Chapter-I
Introduction

Indian financial system since 1991 has been experiencing rapid changes in its functioning and scope. Not only its operations multiplied following the reforms, the system has been consistently addressing the problems of Indian financial market and catering to the requirements of its growing economy. A number of the financial institutions like the ICICI Bank, IDBI, IFCI, UTI, LIC, GIC and and investment institutions like the SFC and SIDC and Mutual Funds (MFs) operate. The Non-Banking Financial Companies (NBFCs), like leasing and hire purchase companies, chit funds, housing finance companies have also emerged as important players in the market. In addition to the above there are various intermediaries like RNBCs, MNBCs operating in the capital and money market, which also form an integral part of the financial system. Thus the financial system is a closely interwoven system of various financial subsystems in which the NBFCs do play an important role and occupy a significant position. Any policy change as and when adopted to affect one institution within this system is bound to influence the entire system and affect the operation of the subsystems.

RBI (Amendment) ordinance 1997 defines a Non-Bank Financial Company as a financial institution which is a company and which has its principal business of receiving deposits under any scheme or arrangement or in any other manner or lending in any manner. More than 50% of gross total assets of NBFCs are financial and more than 50% of gross income is derived from financial activities. They may
carry on their business relating to hire purchase finance, equipment leasing finance, mutual benefit finance, investment finance, housing finance etc. Like mutual funds they mobilize savings from both household sector and corporate sector and with the funds at their disposal they render financial services to different sectors of the economy. The RBI regulates NBFCs, RNBCs, and other miscellaneous Non-Banking companies (chit funds).

Operations of NBFCs are to be appreciated and understood in a wider perspective as they render financial service not only to members of society but also to the business community catering to their needs for investible funds. NBFCs render both fund based and non-fund based services. For fund based services they expect return on capital employed and for non-fund based services they get remunerated in the form of fees. Both types of services rendered by NBFCs are generally recognized as financial services. These services have grown so much in importance particularly to commercial houses that even the commercial banks which earlier were not inclined to operate in the area have started rendering these services to trade and industry to meet their business needs.

It is difficult to trace the origin of NBFCs activities or the financial services rendered by them but it is believed that Europe is the motherland of these services which developed a kith and kin to merchant banking system.

Today the services rendered by NBFCs are wide and multipurpose oriented to meet the diverse needs of trade, business and industry. They are very much involved in the development and promotion of commerce and industry at home and across the border. At home NBFCs play an important role in acting as the source of
corporate finance i.e. NBFCs do provide financial services both fee based and fund based service to the corporate enterprises.

Fee based or consultancy service

Fee based or consultancy services in the area of finance cover capital restructuring and financial engineering, project identification and project finance and raising of capital from the capital market, banks and financial institutions. Fee based services rendered by the NBFCs and as mentioned above are only illustrative and may keep on changing and multiplying with the pace of changes taking place in the domestic and international finance market.

Fund based service

The main aim of fund based services is to provide finance in physical term to the needy corporate enterprises directly or indirectly. Direct finance provided by NBFCs includes working capital finance, bridge finance, file discounting finance, supplier credit, buyer credit, venture capital finance, factoring and forfeiting, leasing and hire purchase finance, instalment credit and other short term finance based by using the money market instruments like commercial paper and certificate of deposits etc.

For providing fund based service NBFCs have to build a strong fund base with equity and loan, capital raised from owners’ resources and from borrowed capital.
Though the function and operation of NBFCs are regulated by RBI but the NBFCs which provide fee based service (Merchant banking) come under the regulation of SEBI.

**How NBFCs come into existence**

In 1991 India introduced a package of economic reforms consistent with the objective of liberalization, privatization and globalisation. Since then the reform process has been an ongoing process and has affected all the important sectors of the economy.

Financial sector reform is a complex and multifaceted process. Necessary institutional and structural changes have to be carried out to create a hospitable environment not only for growth of internal financial institutions, but also for international finance and capital. To keep pace with the global financial revolution, India has to build good, sound and responsive financial institutions. Several important reforms have also been carried out in the primary markets and secondary markets. Important measures have been taken by SEBI and RBI to both facilitate and regulate the working of primary market. Along with these measures reform has also been introduced in the banking sector to increase their efficiency and competitiveness.

