CHAPTER-2

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2.1 INTRODUCTION:

An attempt is made in this chapter to review the relevant literature which could serve as a necessary empirical, theoretical and intellectual backdrop for the present study. It pertinent to note here that for an empirical study such as present one it is rather imperative to place it in the context of existing empirical and theoretical knowledge to contextualize the findings of the present study. A review of literature as the present one could also enable one to identify the gaps in the empirical literature in the context of which the findings of the present study could be taken as warranted in filling up of those gaps. Such a review would also enable the researchers to apprise themselves of the theoretical approaches and orientations that are vogue in the study of the phenomenon under investigation as well as acquaint themselves with the methodological tools, techniques and approaches that have been employed in its study. It is also assumed that a review as such as the present one would provide the researcher the requisite intellectual and empirical insights and inputs in approaching the phenomenon being investigated into. Lastly, it is hoped that such a review would also provide necessary, textual and the recall
backdrop against which the findings of the present study can be more relevantly and meaningfully analyzed and interpreted.

It is contemplated that a review of literature should focus on the issues that have been already addressed in the empirical as well as theoretical literature focusing on the phenomenon under investigation pretending to the causes, the extent, the nature as well as the determinants. At the same time it should also take stock of the perspectives approaches and orientations on the one hand and methods, tools and techniques on the other, employed in the study and the analysis of the factors and issues stated above. A good review of literature should aim at the thematic classification of the studies focusing on diverse issues pertaining to the phenomenon under investigation and analyze the major findings that could be taken as extending the limits of our knowledge about the phenomenon instead of ending up as a mere survey of literature published on the subject. It is precisely owing to these reasons an attempt is made in this chapter to analytically a focus on relevant literature pertaining to performance evaluation of NBFCs in India. However, it needs to be mentioned here that in a doctoral thesis as the present one completed under the constraints of time and resources it will not be possible to do enough justice to the richness of the literature and as such, few of the significant studies made in the relevant literature published are covered in the review of literature.
2.2 REVIEW OF LITERATURE:

Ravi Puliani and Mahesh Puliani\(^1\) (2014) writes a book entitled “Manual of Non-Banking Financial Companies”. The book discussed the glossary of terms that are used in banking operations and non-banking activities. The book covers the circulars and directions issued by Reserve Bank of India from time to time to control, manage and regulate the business of NBFCs.

Taxmann’s\(^2\) (2013) published “Statutory Guide for Non-Banking Financial Companies” is published by Taxmann’s Publications, New Delhi. The book listed the laws relating to Non-Banking Financial Companies. The rules and laws governing the kinds of businesses undertaken by different types of NBFCs are also discussed. The book has also given regulations on foreign exchange management, issue of certificates of deposits by NBFCs, issue of commercial papers, foreign direct investments in NBFCs, etc.

Jafor Ali Akhan\(^3\) (2010) writes on “Non-Banking Financial Companies (NBFCs) in India”. The book discussed the financial system in India. It covers the financial intermediaries including commercial banks, regional rural banks, cooperative banks and Non-Banking Financial Companies in India. The book is good source in getting information on
businesses, classification, management of assets, risk coverage, etc of the NBFCs in India.

Bhargavi (2004) conducted a project on “A Study on Performance of NBFCs Engaged in Leasing Business with Special Reference to Sundaram Finance Ltd, Chennai”. The methodology includes index analysis on the comparative financial statement of Sundaram Finance Ltd; common size analysis is well being used for better analysis of the proportions. Ratio analysis of individual company separately as well as comparing them with the industry average is used to do support the analysis. Some of the important financial ratios were calculated for this purpose. The index method and time series analysis are used on the financial statements of the Sundaram Finance Ltd in order to analyze the trend that is followed during the past five years of the company. It was found from the analysis that all the companies taken for consideration had been performing well except Tata Finance Ltd. Though these companies had faced recession during the period 2000-01, they had revived or in the revival stage currently. Even in such a situation the companies had recorded a better performance because of the fact that they have diversified their activities. The main reasons that had contributed to the downfall of leasing industry is that the capital intensive industry which required huge plants and machineries are hit badly with recession affecting the industry for consecutive fifth year. The other reason is that companies
started to mobilize funds through loans and capital issues for the purpose of procuring the assets required. The availability of fund through foreign investments and other tie-ups with the MNCs help the companies in doing the same.

Ranjini⁵ (2010) conducted a project entitled “Market for Non-Banking Financial Companies in India”. NBFCs in India are registered companies conducting business activities similarly to regular banks. Their banking operations include making loans and advances available to customers, acquisition of marketable securities, leasing of hard assets like automobiles, hire purchase and insurance business. Though they are similar to banks, they differ in a couple of ways, they cannot accept demand deposits, they cannot issue cheques to customers and deposits with them are not insured by DGIC. Both RBI and SEBI regulate NBFCs in India. NBFCs have been around in India for a long time, but have recently gained popularity amongst institutional investors, since they facilitate the finance and loans for rural and semi-rural areas where the traditional banks are still to reach. NBFCs have also played a huge part in developing small businesses and infrastructure in India, through local presence and strong customer relationships.

from Bangladesh” in ‘Global Journal of Management and Business Research’. The development of non-banking financial institution as a financial intermediary complementary to commercial bank is noticeable not only in developed countries but also in developing countries and Bangladesh is no exception. Started in 1981, the size of the non-banking sector has been increased in both absolute and relative terms. However, the research on the sector remains substantially insignificant. Most importantly, analysis of the market structure of the non-banking industry has been a lacking in the available existing literature. Keeping this in mind, the paper aims at addressing the market structure of the sector and its change over time by adopting concentration and competition measures based on asset and loan figures with a sample period of 14 years from 1997-2010. The findings report a highly concentrated market in 1997 and over the years there has been a considerable reduction in concentration, which means an increase of competition during the sample period.

testing approach to co-integration and error correction mechanism to investigate the existence of a long run equilibrium relationship between NBFIs and economic growth. The study finds evidence of a long run co-integrating relationship between NBFIs and real per capita income. The empirical results indicate that the development of NBFIs positively and significantly influences per capita income in Malaysia. In addition, the CUSUM and CUSUMSQ tests confirm the stability of the model.

