFCs resembles to a large extent the functioning of public and private banks, and all these institutions work in the...
financial market of the country. NBFCs are however doing various types of fund based and fee based business. Under fund based business they are doing Hire Purchase, Leasing and Chit Business, Mutual Funds, Venture Capital Finance, Acceptance of Credit Bill Discounting and Insurance Business. Under fee based or consultancy business they cover capital restructuring, merchant banking, financial engineering and project identification and project finance.

The total regulated deposits of NBFCs under fund based and fee based business aggregated to Rs. 17,390 crores at the end of March 1994 which is equivalent to 4% of entire bank deposits in the country. The quantum of regulated deposits grew more than three times at the end March 1997, and became Rs.53,116 crores.

Deposits of non-banking companies attracted official attention only after 1995 when the RBI was empowered to regulate the quantum of company deposits. The RBI (Amendment) Act, 1997 provides for a compulsory registration of the NBFCs with the RBI, irrespective of their holding of public deposits. The imposition of official control over company deposits indicated a significant change over the past several years. The primary objective of exercising control over deposit acceptance by the companies was to regulate the growth of deposits outside the banking system and to afford a degree of indirect protection to the depositors. The acceptance of deposits by companies is regulated by RBI and the control over the deposit acceptance activity of non-financial companies is vested in the 'Department of Company Affairs'.

The Reserve Bank announced ALM guidelines for NBFCs for effective risk management. All NBFCs with asset size of Rs. 100 crores or above or with public
deposits of Rs. 20 crores or above as per their balance sheet as on March 31, 2000 were instructed to have ALM system in place.

Against such changing scenario in the NBFC sector the main objective of the study is to examine the growth, performance and pattern of resource mobilization and evaluate the functioning of NBFCs in the state.

Section–II

The major observation, finding and conclusion of Chapter-II to Chapter-V brought together in section-II. In Chapter-II we have discussed the relevant literature relating to the growth performance and other aspects of NBFCs in India. With a view to gaining insights into the problems of the NBFCs and their future prospects in the country and particularly in the state studies undertaken in India were analysed and the relevance of every work for the purpose of this study was also assessed. The works examined are essentially evaluation studies and mostly descriptive in nature and lacked reliable empirical contents. It was also found that no study was undertaken to examine the functioning of NBFCs in Orissa. The present study is an attempt to fill in the lacunae and present a factual picture of the functioning of the NBFCs in Orissa.

In Chapter–III we have examined the emergence, growth of NBFCs in the country and in the state over the years. While examining the growth of NBFCs in India we found that the number of reporting companies in the year 1999 which stood at 1547 declined to 1005 in the year 2000. The public deposits and net owned fund of these NBFCs had declined from Rs.20,428.93 crores to Rs. 19,341.72 crores and Rs. 9118.27 crores to Rs. 6222.89 crores respectively in the year 1999 to 2000.
The state experienced a mushrooming growth of NBFCs in the year 1994-1995. At that time there were large number of NBFCs working in the state and were active in the financial market. The annual business of some of the NBFCs in the state were Rs. 20 crore at that time. But in the course of time some of them could not manage their assets and liabilities. Some of them could not sustain their activities in the market due to mismanagement and unjustified expenditure not related to the functioning of the NBFCs. The NBFCs that worked according to the rule and could give good services to their customers survived and have been doing well in the market and making profit in their business. Two important NBFCs namely Ashok Leyland and SREI International are doing their business in the state. Besides these two NBFCs which have all India operations there are sixteen Orissa based NBFCs working in the state and out of them Micro Finance Ltd is the only ‘A’ Category NBFC which holds public deposits and covers all parts of the state and is doing well in its business.

The other 15 Orissa based NBFCs come under ‘B’ category and are doing only loan business. RBI Orissa inspects 20% of their total business in each year.

The total profit of Ashok Leyland Finance after tax was Rs. 3508.84 lakhs in 1999, which increased to Rs. 3442.84 lakhs and Rs. 3827.98 lakhs in the year 2000 and 2001 respectively.

The total profit of SREI International Finance after tax was Rs. 820.26 lakhs in 1999 which increased to Rs. 945.51 lakhs and Rs. 1187.40 lakhs in the year 2000 and 2001 respectively.

The total profit of Microfinance Ltd in 2000 was Rs. 1,85,706.00. This increased to Rs.2,36.185 lakhs in the year 2001.
It may be observed that NBFCs which experienced a favourable trend in the growth till 1995-96 faced a crisis later on and only two of the important NBFCs like the Ashok Leyland and SREI International could survive the crisis and sustained their activities in the state.

In Chapter-IV we have discussed about the performance of NBFCs in the Indian market and in the state market.

At the end of 1998 the total public deposits held by all NBFCs in India stood at Rs. 23,820 crores which declined to Rs. 19341 crores in the year 2000.