Other financial institutions like the Residuary Banking Financial Companies (RBFCs) and Mutual Funds (MFs) have been the subject of focused attention during the nineties. In particular the rapid growth of NBFCs especially in the nineties has
led to a gradual blurring of dividing lines between public banks and private banks (which come into the Indian financial market in a big way after Economic Reforms in 1991). With the exception of the exclusive privilege that banks exercise in the issuance of cheques many of the functions performed by the NBFCs resemble that of the nationalized banks. Simplified sanction procedures, a friendly orientation towards customers, attractive rates of return on deposits and flexibility and timeliness in meeting the credit needs of specified sectors like leasing and hire-purchase are some of the factors enhance the attractiveness of this sector. It may be interesting to note that total regulated deposits of NBFCs stood at Rs. 17,390 crore at the end of March, 1994, equivalent to 4% of bank deposits. The quantum of regulated deposits grew more than three fold and at the end of March 1997 it stood at Rs. 53,116 crore which constituted 7.9 percent of bank deposits.

In the year 1998 a new concept of public deposits (received from public including share holders in the case of public limited companies and unsecured debenture bond other than those issued to companies, bank and financial institutions) was introduced for the purpose of focused supervision of NBFCs accepting such deposits. The amount of such public deposits held by NBFCs which at the end of March, 1998 was Rs. 23,820 crore, however, declined to Rs. 19,341 crore at the end of March 1999 owing to certain disquieting development in the NBFC sector. The RBI Act was further amended in 1997 providing for a comprehensive regulating framework for the NBFCs.

It is obligatory for the NBFCs to get registered with the Reserve Bank of India. The RBI regulates NBFCs engaged in equipment leasing, hire purchase finance, loan and investment. In fact, all the NBFCs have to apply for a Certificate of Registration
And the RBI can at any time exercise its supervisory role over the NBFCs, go for on-site inspection, off-site monitoring, market intelligence and may also call for reports of the statutory auditors.

According to the RBI directions issued to companies on acceptance of public deposits and observation of prudential norms like capital adequacy, income recognition, asset classification, provision for bad and doubtful debt are there. Exposure norms and their measures to monitor the financial solvency and reporting by NBFCs were also enunciated. Directions could also be issued to auditors to report non-compliance with the RBI Act and regulation to Reserve Bank Board for direction. The RBI by the end of June 2004 received 38050 applications for registration. The RBI, however, approved 13,671 applications including 584 applications of companies authorized to accept public deposits.

**How these NBFCs are different from Commercial Banks**

NBFCs have no defined purpose like banks and financial institutions. Some of them go for produce based offering of service like car and truck finance and loan for customer durables. Others have flourished because of increased disintermediation in the financial market. Yet some others like Nidhis emerged because they provided an additional source for deploying saving long before the equity fever gripped the country.
NBFCs vs Commercial Banks

1. The financial services rendered by the NBFCs are partly fund based and partly fee based (corporate counselling, merchant banking, issue management, portfolio management) but services rendered by banks are generally fund based service.

2. Banks generally maintain different types of accounts such as saving deposits account, fixed deposits scheme, recurring deposits account, home safe account etc, whereas NBFCs offer fixed deposit accounts in which they have two schemes, namely;
   i. Regular income scheme
   ii. Cumulative scheme

   In both the schemes minimum deposits should be Rs. 5000 in case of NBFCs whereas in banks the minimum deposits should be Rs. 10,000/-. Under regular income scheme simple interest rate is paid to the customer by the NBFCs but in the cumulative scheme the rate of interest paid to the customer is compounded annually.

   Banks generally pay simple interest to their customer on their F.D. i.e. there is no such cumulative scheme in case of banks.

3. The rate of interest paid by NBFCs to their customers is higher than what banks pay to their customers.

   NBFCs pay 10.00% rate of interest on their customer’s deposits for 12 month time period, pay 10.25% for 24 months time period and pay 10.50% for 36 months.
time period, whereas banks pay 8.25% rate of interest for 60 months of time period.