Md. Mosharref Hossain and Md. Mahabbat Hossain (2013) writes on “Cost of Funds of Non-Bank Financial Institutions in Bangladesh: Internal Factors Analysis” in ‘Asian Business Review’. Non-Bank Financial Institutions (NBFIs) are increasingly being recognized as complementary to the banking system and perform a diversified range of functions through offering various financial services to individual, corporate and institutional clients. Nevertheless, the cost of funds of NBFIs is significantly higher than the banks as banks are the prime sources of funds for them. On the other hand, the availability of funds from banks is becoming inadequate day by day due to involvement of banks with some similar functions of NBFIs. The study intended to identify the current scenario of the cost of funds of different groups of NBFIs and to find out the causal relationship of the internal factors with the cost of funds of NBFIs. The study finds that NBFIs established before 1990 shows higher equity contribution and total asset size which shows their ability to
generate funds at low cost for the reputation and public confidence. On the other hand, due to the high equity contribution, large asset size and high EPS of the group of joint venture NBFIs compared to local NBFIs are able to raise relatively low cost of funds. From the multiple regressions analysis current study finds that only the variables of age and earning per share are statistically significant at 5% level. The other two factors, equity contribution and interest earning asset conform the theoretical sign although they are not statistically significant. The other variable, size of business that is measured by total asset, neither conform the expected sign nor is statistically significant.

Subina Syal and Menka Goswami⁹ (2012) writes on “Financial Evaluation of Non-Banking Financial Institutions: An Insight” in ‘Indian Journal of Applied Research’. The Indian financial system consists of the various financial institutions, financial instruments and the financial markets that facilitate and ensure effective channelization of payment and credit of funds from the potential investors of the economy. Non-banking financial institutions in India are one of the major stakeholders of financial system and cater to the diversified needs by providing specialized financial services like investment advisory, leasing, asset management, etc. Non-banking financial sector in India has been a considerable growth in the recent years. The aim of the present study is to analyze the financial performance and growth of non-banking financial
institutions in India in the last 5 years. The study is helpful for the potential investors to get the knowledge about the financial performance of the non-banking financial institutions and be helpful in taking effective long-term investment decisions.

Md. Nehal Ahmed and Mainul Islam Chowdhury\textsuperscript{10} (2007) published working paper entitled “Non-Bank Financial Institutions in Bangladesh: An Analytical Review”. Non-Banking Financial Institutions (NBFIs) in Bangladesh are gaining increased popularity in recent times. Though the major business of most NBFIs is leasing some are also diversifying into other lines of business like term lending, housing finance, merchant banking, equity financing and venture capital financing. The purpose of this paper is to highlight different features of NBFIs, their contribution to the overall economy and the product base of NBFIs. The paper describes the performance of NBFIs as measured by different financial indicators, along with the effects of banks’ entry into the non-bank financing area. Special emphasis has been given to identify the challenges faced by NBFIs in Bangladesh and finally, development of NBFIs as well as their role in strengthening the financial system of Bangladesh has been discussed. It is found that despite several constraints, the industry as a whole is performing reasonably well. Given appropriate support, NBFIs will be able to play a more significant role in financial intermediation.
Andrew C. Worthington\textsuperscript{11} (1998) writes on “The Determinants of Non-Banking Financial Institution Efficiency: A Stochastic Cost Frontier Approach” in ‘Applied Financial Economics’. A two-stage estimation procedure is employed to evaluate non-bank financial institution efficiency. In the first stage, maximum-likelihood estimates of an econometric cost function are obtained for a cross-section of one hundred and fifty Australian credit unions. The results indicate that a typical credit union’s costs in 1995 were only some seven percent above what could be considered efficient. The second stage uses limited dependent variable regression techniques to relate credit union efficiency scores to structural and institutional considerations. The results indicate that non-core commercial activities are not a significant influence on the level of cost inefficiency, though asset size, capital adequacy regulation and branch and agency networks are. A primary influence on credit union efficiency would appear to be the industrial or community associational bond under which they were created and to a lesser the state-based regulatory framework.

finance and growth in a fast growing country, such as China. Employing data of 27 Chinese provinces over the period 1995-2003, the authors study whether the financial development of two different types of financial institutions- banks and non-banks- have a (significantly different) impact on local economic growth. The findings indicate that banking development shows a statistically significant and economically more pronounced impact on local economic growth.

Sibghatullah Nasir\textsuperscript{13} (2013) published on “Microfinance in India: Contemporary Issues and Challenges” in ‘Middle-East Journal of Scientific Research’. Microfinance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of society. It is emerging as a powerful tool for poverty alleviation in India. This working paper tries to outline the prevailing condition of the Microfinance in India in the light of its emergence till now. The prospect of Micro-Finance is dominated by SHGs (Self Help Groups) - Banks linkage Program. Its main aim is to provide a cost effective mechanism for providing financial services to the poor. Recently Union Rural Development Minister Jairam Ramesh wanted the help of SHGs for the establishment of DRDO designed bio-toilets in rural areas. This paper discovers the prevailing gap in functioning of MFIs such as practices in credit delivery, lack of product diversification, customer overlapping and duplications, consumption and individual loan demand
with lack of mitigation measures, less thrust on enterprise loans, collection of savings/loans and highest interest rate existing in micro finance sector. All these are clear syndromes, which tell us that the situation is moving without any direction. Finally paper concludes with practicable suggestions to overcome the issues and challenges associated with microfinance in India.