At the end of March 1999 the total number of reporting companies were 1536 and their asset size was Rs. 35,968.00 crores and in the year 2000 the total number of reporting companies declined to 996 and their asset size however stood at Rs. 40,006.95 crore. After discussing the performance of NBFCs in India we have discussed the performance of NBFCs working in the state. We have taken three important NBFCs for our studies. Out of them two all India based NBFCs such as Ashok Leyland and SREI International and one Orissa based NBFC named Microfinance Ltd have been taken up for our study.

The total collection of deposits of Ashok Leyland Finance in Orissa was Rs. 2.5 crores in the year 1999, which declined to Rs. 2 crores in the year 2000 and remained same i.e. Rs. 2 crores in the year 2001. In 1999-2000 total loan finance
available to the customers by the company which stood at Rs. 15.6 crores for construction equipment, cars and utility vehicle, increased to Rs. 19.13 crores in the year 2000-2001.

SREI International Ltd. is also an all India NBFC which has been operating in the country. This company has its branches and doing business in the entire state. The total collection of deposits by the company was Rs. 2.33 crores in the year 1999-2000 and this increased to Rs. 2.95 crores in the year 2000-2001 and again to Rs. 3.02 crores in the year 2001-2002.

The total finance advanced by the company in Bhubaneswar and Cuttack was Rs. 304,321,323 crore and was Rs. 14,922,875 crore respectively. Its loan finance stood at Rs. 57,176,375 crore in Badbil and at Rs. 407,697,147 crores in Talcher.

MicroFinance Ltd. is Orissa based. It is an 'A' Category NBFC regulated by the RBI Bhubaneswar. An important aspect of this company is that it covers both the rural and urban areas in the state.

The net owned fund of the company was Rs. 54 lakhs in the year 1999-2000 which increased to Rs. 221 lakhs in the year 2001-2002.

In the fifth chapter we have made an evaluation of the NBFCs. In this chapter we have discussed the reasons that contributed to the failure of most of the NBFCs in Orissa. The financial market in India is not uniform. In the developed state like Maharashtra, Punjab, Haryana, Gujarat, Karnataka and Andhra Pradesh the business of NBFCs is very satisfactory whereas in the poor states like Orissa business of these NBFCs is very poor. There are a number of reasons for failure of most of the NBFCs in the state.
First: NBFCs were not following the proper accounting system and they did not have the proper managerial expertise to efficiently manage the companies.

Second: They did not have a sound investment policy.

Third: The per capita income of Orissa is low as compared to other developed states. Most of the inhabitants of Orissa belong to poor, lower middle class and middle class income groups depending on their access to agriculture, government services and small household business and jobs in the urban sector.

Fourth: Large number NBFCs in order to attract more customer towards them initially offered high rates of interest on the deposits of their customers compared to the rate of interest offered by the nationalized banks and private banks. But in course of time they could not even repay back their customers’ deposits. People lost their faith in these companies and in their ability to manage their deposits.

Fifth: The minimum net worth required by NBFCs for registration with RBI has been raised from Rs. 25 lakhs to Rs. 2 crores. For which many small companies in the state had to close down their offices.

Section-III

From the above discussion we may conclude that though in the early part of the nineties many NBFCs came to operate in the financial market of the state they could hardly sustain their market operations. They however could not manage their assets and liabilities and could hardly make right use of funds. Some of them could not sustain due to unjustified expenditure, mismanagement. NBFCs which worked according to rules did well in the market and made profits. In the light of our studies we may suggest the following:
1) Sound Rules of financial operations are to be observed by the NBFCs. Managerial expertise and operational efficiencies are to be prioritized.

2) The NBFCs may from time to time organize meetings with their customers to build up a rapport of mutual understanding and goodwill. This will help both the NBFCs and their clients in sorting out problems and misunderstandings.

3) NBFCs on their own should maintain a strict control over their activities and expenditure.

4) Deposits collected from the public have to be properly managed with utmost care so as to bring requisite earning and provide a reasonable return to the customer. Thus there is the need to bring in qualitative improvements in workings and operations to ensure both security and gains in the deployment of funds.

Failure of most of the NBFCs to discharge their obligations to their customers brought RBI as a regulation authority to bring discipline into their working and provide indirect protection to the depositors.

Five important indicators have been suggested for observation by the NBFCs for their sound and efficient working.

The ability to monitor financial sector soundness presupposes the existence of valid indicators of the health and stability of financial system. These macro prudential indicators (MPIs) matter for several reasons. They allow for assessments to be based on objective measures of financial soundness. If MPI are made publicly available, they enhance the prospects of disclosure of key financial information to the markets. And if the indicators are comparable across countries which is possible
if countries adhere to internationally agreed norms of accounting and statistical standards, they facilitate monitoring the financial system not only at the national level but also at the global level. The latter is crucial in view of the magnitude and mobility of international capital and the risk of contagion of financial crises from one country to another.