Table-1.1 below throws light on Regular and Cumulative schemes.

**Table-1.1 : Regular and Cumulative Schemes**

**Regular income scheme**

<table>
<thead>
<tr>
<th>Period in months</th>
<th>(Simple interest payable % PA)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yearly</td>
<td>Half yearly</td>
</tr>
<tr>
<td>12</td>
<td>10.00</td>
<td>9.50</td>
</tr>
<tr>
<td>24</td>
<td>10.25</td>
<td>9.75</td>
</tr>
<tr>
<td>36,48,60</td>
<td>10.50</td>
<td>10.00</td>
</tr>
<tr>
<td>Minimum deposit</td>
<td>5000</td>
<td>10000</td>
</tr>
</tbody>
</table>

**Cumulative scheme**

<table>
<thead>
<tr>
<th>Period in months</th>
<th>Interest rate in %</th>
<th>Minimum deposit (Rs.)</th>
<th>Maturity amount (Rs.)</th>
<th>Effective yield %</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>10.00</td>
<td>5000</td>
<td>5500</td>
<td>10.00</td>
</tr>
<tr>
<td>24</td>
<td>10.25</td>
<td>5000</td>
<td>6078</td>
<td>10.78</td>
</tr>
<tr>
<td>36</td>
<td>10.50</td>
<td>5000</td>
<td>6746</td>
<td>11.64</td>
</tr>
<tr>
<td>48</td>
<td>10.50</td>
<td>5000</td>
<td>7455</td>
<td>12.67</td>
</tr>
<tr>
<td>60</td>
<td>10.50</td>
<td>5000</td>
<td>8237</td>
<td>12.95</td>
</tr>
</tbody>
</table>

Compounded annually minimum deposit Rs. 5000.00

Source : SREI Finance, Ashok Leyland Finance, Bhubaneswar
Year : 2002

It may, however, be noted that interest rates offered by the commercial banks have fo late become lower, some banks even offer floating rates.

4. NBFCs provide better service to their customers as compared to public banks. Customers need not come to NBFCs office premises, they rather get a better service sitting at home comfortably. NBFCs generally appoint certain agents in their offices who play the role of middle men between the company and the customer and look to the interest of the customers.
5. Earlier before the effective arrival of the NBFCs and private banks, customers encountered different problems when they applied for loan from nationalized banks. A customer had to fulfil many conditions and formalities and had to wait for a longer time to get a loan sanctioned. Delayed sanction of loans could hardly satisfy their business requirement. NBFCs on the contrary adopted effective and innovative methods to sanction and disperse loans to their clients. This attracted more customers to approach the NBFCs for their business and commercial requirement. Innovative approaches and prompt disposal of applications for loans by NBFCs could have their impact on the work orientation of the public sector banks who have also been trying to redesign and renovate their ways of working to come closure to their customers.

6. NBFCs have been doing equipment leasing business and venture capital business. Commercial banks are yet to enter into such business operations. Flexibility, attractive rates of return on deposits and timeliness in meeting the credit needs of specified sectors like equipment leasing and hire purchase are some of the factors which have been enhancing the utility of this sector and bringing it closer to the people.

In early nineties a number of reforms were introduced in the Indian economy. An important institutional reform is the development of private commercial banks. Because of their efficient operations and attractive schemes offered to the public from time to time, they pose a real threat to the NBFCs as at one time the NBFCs posed a threat to public sector banks.
Objectives and Operation of NBFCs

The Non-Banking Financial Companies (NBFCs) constitute a significant element of the organization of the India financial system. They broaden the range of financial services. They are partly asset/fund based and partly fee based/ advisory. The important fund based activities of NBFCs are equipment leasing, hire purchase, bill discounting, loans/investments, venture capital, housing finance and so on. Their fee based activities include issue management, portfolio management, corporate counselling, loan/lease syndication, arranging foreign collaboration, merger and acquisition, capital restructuring and so on.