Vijayakumar and Jayachitra\textsuperscript{14} (2013) published a paper entitled “Shadow banking in India: Features and Progress” in ‘ZENITH International Journal of Business Economics & Management Research’. The global developments in the context of financial crisis shook the entire world, and the consequent overhaul of the regulatory framework. Both the regular banking system and the shadow banking system have come under greater regulatory focus on account of gaps in the respective regulatory frameworks and also, most importantly, on account of inter-linkages between both the systems. The shadow banking system that had burgeoned in the run up to the global financial crisis was one of the major causes of the global turmoil and quite understandably, the regulators are revamping its regulation to ensure financial stability. This paper focuses on the conceptual framework of shadow banking, the recent guidelines issued by Reserve Bank of India based on the recommendations of the Working Group on NBFCs, the global shadow banking sector along with the recent international initiatives in the regulation of the sector, trace
the genesis and development of the NBFC sector in India as well as the evolution of its regulatory framework and finally the thought process which led to the setting up of the Working Group.

Dash Saroj K, et al (2014) writes on “Housing Loan Disbursement in India: Suggestive Metrics to Prevent Bad Debts” in ‘International Journal of Management, IT and Engineering’. One of the most important factors in credit processing is to understand the need of the customer before actually processing of the loan. This is true for every kind of loan. Since the point of discussion of this paper is only of housing loan, we would adopt a perspective towards this type of loan only. The sub prime crisis in the United States has shown the entire world the fallout, which the mortgage market can create when the lending goes wrong. It has thus become imperative for each and every country to review their policies towards the same. Taking a leaf further, each and every company, be it a Non-Banking Financial corporation (NBFC) or a bank in each of the countries involved in the business of lending mortgage loans also took stock of their policies and terms & conditions. Critics and some experts might argue that given the technologically advanced systems in place to do credit scoring, it is enough to have certain set of quantitative parameters to do a check. The parameters, which are discussed in the credit scoring software, are primarily quantitative parameters and some qualitative features whose measurements are also quantified. However certain
subjective parameters also are required to gauge the complete credentials of the individual (or the set of individuals) applying the said loan. Given the fallout that the world just saw, it is imperative that these qualitative points should also be taken into consideration while doing the analysis. Needless to say, the subjective parameters can surely be used to strengthen the objective parameters.

**Thilakam and Saravanan** (2014) writes on “CAMEL Analysis of NBFCs in Tamil Nadu” in ‘International Journal of Business and Administration Research Review’. Financial intermediation is a crucial function of Banks, Non Banking financial companies (NBFCs) and Development Financial Institutions (DFIs) the post reform period in India is characterized by phenomenal growth of NBFCs complementing the role of banks in mobilizing funds and making it available for investment purposes. During the last decade NBFCs have undergone wide volatility and change as an industry and have been witnessing considerable business upheaval over the last decade because of market dynamics, public sentiments and regulatory environment. To evaluate the soundness of NBFCs in Tamil Nadu over a decade, the authors made an attempt of CAMEL criteria for analysis of selected Companies. For this purpose, out of 36 NBFCs in Tamil Nadu 4 Government Companies, 13 Small Companies and 13 Small Companies and another 13 Top Companies were selected as sample respondents on the basis of multi-stage random
sampling, To evaluate soundness of each NBFCs through Capital Adequacy, Asset Quality, Management quality, Earnings and Liquidity, Based on findings the suggestions were offered to overcome the difficulties face by selected NBFCs in their development.

Sornaganesh and Maria Navis Soris\textsuperscript{17} (2013) published on “A Fundamental Analysis of NBFCs in India” in ‘Outreach’. The study was made to analyze the performance of five NBFCs in India. The annual reports of these companies are evaluated so as to ascertain investments, loans disbursed, growth, return, risk, etc. To sum up, the study is concluded that the NBFCs are earning good margins on all the loans and their financial efficiency is good.

Shariq Nisar and Mohsin Aziz\textsuperscript{18} (2004) presented a paper entitled “Islamic Non Banking Financial Institutions in India: Special Focus on Regulation”. Indian Muslims have always been trying to manage their economic affairs within the framework of Shariah. This paper aims to highlight the attempts made by Indian Muslims in this regard and how some of the later developments since mid eighties affected their functioning. The paper focuses on how the period of late 1980s and early 1990s saw the proliferation of Non Banking Finance Companies (NBFCs) in India and the subsequent failures of a large number of finance companies caused by the depressed economic scenario in early 1990s and
the highly changing regulatory environment in the late 1990s. Some prominent Islamic NBFCs of India are taken for detailed case studies.

Shailendra Bhushan Sharma and Lokesh Goel (2012) write on “Functioning and Reforms in Non-Banking Financial Companies in India”. Non-Banking Financial Companies do offer all sorts of banking services, such as loans and credit facilities, retirement planning, money markets, underwriting and merger activities. The number of non-banking financial companies has expanded greatly in the last several years as venture capital companies, retail and industrial companies have entered the lending business. These companies play an important role in providing credit to the unorganized sector and to the small borrowers at the local level. Hire purchase finance is by far the largest activity of NBFCs. NBFCs have been the subject of focused attention since the early 1990s. The rapid growth of NBFCs has led to a gradual blurring of dividing lines between banks and NBFCs, with the exception of the exclusive privilege that commercial banks exercise in the issuance of cheques. NBFCs are widely dispersed across the country and their management exhibits varied degrees of professionalism. Furthermore, the depositors have varied degrees of perceptions regarding safety of their deposits while making an investment decision. This paper provides an exhaustive account of the functioning of and recent reforms pertaining to NBFCs in India.
Madhvi Julka\textsuperscript{20} (2013) writes on “Conversion of NBFC’s in to Banks in Indian Prospective” in ‘IOSR Journal of Business and Management’. With growing pace of life and shortage of time youths’ try to save each second. Their curiosity to have funds easily at short notice to shape or give final touch to their ideas is also rising. So to raise the spanner of raising funds raising means, the government has initiated the RBI draft guidelines as on August 2010, which encloses the laws and regulations that would govern NBFC’s conversion in to banks. The main motive behind this is the consolidation and the convergence of financial systems globally. In this study the author has made an effort to know the perception of the managers towards this suggestion. That whether this initiative would be a success or failure. Abreast what should be the minimum capital requirements and lock in period for such NBFC’s. The respondents (managerial cadre persons) for this are taken from both public and private banks located in Jalandhar and Ludhiana locality of Punjab.

