CHAPTER VI

SUMMARY AND IMPLICATIONS
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GROWTH PATTERN

The liberalization process in Indian economy has made a strong beginning from the last decade of twentieth century. An emphasis has been made on efficient financial intermediation and various committees like Narasimham Committee, Shah Committee, and Khanna Committee, etc., have unanimously favoured the growing role of NBFCs. On the other hand, the competitive environment with regards to financial sector reforms have also laid emphasis on the functional efficacy of Indian Banking sector. However, the non-banking financial sector have proved their superiority in terms of greater customer orientation and higher interest rates.

The present study attempted to analyse the growth pattern of NBFCs in a more critical manner touching upon significant dimensions of change. Structurally, there have been a phenomenal increase in the number of NBFCs -- where it was little over 7,000 in 1991, it rose to nearly 14,000 by the end of 1997. The pattern of growth was reviewed in terms of deposits, type of services, state-wise positions and across aspects of resource mobilization.

The findings of the study, presented in two distinguishable segments: (a) Growth of deposits and (b) Structure of enterprises, offer valuable insight into the growth patterns and the trends.
Growth by Number:

It was observed that the NBCs of purely financial nature have shown greater growth during the period 1981-86 in the public sector than their counterparts in private sector. In contrast, the companies of non-financial nature have shown lesser magnitude of growth in public sector but nearly the same in the private sector as compared to their counterparts. The combined figures of both financial and non-financial companies have proved again that the private sector enterprises have achieved a greater growth than the public sector once.

Growth in deposits:

When deposits pattern in the NBF sector was analysed across financial and non-financial companies and in respect of deposits accounts and aggregate deposits, it was observed that non-financial organizations have achieved greater growth than the purely financial institutions. But in terms of aggregate deposits companies of both nature exhibited identically similar magnitude of growth. So, it may be concluded that while the investment pattern remained the same, the non-financial institutions have a greater spread of business which pertains to suggest that they would have a greater catch in future.

Comparison between Banks vs. NBFCs:

A comparison between deposits in scheduled commercial banks and NBFCs revealed a clear prospect in favour of NBFCs by showing near double the magnitude of growth. This again proves
that the business pattern in NBFCs is more customer oriented as well as having a greater need-saliency in the changing environment.

**Rate of Interest:**

The customer orientation appeared to have not been changed significantly as far as rates of interest is concerned. A fluctuating trend was observed across various rates of interest starting from 11% to 14%, and above. In the financial companies customers preferred both the ends -- less than 11% interest, and more than 14% interest. On the other hand, in NFCs customer preferred less than 11% interest, and 13% to 14% range. This type of observation should not be taken as erratic, because the period of maturity also matters significantly in determining the choice of the customers to a particular rate of interest.

**Period of Maturity:**

In the financial institutions the highest growth pertains to a period of 4 to 5 years, followed by 3 to 4 years, and six months or less. In contrast, in the non-financial institutions, no customer prefers the maturity period of 4 to 5 years. The highest growth was in favour of 3 to 4 years, followed by six months to one year, and 1 to 2 years.

**Growth by type of companies:**

Under the financial companies and in respects of exempted borrowing, housing finance showed a greater growth followed by hire purchase finance and multi benefit schemes. In respect of regulated deposits multi benefits companies showed 100% growth followed by loan finance and investment companies.
Growth of deposits and NOF:

The present study observed that under the financial companies the housing firms have achieved greater growth in deposits followed by equipment leasing companies and hire purchase companies, while the equipment leasing companies have shown greater growth in NOF followed by investment companies and housing firms.

In the non-financial sector the coal and mining entities have achieved more than 200% growth in total deposits as well as over 125% growth in net owned funds. The other significant sector which have achieved more than 50% growth corresponds to textile industry, sugar industry and electricity generation supply companies. In respect of NOFs, the coal mining sector is followed by electricity generation and supply industries and textile industries.

Growth by Status:

The private limited companies, such as multi-benefit financial companies have shown significantly higher growth in comparison to their counterpart in public sector. Similarly, the private limited equipment companies have shown a greater growth in respect of exempted borrowing as compared to their public sector counterparts. A similar trend was also observed in respect of NFCs.

Again, in non-governmental non financial companies have achieved a greater growth than their counterparts managed by the government.
Growth across States:

In respect of exempted borrowing Orissa state has shown the highest growth rate followed by Punjab and Madhya Pradesh. But in respect of regulated deposits Delhi has shown a greater growth followed by West Bengal and Maharastra.

STRUCTURE

Exempted Borrowing:

In the financial and non-financial companies exempted borrowing such as borrowings from banks and specified financial institutions, money received from central/states/foreign governments, and security deposits, etc., occupy one very significant position so far as the resource strength of the organisation is concerned. The proportion of exempted borrowing was higher in non-financial companies than the financial companies way back in 1989. The same trend continued till 1996, but a gradual decline in the exempted borrowing proportion was noticed. On the otherhand, this aspect achieved a prominent place in the miscellaneous non-banking companies; the proportion of exempted borrowing in these non banking companies rose from 0.6% in 1989 to 74% in 1996.

Within the non-financial companies the public limited and government companies used to have greater proportion of exempted borrowing during earlier years than the non-government and private limited institutions.
However, both public limited and government financial companies as well as non-government and public limited companies showed near equal proportion of exempted borrowings during the earlier years.