Leasing

Lease is a contractual arrangement. It originates from a contract between the owner of the asset i.e. the lessor and the user of the asset i.e. the lessee and is regulated by the terms, conditions and covenant of such contract. In lease financing the lessee does not get the final ownership. In other words leasing involves the use of an asset without assuming ownership. In simple lease financing enables leasing or renting the services of an asset rather than buying it. It is a contract whereby the owner of an asset (the lessor) grants to another party (lessee) the exclusive right to use the asset, usually for an agreed period of time, in return for the payment of rent.

The term 'leasing finance' is used in the sense of leasing business assets such as computers, manufacturing, plants, ship, aircraft, truck, car, air conditioned plant etc. This enables a business firm to use the services of an asset without buying it. Lease finance also covers the immovable property like building, factory sheds, office space, land etc.
Leasing services are of two types, they are (i) Finance lease (ii) Operating lease.

(i) Finance Lease

A lease is said to be a finance lease if it transfers substantially all the risks and rewards incidentally to ownership. Title may or may not be eventually transferred. Types of assets included under such lease are ships, aircrafts, machinery, diesel generating sets and so on.

(ii) Operating Lease

A lease is a operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. In operating lease the lessor provides services attached to the lease asset, such as maintenance, repair and technical advice. For this reason operating lease is generally for a period significantly shorter than the economic life of the leased asset.

Hire Purchase Finance

Hire purchase is a mode of financing the price of goods to be sold on a future date. In a hire purchase transactions the goods are let on hire, the purchase price is to be paid in instalments and hirer is allowed an option to purchase the goods by paying all the instalments. A hire purchase agreement is defined as a peculiar kind of transaction in which the goods are let on hire with an option to the hirer to purchase them with certain conditions.

Loan Business

Loan represents debt in money form. Loan company provides loan for the business or for any other purpose against security or without security. Loan business and housing finance business are two different types of business of the NBFCs.
Under housing finance business the company only grants loan for house building purpose. But under loan business the company grants loan basically to an industrial enterprise and commercial house for business purpose.

**Investment Company**

Investment companies assume different shapes and perform different activities although their sole objective is to invest the collected funds in securities on behalf of their clients. Generally these companies do investment portfolio management and are licensed by SEBI as portfolio manager. These companies deal directly in both primary and secondary capital market and invest collected funds in units of mutual funds and money market instruments.

**Nidhi or Mutual Benefit Finance Company**

These companies accept deposits from their members and invest in their benefits. Their objective is to enable their members to save money, to invest their saving and to secure loans at favourable rates of return. These companies have fixed capital base and their share are allotted to members, who desire to take advantage of the benefits and concessions offered by these companies for depositing or borrowing monies. Their companies operate amongst their members and do not have any dealing with outsiders. They carry various schemes to stimulate saving amongst the members. Nidhis and mutual benefit societies are more familiar and operative in South India. The business of Nidhi and mutual benefit society is covered under section 620-A of the Companies Act 1956.
**Chit Business**

NBFCs may engage in 'chit business' i.e. the business of conducting chits under the chit funds. Persons enter into an agreement with a specified number of persons that every one of them shall subscribe a certain amount of money by way of periodical instalments over a definite period and that each subscriber shall in his turn as determined by lot or by auction or by tender or in such other manner as may be specified in the chit agreement be entitled to the prize amount.

The Chit Funds Act, 1982 requires NBFCs to get registration of chits commencement and conduct of chit business under the act without which such business can not be conducted.

**Mutual Funds**

Mutual Funds were conceived as institutions for providing small investor with avenues of investment in the capital market. Small investors generally do not have adequate time, experience and resources for directly accessing the capital market so that they rely on investment intermediary which undertakes judicious investment decisions and provides the consequential benefits of professional expertise.

Mutual Funds accept monies from savers and then use these monies to buy stock, long term bonds, short term debts instruments issued by business or government units. They also pool funds and thus reduce risk by diversification.

A Mutual Fund may earn income by way of interest or dividend or both from the securities it holds. It deducts fee, operating expenses and management income and then passes the remainder to wealth holders through dividends on the mutual fund share. The dividend fluctuates with the income on mutual funds investments.
Mutual Fund again is a SEBI regulated NBFC activity under SEBI (Mutual Funds) Regulation 1993. Before incorporation of mutual fund trust and company, the sponsor has to take approval of SEBI under the aforesaid regulation.