Tajul Ariffin Masron and Hassan Gholipour Fereidouni\textsuperscript{21} (2010) published a paper entitled “Performance and Diversification Benefits of Housing Investment in Iran” in ‘International Journal of Economics and Finance’. The objective of this study is to examine the effectiveness of housing as an investment instrument in Iran. In this paper, the performance and diversification benefits of housing over 1993-2008 are examined. Risk-to-reward ratio is used to assess the risk-adjusted
performance of housing and other financial assets (stocks, gold coin and US dollar). Correlation analysis is also used to examine the portfolio diversification benefits of housing. Additionally, the relationship between housing performance and inflation is investigated. The results show that housing is an effective property investment vehicle as it delivers the lowest risk-to-reward ratio when compared with three major assets over this study period. In addition, the results suggest that adding housing in properties can provide more diversification benefits. Moreover, housing returns exceed the rate of inflation and also there is a positive and significant relationship between housing returns and the rate of inflation. This study has some implications for Iranian investors who seek to include housing in their portfolio.

Qun Gao\(^{22}\) (2010) writes on “Study on the Transfer Payment Policy about the Low-Income Housing in China” in ‘International Journal of Economics and Finance’. The current low-income housing system in China is the security system giving priority to the low-rent housing and the economically affordable housing. The housing security system includes the systems and measures that the government uses the national and social power to provide the basic housing for those difficult housing groups by the transfer payment policy and realize the equalization of the public service in the domain of real estate.
Viral V. Acharya, et al (2013) published a paper entitled “The Growth of a Shadow Banking System in Emerging Markets: Evidence from India” in ‘Journal of International Money and Finance’. Here the authors studied the determinants of the growth of those non-deposit taking non-bank financial corporations (NBFCs) which are regarded by the Reserve Bank of India as being systemically important and have grown substantially in India over the past decade. The authors document that bank lending to NBFCs (i) forms a significant proportion of the NBFC liabilities; (ii) fluctuates in line with bank allocation to priority lending sectors; (iii) decreases as the banks expand in the rural areas relative to urban areas; but, (iv) is virtually non-existent for the largest state-owned bank, namely State Bank of India (SBI) and its affiliates which have significant rural branch network. Starting with the financial crisis of Fall 2008, bank lending to NBFCs experienced a permanent contraction shock related to the shift of term deposits toward SBI away from other banks. These bank-NBFC linkages are present primarily for and affect the credit growth of, those NBFCs that do loans or asset financing but not the investment companies. Overall, the findings suggest that in contrast to the prevailing views of shadow banking in the Western economies, lending to NBFCs in India is viewed by banks as a substitute for direct lending in the non-urban areas of the Indian economy, but this substitution is constrained
by distortions in bank deposit flows due to the perceived differential
government support of different banking groups.

Suresh Vadde\textsuperscript{24} (2011) published on \textit{“Performance of Non-Banking Financial Companies in India: An Evaluation”} in \textit{‘Researchers World’}. Non-banking financial and investment companies operate as an important adjunct to the banking sector in financial intermediation. They provide support to the capital market through investment holding, share trading and merchant banking activities, to the credit market through short and medium-term loans and also help in acquiring long-term assets through lease and hire purchase activities. This article analyses the performance of non-government financial and investment companies (other than banking, insurance and chit-fund companies) during the year 2008-09. The study is based on the audited annual accounts of 1,215 companies, which closed their accounts during the period April 2008 to March 2009. The segment of financial and investment companies in the private corporate sector is highly skewed. The presence of a large sized company, viz., Housing Development Finance Corporation (HDFC) Limited in the study would exert considerable influence on the overall performance of the companies in this group in terms of various quantitative measures. In view of such marked skewness in the size structure, the analysis presented in the article excludes results of HDFC. Further, it is observed that the results of three other companies are
in large variance with the remaining companies and accordingly these companies are also kept outside the scope of the study. Thus, the present analysis is confined to 1,211 companies. However, the data on all the select 1,215 companies including HDFC and other three outlier companies are separately presented. The study also presents comparable data for the preceding two years 2006-07 and 2007-08 for the same set of companies, based on the analysis of their accounts for the respective years.

Shail Shakya\textsuperscript{25} (2014) published a working paper entitled “Regulation of Non-banking Financial Companies in India: Some Visions & Revisions”. Non-Banking Financial Companies constitute an important branch of the finance sector. They pioneer in their cash deployment, accessibility to the markets and others to count. Tremendous progress during the 1980s and 1990s was due to rigorous efforts of the NBFCs world over. These instances also led to blurring dividing lines between banks and NBFCs with some privileges being reserved for the commercial banks. NBFCs are known for their higher risk taking capacity than the banks. Despite being an institution of attraction for the investors, NBFCs have played a significant role in the financial system. Many specialized services such as factoring, venture capital finance, and financing road transport were championed by these institutions. NBFC sector has more significantly seen a fair degree of consolidation, leading to the emergence of large companies with diversified activities. However, the
recent financial crisis has highlighted the importance of widening the focus of NBFC regulations to take particular account of risks arising from the regulatory gaps, from arbitrage opportunities and from inter-connectedness of various activities and entities associated with the financial system. The regulatory regime is lighter and different than the banks. The steady increase in bank credit to NBFCs over the recent years means that the possibility of risks being transferred from more lightly regulated NBFC sector to the banking sector in India can’t be ruled out.