Government and public limited companies under miscellaneous non-banking category showed greater proportion of exempted borrowings as compared to non-government and public limited companies.

Regulated Deposits:

As regards regulated deposits, the financial companies exhibited no or negligible proportion of their resources, while for miscellaneous non-banking companies it constituted up to 90% of their resource strength. On the other hand the non-financial companies have 30% to 82% of their resources as regulated deposits. Under the non-financial companies the non-government companies and public limited companies have a greater proportion of regulated deposits than the government public limited and private limited ones.

In the miscellaneous non-banking category non-government companies and public limited companies as well as private limited companies have a sizable proportion of regulated deposits as their resource strength.

Types of deposits and borrowings:

The regulatory deposits comprising of non-convertible debentures, money received from shareholders and directors, and
money received by directors in their personal capacity corresponded to higher proportion of the deposits than fixed deposits and other regulated deposits in terms of number of accounts and the total amount of monetary gain.

Under exempted borrowings the highest number of accounts corresponded to convertible debentures and other borrowing, while in terms of amount of monetary gain, borrowing from banks and specialised financial institutions represented the highest proportion.

**Deposits and borrowings by class of companies:**

Under the public limited companies, loan finance companies have greater proportion of exempted borrowing as compared to other financial companies such as hire purchase companies, leasing companies and housing finance companies, etc. The miscellaneous non-banking companies have negligible proportion of exempted borrowings, while non financial companies have much greater proportion of exempted borrowing as compared to all financial companies taken together.

Under the private limited companies, the miscellaneous non-banking companies have correspondingly greater proportions of exempted borrowings than non-financial ones.

So far as regulatory deposits are concerned, the public limited financial companies and non financial companies competed neck to neck during earlier years but the public limited financial companies surpassed it showing greater proportion regulated deposits. The private sector has lost in the battle achieving only 5% to 12% of regulated deposits as their resource strength.
Scenario in different states:

Comparison across states showed that companies in Delhi and Maharashtra have greater share of exempted borrowing than all other states taken together. Same was the picture when regulated deposits were analysed across states. However, Tamilnadu has shown nearly 8% to 16% of achievement in respect of regulated deposits.

Share of business by rate of interest:

Although no definite trend was observed across span of eight years (1989 - 1996), it was apparent that in financial companies interest rate of 13% to 14% per annum is attracting highest proportion of customers, while interest over 14% is attracting more deposits in non-financial companies.

Period of Maturity:

In the financial companies a period of three years deposits proved to be the best span, followed by a period of one to two years and more than five years. Data in respect of non-financial companies showed that three years is the best period attracting about 90% of the deposits, while no preference being shown to four years and above.

Share of business:

The type of companies or industries has a significant bearing on the share of business. The observation indicated that loan finance companies are doing a better business than other type of financial companies. The non-financial companies have revealed
highest share of business as compared to financial companies and miscellaneous non-banking companies. Under the non-financial companies engineering industries have a comfortably greater business share than the iron and steel industries and other categories of industries.

**Net owned fund:**

With regard to net owned fund, non-financial companies have shown greater share of business as compared to financial companies. The share of business by miscellaneous non-banking companies have been found to be negligible.

**IMPLICATION**

The present study, from its multi lateral analyses of the growth pattern of both financial and non-financial non-banking companies, across trends of growth and share of business, of the various types of institutions, have brought out some of the revealing indications, such as the following:

- During the past decade of time, the non-banking companies have shown an increment by growth in number and in terms of the deposits mobilisation.

- The non-banking companies have gradually adopted greater customer orientation as compared to banking institutions. However, the customer orientation has not been very significantly influenced by rate of interest or by period of maturity as would be normally believed.
Apparently, it is the quality of service and power of convincing that have really worked.

- Financial companies, which are able to introduce multi benefit schemes, have achieved greater business. This means that innovation pays in the long run.

- A number of non-financial institutions or the industries are gradually penetrating into the money market. Among them the large sized public sectors such as coal mining industries which is achieving a greater growth of deposits and NOF than of the small sized private sector. However, this does not hold true for the steel industry which is also a large sector. Therefore, it can not be presumed that size only matters.

- Structurally, the non-financial institutions belonging to government/public limited companies as well as non-government/private limited companies have emerged with an equal force to capture the growth of borrowing and deposits. However, a definite trend is yet to be observed.

- The NBFCs are accomplishing greater monetary gains from exempted borrowing than the regulated deposits.

- The non-financial companies under the non-banking category are mobilising highest amount of deposits offering only three years maturity period, while their financial counterparts are achieving the same through a
varied period of maturity. This means that the NFCs are able to achieve greater share of business by convincing means.

Implications for Future Research:

From the research point of view, the present work has been able to offer valuable baseline indications for future studies. However, the present work has suffered a limitation of client’s perspective which, hopefully, the future research work will not neglect. Provided that the client perspectives would have been analysed with recordings of understanding and views, a greater light would have been thrown on the structural aspects of the companies, and more critical dimension about trends of growth would have been ascertained. Despite this limitation, the findings of this study would be of great assistance for researchers who are likely to take up studies on structure and growth of financial services in India.