**Venture Capital Finance**

Venture Capital is a significant financial innovation in the twentieth century. It is generally considered as a synonym of high risk capital. It usually implies an involvement by the venture capitalist in the management of client enterprises. Venture capital has also come to be associated especially in the USA with the financing of high and new technology based enterprise. In broad terms, venture capital is the investment of long term equity finance where the venture capitalist earns his return primarily in the form of capital gain. Venture capital finance companies are under the surveillance of SEBI from April 1995 and as such SEBI permission is required for incorporation of NBFCs with venture capital finance as one of its objectives and activities. But in Orissa none of these NBFCs have started venture capital business though they have started this business in other states.

**Acceptance Credit and Bill Discounting**

Bill discounting as a fund based activity emerged as a profitable business in the early nineties for finance companies and represented a diversification in their activities in tune with emerging financial scene in India. In the post 1992 (scam) period its importance has substantially declined primarily due to restriction imposed by the Reserve Bank of India.

The bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing certain person to pay a sum of money only to or to the order of certain person or to the bearer of that instrument. The bill of
exchange is used for financing a transaction in goods which means that it is essentially a trade related instrument.

There are various types of bills. They can be classified on the basis of time due for payment, whether the documents of title of goods accompany such bills or not, the type of activity they finance etc. Some of these bills are (i) Demand Bill (ii) Documentary Bill (iii) Document against Acceptance (D/A) bill (iv) Document against Payment (D/P) bills (v) Clean Bills.

**Insurance Business**

Any non-banking financial company registered with the RBI having net owned fund of Rs. 500 lakhs as per the last audited balance sheet would be permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation. In simple 'Insurance Company means any company registered for any class of insurance business under Section 3 of the Insurance Act, 1938(4 of 1938).

Depending upon the subject matter insurance services are divided into (i) Life and (ii) General. In life insurance contract, as a fund based service, there is a fixed obligation on the part of insurer to always compensate the insured. Such a policy can be taken for any amount of money as the insurable interest is not amendable to specified monetary value. It is a continuing contract and comes to an end only on default in payment of premium.

**Registration of NBFCs**

The registration is compulsory for all NBFCs irrespective of their holding of public deposits. The types of NBFCs regulated by the Reserve Bank are as follows:
Table-1.2: Non-Banking Financial Companies Regulated by Reserve Bank

<table>
<thead>
<tr>
<th>Non-Banking Financial Companies</th>
<th>Principal Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) NBFCs</td>
<td>In terms of Section 45-1(f) read with section 45-1(C) of the RBI Act, 1934 as amended in 1997, their principal business is that of receiving deposits or that of financial institutions such as lending investment in securities, hire purchase finance or equipment leasing.</td>
</tr>
<tr>
<td>ii) Equipment Leasing Company (EL)</td>
<td>Equipment leasing or financing of such activity</td>
</tr>
<tr>
<td>iii) Hire Purchase Company (HP)</td>
<td>Hire purchase transaction or financing of such transaction.</td>
</tr>
<tr>
<td>iv) Investment Company</td>
<td>Acquisition of securities and trading in such securities to earn a profit.</td>
</tr>
<tr>
<td>v) Loan Company</td>
<td>Providing finance by making loans or advances or otherwise for any activity other than EL/HP/HFCs.</td>
</tr>
<tr>
<td>vi) Mutual Benefit Financial Company i.e. Nidhi Company</td>
<td>Any company which is notified by the Central Government under Section 620A of the Companies Act, 1956.</td>
</tr>
</tbody>
</table>

The RBI Amended Act 1997 provides for an entry point norm of Rs. 25 lakh as the minimum at Net Owned Fund (NOF). Subsequently for new NBFCs seeking registration with the RBI to commence business on or after April 21, 1999 the requirement of minimum level of NOF is revised upward to Rs. 2 crore. No NBFCs can commence or carry on business of a financial institution including acceptance of public deposits without obtaining a Certificate of Registration (COR) from the Reserve Bank.