Kapoor and Vinita Mittal26 (2011) writes on “Globalization, Growth, Impact and Development of Micro Finance Institution in India” in ‘International Journal of Business Economics & Management Research’. While financial services in India can be traced to the era of Kautilya in the fourth century BC the age of organized sector finance in India is generally acknowledged to have started with the Cooperative Credit Societies Act of 1904. The cooperative credit societies were based on the models of the German cooperative movement, in particular the Raiffeisen and the Schulze-Delitsch cooperatives. The objective of the Act was “to facilitate promotion of cooperative societies, for the promotion of thrift and self-help among agriculturists, artisans and persons of limited means.” To the extent that the wording of this objective could be applied to the objects of many MFIs today, this Act is a true precursor to modern microfinance in the country. The true expansion of
financial services in India started with the nationalization of all banks in the country during the late 1960s. This was reinforced with the establishment of Regional Rural Banks (RRBs) in 1976 and directed credit became the mantra of the Indian financial sector. In the meantime, the cooperative sector infrastructure had developed through the creation of an apex banking structure at the district and state levels to ensure the smooth flow of capital in the cooperative system. Yet, the entire network of primary co-operatives in the country and the RRBs, established to meet the needs of the rural sector in general and the poor in particular, has not proved to be successful. The cooperatives suffered from mismanagement, leadership by the privileged, and corruption and were gradually smothered by state patronage and protection, in many cases including management by ill-motivated government-appointed persons. This article aims on the analysis of micro finance institutions in the development of Indian Economy in global perspective.

Naresh Makhijani\textsuperscript{27} (2014) writes on “Non-Banking Finance Companies: Time to Introspect” in ‘Analytique’. Over the last few years the Non Banking Finance Companies (NBFC) sector has gained significant advantages over the banking system in supplying credit under-served and unbanked areas given their reach and niche business model. However, off late the Reserve Bank of India has introduced and suggested various changes in the existing regulatory norms governing NBFCs with a
view to bring NBFCs regulations at par with the banks. The ongoing and proposed regulatory changes for the NBFCs in terms of increased capital adequacy, tougher provision norms, removal from priority sector status and changes in securitization guidelines could bring down the profitability and growth of the NBFC sector. NBFCs will need to introspect and rethink their business models as they will now not only have to combat stringent regulatory norms but also have to face the challenge of rising cost of funds, scare capital and direct competition from banks.

Anoop Mohanty, et al\textsuperscript{28} (2011) in their paper entitled “Study of the Performance of State Bank of India in Comparison to ICICI for the Period 2001-09: An Empirical Study” published in ‘International Journal of Research in Commerce, Economics and Management’, stated that last decade has seen dynamic transformation in the Indian banking. The financial system comprising of variety of participants like different markets and regulators, instruments and players have improved their overall efficiency. The Banking sector seems to be the most vibrant among all with more emphasize on sustainable growth and profitability in the era of NPA management and adequate capital infusion under BASEL II norms. An uncompetitive banking structure will fail to respond to the needs of economic growth with long-term impact. In this paper, we emphasize the need to bring competitiveness within the key players of banking sector itself. The industry is witnessing fast changes in the form of operational
regulations: Cheque truncation, introduction of Islamic banking, licenses to NBFC’s, Basel accord norms for capital enhancement, replacement of BPLR with base rate, teaser rates, daily calculation of saving account interest at a minimum of 4%, redefinition of priority sector, foreign exchange fluctuations, risk management etc. This study aims at bringing the factors into limelight which have resulted in the transformation of financial positions the two biggest banks of India banking arena. The paper revealed that out of the seven factors, the impact of employee’s productivity, net profit, earning per share, net interest margin is positive whereas NPA level, return on asset and capital adequacy ratio have negative impact on the financial position of both banks during the time frame of 2001-2009.

Ravichandran and Elumalai (2007) published a paper on “Rise and Fall of Outsourcing” in ‘Journal of Contemporary Research in Management’. Before 1995, the Indian Car Finance Market was closed to foreign investors, so the Car loan industry was dominated by NBFC’s. The NBFC’s are very professional and used a lot of promotional strategies to attract the customers. They are the first players to use the outsourcing concept for sourcing their business. They appointed agents in all the districts for sourcing their business. But after 1995, Foreign Banks entered the Indian Banking Industry. Also a series of foreign car manufacturers like Ford, Hyundai, Daewoo, Toyota, entered the car market at the end of 20th
century. Due to competition in the car market increased and the car prices came down, this paved a way for the increased demand in the Car Loan Industry. Also due foreign banks entry in the market, the interest rates were very competitive and the foreign players used outsourcing concept for tapping the market. But the foreign banks adopted this outsourcing concept in all the areas of their business (sourcing, processing & Collection). But after 2002, the Outsourcing concept started declining on introduction of Dealer DSA concept and also on introduction of In house concept. The In house concept picked up in the last two years and in 2005 almost the entire DSA concept came to an end and the sourcing business was taken over by the In house team itself. Also in processing business the outsourcing concept came to an end due to various problems. So the processing procedure was undertaken by the bank itself. So only the collection business is still prevailing with the outsourcing concept. So, almost the entire outsourcing concept has taken a new outlook which made a comeback of the old dogs (In sourcing) in the same street.