The IMF has been building up experience with MPIs for sometime as part of its surveillance and research. A cumulative meeting of MPIs was held at IMF headquarters in September, 1999. High level experts from Central Banks, supervisory agencies, international institutions, academic and the private sector discussed their experience in using, ensuring and disseminating MPIs. The state of knowledge in these areas and proposals for further work were also discussed at a meeting of the IMF’s executive Board in January, 2000.

MPI comprise both aggregated micro prudential indicators of the health of individual financial institutions and macro economic variables associated with financial system soundness. Financial crisis often occur when both types of indicators point to vulnerabilities, that is, when financial institutions are weak and face macroeconomic shocks.

One commonly used framework for analyzing the health of individual institutions is the CAMELS framework, which looks at six major aspects of financial institutions namely capital adequacy, asset quality, management soundness, earning liquidity and sensitivity to market risk.

**Capital**: Capital adequacy ultimately determines how well financial institutions can cope with shocks to their balance sheets. Thus it is useful to track capital adequacy ratios that take into account the financial risks, foreign exchange credit and interest rate risks by assigning risk weighting to the institutional asset.
**Assets**: The solvency of financial institutions typically is at risk when their assets become impaired. So it is important to monitor indicators of the quality of their assets in terms of overexposure to specific risks, trends in nonperforming loans and health and profitability of bank borrowers especially the corporate sector.

**Management**: Sound management is key to bank performance but is difficult to measure. It is primarily a qualitative factor applicable to individual institutions. Several indicators, however, can jointly serve as for instance, efficiency measure as an indicator of management soundness.

**Earning**: Chronically unprofitable financial institutions risk insolvency. Compared with most other indicators, trends in profitability can be more difficult to interpret, for instance, unusually high profitability can reflect excessive risk taking.

**Liquidity**: Initially solvent financial institutions may be driven toward closure by poor management of short term liquidity.

Indicators should cover funding sources and capture large maturity mismatches.

**Sensitivity to market risk**: Banks are increasingly involved in diversified operations, all of which are subject to market risk, particularly in the setting of interest rates and the carrying out of foreign exchange transactions. In countries that allow banks to make trades in stock markets or commodity exchanges, there is also a need to monitor indicators of equity and commodity price risk.

Indicators of market perceptions such as the prices/yields of financial instruments and credit worthiness rating of financial institutions are often used to supplement the information obtained through the CAMEL framework.
Macro economic indicators: The operation of financial system depends on overall economic activity. Changes in the level of macroeconomic activities have a significant bearing on the growth and stability of financial institutions. Recent analysis has shown that certain macroeconomic trends often precede banking crises. Any assessment of soundness of a financial system has to look at the behaviour of the economy and its vulnerability to capital flow reversal and currency crises.

Among the relevant macroeconomic indicators are data on aggregate and sectoral growth, trends in the balance of payments, the level and volatility of inflation, interest and exchange rates, growth of credit and changes in asset prices, especially stock and real estate prices. Indicators should also cover variables affecting the vulnerability of financial systems and transmission of crises across countries including correlation between financial markets. As the relevance of individual indicators may vary from country to country, MPI cannot be used mechanically. Assessment need to be based on a comprehensive set of indicators, taking into account the overall structure and economic situation of a country and its financial system. Similarly, the complex reality of financial market will be hard to capture in a composite indicator of financial system soundness. MPI should be monitored to assess the soundness not only of the banking system but also of the Non-Banking Financial Companies and the securities market.

In India the role of the NBFCs has been well recognized by the Government since the seventies. Economic liberalization and globalization of the Indian market began in 1991. This meant that the Indian market including the financial market is now open to foreign finance and equity capital as well as to competition from foreign institutions. This meant lower interest rate and more importantly the transfer of risk to the players in the market for their investments.
Individuals who made investments with UTI and NBFCs and placed their funds in fixed deposits that initially offered higher returns were let down as after liberalization and globalization, interest rates started declining. Effective measures have been taken to introduce basic structural changes in the capital market enhancing its efficiency and transparency. This is expected to create confidence in the minds of the investors whose faith in the system received a jolt because of scams and misadventures and bad performances of NBFCs.

In keeping with the spirit of financial sector liberalization, efforts are made to integrate non-banking finance companies into the mainstream of overall financial sector.

Non-Banking Finance Companies serve the nation in economic development in the same way as non-government voluntary organizations rejuvenate the social structure. The importance of the role of NBFCs lies in providing the much needed financial support to the different sectors of the economy and helping the country in achieving the planned rate of growth. Prior to that the NBFCs have to streamline their functioning, improve their managerial expertise and operational efficiency, cut costs and raise their profitability and further consolidate their position in the economy.