The Reserve Bank received applications for Certificate of Registration (COR) from 36,505 NBFCs out of which 13,815 applications were approved and 16355 were rejected as on August 2001. Out of the total approval of 13815 applications only 776 companies have been permitted to accept public deposits.
Policy Development Relating to NBFCs

(a) NBFCs Registered and Regulated by RBI

Monetary and Credit Policy statement – The midterm review of monetary and credit policy for the year 2000-01 announced in October 2000 and the monetary and credit policy for 2001-02 announced in April 2001 fine tuned the policy environment governing NBFCs policy changes, interalia included changes in interest rate on public deposits and introduction of asset liability management system for certain categories of NBFCs. A half yearly financial stability review using macro prudential indicator (MPI) data as relevant for NBFCs was also prepared.

Reduction in Interest Rate on Deposits

Effective from April 1, 2001, taking into account the market conditions and changes in other interest rates in the financial system, the maximum rate of interest that NBFCs can pay on their public deposits was reduced from 16 per cent to 14 percent per annum. The ceiling on interest rate on the deposits accepted by miscellaneous non banking companies (Chit Fund companies and mutual benefit financial companies or Nidhi companies) was also brought down to 12.5 per cent.

Insurance of Commercial Paper by NBFCs

On October 10, 2000, the Reserve Bank issued guidelines for issue of commercial paper by companies, inter alia, exempting money received by NBFCs by issue of Commercial Paper (CP) in accordance with this guidelines from the purview of public deposits.
Asset Liability Management (ALM) System for NBFCs

The Reserve Bank of India announced ALM guidelines for NBFCs for effective risk management. All NBFCs with asset size of Rs. 100 crore or above or with public deposits of Rs. 20 crore or above as per their balance sheet as on March 31, 2001, were instructed to have ALM systems in place. These NBFCs were advised to constitute an ALM committee under the charge of Chief Executive Officer or other senior executive and other specialist members for formalizing ALM system. The number of companies likely to be covered by the guidelines is about 70 and they account for 75-80 percent of total public deposits held by reporting NBFCs. The Chit Fund and Nidhi Companies have for the present been kept out of the purview of these guidelines. NBFCs not qualifying presently have also been advised to put in place an ALM system, as it is the endeavour of the Reserve Bank to extend these guidelines to all NBFCs in future.

NBFCs in India

Total number of NBFCs including RNBCs to whom certificate of registration under Section 45-1A of RBI Act, 1934 have been issued by the Reserve Bank of India to hold and accept deposits from public are 723 in 2002.

As regards the frequency distribution of Capital Adequacy Ratio (CAR) for NBFCs as many as 627 companies had CAR of 12% and above as at end March 2000, with as many as 411 companies (71.2%) registering CRAR in excess of 30%. At the end of September 2000, as many as 592 out of 627 reporting companies (94.4%) reported a CAR equal to or in excess of the stipulated minimum with as many as 454 companies (73.2%) having a CAR above 30% as shown in the following figure –
NBFCs in Orissa