Saneha Lata\hspace{0.25em}^{30}\hspace{0.25em}(2014) published a paper entitled “Private Equity Placement in Real Sector: An Analysis” in ‘Darpan International Research Analysis’. A wider participation of institutional Private Equity investors in the capital intensive business beyond the traditional lenders has played a critical role in the development of Real Estate Industry in India. Private Equity investments in Indian real estate have penetrated deep into
the industry, with both domestic and foreign funds fuelling the rapid growth of real estate construction in Indian cities. India is perceived as one of the attractive investment destinations globally on the back of multitude of factors such as – strong economic growth, rapid urbanization, growing middle class population, demographic advantage and increased thrust on infrastructure. The India growth story would not have been possible without the policy and strategic level support from the central and state governments. The much required impetus to the real estate sector was provided by the Government of India when the market was thrown open to foreign investment to promote Greenfield development. The combination of inherent population led residential demand, outsourcing led office and hospitality sector growth and rising income levels led retail consumption demand came together with availability of additional capital for Greenfield projects in the sector resulted in the large scale development in the last few years.

Joginder Singh and Ramniwas (2011) published on “Growth and Performance of Non-Banking Financial Institute in India” in ‘Journal of Banking, Financial Services and Insurance Research’. In the multi-tier financial system of India, NBFCs have turned out to be engines of growth and are integral part of the Indian financial system, enhancing competition and diversification in the financial sector, spreading risks specifically at times of financial distress and have been increasingly
recognized as complementary of banking system at competitive prices. These institutions have been pioneering at retail asset backed lending, lending against securities, microfinance etc and have been extending credit to retail customers in under-served areas and to un-banked customers. In the annual policy of 2010-2011, the RBI has announced two new categories of NBFCs. The aim of this paper is to enrich the growth and regulation of NBFCs in India. It also highlights the components of assets and liabilities of these institutions. This is also an attempt to judge the financial and operational performance of these institutions. This paper will be useful for financial institutions, portfolio managers, wealth managers and other investors as well as regulators who wish to have better understanding of NBFCs.

Mohit Agarwal32 (2012) writes on “Using Available Non-demographic Data for Default Probability Estimation in Automobile Loans: Case of an Indian NBFC” in ‘Zenith Interntional Journal of Multidisciplinary Research’ to test the possibility of developing a model to calculate the default probability in car loans in the context of Indian Non Banking Financial Institutions (NBFCs) where detailed customer demographics are usually not maintained or not freely available to line managers. The study attempts to check the utility of the non-demographic variables already available with the organization with an objective to immediately apply the model developed in a scenario when relationship
lending has reached its limits and transactional lending is the need of the hour. Said data for borrowers of an Indian NBFC was analysed using the Binary Logistic Regression Model for a cohort of 10,137 customers who availed loans from April 2003 to March 2007. Customer loan performance was observed from April 2008 to ensure at least 12 month seasoning. The results suggest that ten out of eleven recorded variables significantly impact the loan defaults. Using the proposed variables to develop a credit model has potential benefit to smaller companies where data capturing is still not up to the mark and only data available is that pertaining to loan characteristics.

Amit Kumar and Anshika Agarwal (2014) published a paper entitled “Latest Trends in Non-banking Financial Institutions” in ‘Academia: An International Multidisciplinary Research Journal’. In Indian 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.
Amitabh Nanda and Surya Kumar Misra\textsuperscript{34} (2012) writes on “Customer Relationship Management Practices in Non-Banking Financial Companies with Special Reference to CitiFinancial” in ‘Siddhant: A Journal of Decision Making’. Non-banking financial companies (NBFCs), often considered as complementary to the banking system, nowadays play an instrumental role in extending financial assistance in diversified fields of the financial sector. Keeping in view the tough competition and taking into consideration the opportunities and threats they face, NBFCs are focusing more on relationship marketing than on transactional marketing. In order to meet the challenges of the dynamic turbulent external environment, NBFCs are concentrating on various financial products in their effort to satisfy their clients’ needs. The objective of this paper is to study CRM practices in NBFCs with a special reference to CitiFinancial. This study also outlines customer profitability and lifetime customer value. The research was carried out among 200 customers of CitiFinancial using a structured questionnaire. A qualitative analysis was carried out taking into account the ten basic performance indicators of CRM and the manner by which the customers of CitiFinancial have rated them. The ten parameters are categorized under three segments, namely core services, differentiating services and potential services. It is inferred from research findings that broadly CitiFinancial is not only extending the best of CRM practices in core and differentiating services but
moreover it is also lagging behind in two of the important aspects such as range of products offered by the institution and technologically equipped services, which falls under the potential services segment. CitiFinancial has to put in an extra effort to streamline these deficit areas.

**Safania Saeid**\(^{35}\) (2010) published a paper entitled “The Study of Non-Banking Financial Companies in India” in ‘Asian Journal of Development Matters’. The non-banking financial companies (NBFC’s) have emerged as substantial contributors to the Indian economic growth by having access to certain deposit segments and catering to the specialized credit requirements of certain classes of borrowers. The non-banking financial companies (NBFC's) have emerged as substantial contributors to the Indian economic growth by having access to certain deposit segments and catering to the specialized credit requirements of certain classes of borrowers. A non-banking institution which is a company and which has its principal business of receiving deposits under any scheme or arrangement or any other manner, or lending in any manner is also a non-banking financial company. While NBFCs have been rendering many useful services, several adverse, unhealthy features of their working also have been observed. The protection of savers from malpractices has been one of the important issues. The authorities have evolved an appropriate regulatory/statutory framework to oversee the operations of NBFCs. The author assures that the Bank has an open mind for any suggestion within
the framework of policy and basic postulate that the depositors’ interest should be safeguarded. All these concerns were examined objectively and revised guidelines have been issued which would go a long way in the best interests of strengthening the NBFC sector.

Ghosal\textsuperscript{36} (2014) writes on “Emerging Growth Model for Micro Financing Institutions: Banks or Non-Banking Finance Companies” in ‘SAARJ Journal on Banking and Insurance Research’. In recent years there is sudden spurt of growth could be observed in micro financing institutions. These could be largely attributed to increasing stress given for inclusive growth and apparent success perceived in micro financing institutions to outreach poor on a sustainable business model. So much so the pioneer of MFI Mohd. Yunus gave a call to youths to seize the opportunity to build a sustainable business model for poor by developing MFIs with the help of innovative technology to outreach them with least cost and maximum benefits.

Thiyagarajan and Arulraj\textsuperscript{37} (2012) published a research paper entitled “Mediating Effects of Funding Strategies and Profit Maximization: Indian Non-Banking Finance Sector” in ‘Journal of Asian Business Studies’. The mobilization of funds was severely affected with the linking of their funds mobilization to their internal owned funds. Therefore, the purpose of the study is to identify the mediating effects of
funds with profitability and to focus on the funding strategy to maximize profits in the non-banking financial sector in India. The paper discusses various approaches to maximize profits. The study also examines trends in sources of funds using key financial variables. A formative model to capture the mediating effects of funds with profitability is tested using structural equation modeling (SEM) technique. The paper includes various financial variables including external and internal funds. These variables' relationship with the core operating profit is tested in a graphical structural equation environment using package software. Mediating effects of borrowings with profitability are established. The paper concludes that the gap in funds can be matched effectively through mobilization of funds of short duration. The study establishes that a combination of fund raising strategies such as flotation of debentures, bank borrowings and short term funding program can affect profits. The study is confined to non-bank finance companies in a particular state in India. The geographical and demographical differences may affect generalization. However, care has been taken to match the geographical and demographical characteristics of the country. The findings of this paper are of immense value for industry managers, lenders and for financial forecasting within the sector. New entrepreneurs can use the findings in their funding plans.

Craig Anthony Zabala and Jeremy M. Josse\textsuperscript{38} (2014) published a paper entitled “Shadow Credit and the Private, Middle Market: Pre-
crisis and Post-crisis Developments, Data Trends and Two Examples of Private, Non-Bank Lending” in ‘Journal of Risk Finance’. The purpose of this paper is to analyze a particular segment of the US “shadow banking” market and its revival since the recent credit crisis, namely, lending to the private Middle Market, defined as financings of $5-100 million to non-public, unrated operating entities or pools of assets with not more than $50 million in earnings before interest, taxes, depreciation and amortization. The analysis includes a review survey of a segment of capital markets and primary evidence from direct participation in two examples of actual private, non-bank lending between 2011 and 2012 executed by a Middle Market US investment bank. While there have been considerable challenges, historically, in providing credit for small-and mid-sized businesses in the USA, private Middle Market capital is (post the recent credit crisis) finding opportunities, notwithstanding, constraints imposed by market and other forces, including systemic crises, cyclical forces and changes in regulatory regimes. Any generalization is limited due to the absence of disaggregated survey data for the US capital markets and the limited examples examined. The capital markets segment and non-bank financial institutions examined in this paper are developing as an alternative source of credit/lending from commercial banks for mid-sized companies. The mid-sized firms financed by the shadow credit market are a significant source of job creation in the US economy making non-bank
credit a lifeline to job growth in the financial crisis. Direct participation is unique to the firms studied. Value is in developing a general framework to analyze different segments of the capital market.

Bruce Zagaris\(^3\) (2007) published a paper entitled “Problems Applying Traditional Anti-money Laundering Procedures to Non-Financial Transactions, “Parallel Banking Systems” and Islamic Financial Systems” in ‘Journal of Money Laundering Control’. The purpose of this research paper is to consider the unique and even positive nature of hawalas and other informal fund transfer systems (IFTs) in the developing world. Reviewing primary and secondary reports from national regulators, international organizations, and academics, the paper questions the conventional view that IFTs should be subject to extensive regulation and scrutiny because they have been abused by some participants. Many positive characteristics of hawalas – speed, transaction cost, cultural convenience, and versatility – also contribute to their abuse. The paper examines the modern uses of hawalas, including legitimate – remittances from migrant workers, humanitarian and emergency aid, personal investments – and illegitimate – money laundering, terrorist financing, tax and customs evasion, circumventing exchange controls – applications. The paper then discusses legal issues involving IFTs in developing and developed countries, discussing factors the international community should consider when designing regulatory systems. The paper reviews
developing world IFT regulation in the UAE, Afghanistan, Somalia, the Eastern and South African Anti-Money Laundering Group, and Columbia, and developed world regulation in The Netherlands, the UK, and the USA. The paper concludes that IFTs are robust in jurisdictions where formal banking systems are absent or weak, or where structural obstacles distort foreign exchange and other financial markets. Looking forward, the paper considers, inter alia, licensing or registration requirements and the rationale for choosing one over the other, and the need for competent authority due diligence on IFT operators.

Basu* (1961) in his paper entitled “Non-Banking Financial Intermediaries and Monetary Policy” published in ‘The Banker’ stated that a Non-Banking Financial Company (NBFC) is a company incorporated under the Companies Act, 1956 and conducting the financial business as its principal business. In India, the Non-Banking Financial Sector comprises of a multiplicity of institutions, which are defined under section 45 I(a) of the Reserve Bank of India Act, 1934. Its principal business is leasing and housing finance.

Joshi* (1965) writes on “Financial Intermediaries in India”. Financial intermediaries acquire unique importance in the developing economy as they perform multifarious activities in a development process. Their main function is to purchase primary securities from ultimate
borrowers and issue indirect securities to ultimate lenders. Financial intermediaries are responsible to some extent for (a) sponsoring or (b) encouraging or (c) discriminating between various industries whereby sectoral balance is affected.