A number of NBFCs operated in Orissa in the nineties. Some of the important NBFCs carrying on business in Orissa at that time were ALPIC Finance (Feb, 1996), 20th Century Finance (Dec.1996), Shri Ram Investment (June,1997), Ashok Leyland Finance (1992), SREI International Finance (Aug. 1997), Escort Finance (1996) and TATA Finance (1995). But unfortunately many of the NBFCs which started their operations in Orissa have closed down their offices and those who are working, many of them have stopped collection of deposits from depositors. The two NBFCs which have been very successful in their business in Orissa are SREI Finance and Ashok Leyland Finance. The annual business of SREI and Ashok Leyland Finance...
touched Rs. 18 crore and Rs. 17 crore respectively in 1998-1999. NBFCs in Orissa in general provide consumer finance, lease finance and hire purchase finance. TATA Finance, ESCORT Finance and Kinetic Finance have stopped collecting deposits but are providing finance to their customers. In Orissa there are 16 Orissa based NBFCs which are regulated by the Reserve Bank of India, Bhubaneswar. Out of 16 Orissa based NBFCs, MICRO Finance is an 'A' Class NBFC and has got certificate from the RBI, Bhubaneswar to collect deposits from customers. Other Orissa based NBFCs are (i) M/s Mishra Financial Service (ii) MS Team Finance, (iii) Madhukan Finance (iv) Prime Capital Markets, (v) East Coast Trade Finance, (vi) Shreyansh Mercantile Ltd., (vii) Ceeta Synthetics & Turfs, (viii) Rajpath Financial Service, (ix) The Industrial Promotion & Investment Corporation Ltd., (x) Trishna Trade Finance, (xi) Sahebaramka Project, (xii) Vedvyas Finance Private Ltd., (xiiii) Shree Leasing and Finance Ltd., (xiv) Rohini Mercantile Ltd., (xv) Mangal Pradeep Financial and Investment (India) Ltd. These 15 NBFCs are categorized by RBI, Bhubaneswar as B Class Finance Companies which do not have any power to collect deposits from their customers. They are doing loan business, hire purchase and equipment leasing finance business only.

A significant aspect of the functioning of NBFCs in Orissa is that they cover practically all the segments of Orissa's population, that is, they cover people belonging to low income group, middle income group, top executives and high net north individuals and the corporate people.
Why this study of NBFCs

NBFCs over the years have become important financial institutions and have been playing a crucial role in the Indian financial market. They also compete with other financial institutions like public sector banks. In Orissa works relating to the performance of other financial institutions like Commercial Banks and Orissa State Finance Corporation have been undertaken by scholars. As yet not even a single study highlighting the performance of the NBFCs in the state has been undertaken. NBFCs have been carrying out their transactions in the state and provide different types of facilities to their customers. They provide finance for purchase of vehicles and acquisition of home appliances and for many other activities. People who apply for loan to the NBFCs are happy as they get their loan sanctioned in a very short time and can go ahead with their business planning and development. The NBFCs collect deposits from people under different schemes such as monthly, quarterly and cumulative scheme and pay higher interest rate to their depositors as compared to public sector banks. However, the NBFCs do not have a clean record in the state. Some of them to attract higher deposits offered very attractive terms and conditions including higher interest rates initially. And after they won the confidence of the depositors and mobilized funds, many of them closed down their business and left the state quietly. Such cases have been reported from Bhubaneswar, Bolangir, Kendrapara and other areas. This has been causing great suffering to the depositors, particularly to the middle class people, who had their deposits in these companies. No in depth study has been conducted to examine the working and operations of NBFCs in the state. Nor has there been any study to assess the reasons accounting for the failure or collapse of some of the NBFCs in the state. This study is first of its
kind and makes an attempt to study different aspects of operations of NBFCs in the state.

**Objective of the study**

The study will have the following objectives –

1. To examine the growth of NBFCs in Orissa.
2. To examine the process and pattern of resource mobilization.
3. To examine the performance of NBFCs and
4. To make an evaluation of the NBFCs in the state.

**Hypothesis**

The study will test the following hypothesis –

1. That the growth of NBFCs in Orissa has been unsteady, uneven and unsatisfactory,
2. That the NBFCs focus more on the mobilization of funds from the urban areas,
3. That the NBFCs have not given an efficient and satisfactory performance in the state and
4. That the NBFCs in the state face a challenging time in future.

**Methodology**

**Collection of Data**

The study will be based on secondary data collected from the Reserve Bank of India and the NBFCs functioning in the state. Relevant data published at the all India
level will also be used for the study. Tables, charts, statistical analysis etc. will be used to highlight the findings of the study. Personal contacts, interviews with the officials and depositors may be used to solicit information relating to the performance of the NBFCs in the state.

**Chapterisation**

The study will consist of the following chapters:

- **Chapter-I** - Introduction
- **Chapter-II** - Review of Literature
- **Chapter-III** - Growth of NBFCs in Orissa
- **Chapter-IV** - Performance of NBFCs in the State
- **Chapter-V** - An Evaluation of Working of NBFCs
- **Chapter-VI** - Summary and Conclusion

Bibliography