Prabhu Ghate\textsuperscript{42} (1992) writes on \textit{“Informal Finance: Some Findings from Asia”}. The author examined the role of informal finance in most Asian Countries. The form of informal finance that makes the greatest contribution to additive savings (that is savings that would not have been mobilized anyway by the formal sector in the absence of the informal) is mutual finance. The study noted the possibility also of an indirect effect on savings through the higher productivity of investment stemming from increased allocative efficiency because of the higher volume of intermediation made possible by the informal sector.

Balasubramanian\textsuperscript{43} (2002) in his article \textit{“The Thriving Chit Fund Business in the South”} published in \textit{‘The Economic Times’}, stated that the latest amendments in the Central Chit Fund Act will go a long way in making the ancient and India’s own financial institution of Chit industry more vibrant and a healthy business. The article showed that Chit Funds were having better cash flows now due to the reduction in security deposit and higher discount limit on the prize money. This will also bring high return to the subscribers by way of more dividends. This article cited the
peculiar case in Kerala where the State Government itself is a big operator in the field. It also showed that most of the Chit funds from Kerala are said to be operating out of Chandigarh, Faridabad and Jammu and Kashmir.

Preeti Rao\textsuperscript{44} (2007) in her working paper entitled “Chit Funds: A Boon to Small Enterprises” suggested that Chit Funds are good financial sources to small businesses, which has been suffered from the money lenders with their high cost of loans and banks with their stringent procedures. They can save the money with Chit Funds and when in any emergency need of capital they can take loans out of the money saved. The author has mentioned the reasons for failures of chit funds like the regulatory hurdles due to the stringent rules proposed by the Government and the increased costs of operations for the registered companies are the setbacks of the industry. Because of these reasons, the registered companies are shifting their operations to unregistered companies.

Mudit Kapoor\textsuperscript{45} (2007) in his working paper entitled “Chit Funds as an Innovative Access to Finance for Low-Income Households” strongly opined that the chit funds are an important source of finance for small businesses and low-income households in India. Registered chit funds are away from low value chit schemes due to increased operational costs and strict rules imposed by Government. Chit funds are very safe mode of financing and saving. They offer loans at lower interest rates than
money lenders and sometimes than banks also. The size of the unregistered chit funds is stated about 67 times of the registered industry in Delhi and 3.2 times in Chennai. On an average 50% of chit fund clients are poor households and most of them save for particular target events like marriage, education, etc. and also they value the flexible provision of credit. Customers feel comfortable with the bidding process and 96% of them perceive registered chit industry as safe or very safe. Most funds have moved away from smaller chit schemes due to strict regulatory norms imposed by the Government and increasing wealth levels in India.

Jafar Ali Khan46 (2009) in his paper entitled “Non-Performing Assets Management of Non-Banking Financial Companies: An Introspection” published in ‘The Management Accountant’, stated that the Non-Banking Financial Companies (NBFCs) have been playing a very significant role in the present day rigorous money market conditions. They are serving the nation by supporting the economic reconstruction and giving a booster to industrial production. They are engaged into the business of providing loans and advances of small amounts for a short period to small borrowers. The Non-Banking Financial Companies (NBFCs) play an important role in channelizing these savings into investment. They have supplemented the role played by the banks.
Bala Bharathi and Sanjoy De\textsuperscript{47} (2009) writes a paper entitled “NBFCs: A Major Show” in ‘Chartered Financial Analyst’. NBFCs are financial entities that provide banking services without meeting the legal definition of a bank. They are typically not allowed to take deposits from general public and hence have to seek other means of funding. These NBFCs have matured a lot and even withstood the recent deadly crisis with a lot of resilience. NBFCs can reach the unorganized segments of society with their ability to provide innovative financial services. These entities play a critical role in disbursing credit to the rural sector, thus preventing the concentration of credit risk in banks. In urban areas too, NBFCs focus on non-salaried individuals, traders, transporters and stock brokers who are neglected by banks.

Namrata Acharya\textsuperscript{48} (2010) in her article “Unregistered Chit Funds having a Field Day” published in ‘Business Standard’, mentioned that chit funds are looking down in terms of number and are growing in terms of value. The registered chit funds find it less lucrative to fund the poor due to the rising operating costs. According to AIACF, running chit funds is no longer viable. Though the money circulated has increased, the number is going down. It may come down further in the years to come. On the other hand, unregistered chit funds have found a utility in evading tax and access to large deposits. The clout of unregistered chit funds is
tremendous. The number of unregistered companies is almost 100 times than the registered companies.

Amrit Patel and Gopal Kalkoti\textsuperscript{49} (2010) writes on “Rural Credit: How To Take Forward?” published in ‘The Indian Banker’ and mentioned that according to RBI, the major reason for increase in overall household debt and increase in the share of rural household indebtedness to non-institutional sources was a significant increase in the current farm expenditure and household expenditure for which households found it difficult to obtain loans from banks. In addition to that the cumbersome procedure of submitting various documents with loan applications and documentation process led to an average of 33 weeks taken by commercial banks to approve loans. This scenario is the niche for chit fund like entities under the banner of NBFCs.

The Deputy Governor, RBI, Usha Thorat\textsuperscript{50} (2010) writes on “Financial Regulation and Financial Inclusion: Working Together Or At Cross-Purposes?” published in ‘The Indian Banker’. The author states that non-banking entities can be either non-banking, non-financial entities or non-banking financial entities. In case of non-banking financial entities, there are deposit taking and non-deposit taking financial companies is there. Considering the difficulties in ensuring the effective
supervision of large number of small deposit taking entities, fresh approvals to NBFCs for accepting deposits are not considered.

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