CHAPTER- 2

LITERATURE REVIEW

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Chapter – 2 Literature Review

Recent literature highlights a number of significant features regarding performance of Non-Banking Finance Companies (NBFC) in India. Some of the existing Indian and Foreign literatures on performance of NBFCs that are available from various sources are reviewed here. Finally, on the basis of the review, the research gap is identified for the present study.

2.1 INDIAN STUDIES

1. **Basu, (1961),** in his paper **"Non-Banking Financial Intermediaries and Monetary Policy"** explains that in India, the NBFC comprises a variety of institutions, which are defined under section 45 I (a) of the Reserve Bank of India Act, 1934. The author has discussed about the nature of activities of the NBFCs. The paper also describes the types, monetary policies and regulatory measures of NBFC.
2. **Kantawala, (1997)**, in his study **"Financial Performance of Non-Banking Finance Companies in India"**, examined the performance of non-banking financial companies for the period from 1985-86 to 1994-95. Based on secondary data collected from different RBI bulletins regarding financial and investment companies, the study concluded that there was a significant difference in the profitability ratios, leverage ratios, and liquidity ratios of various categories of NBFCs. When two categories were compared, the selected ratios were not statistically different from each other in majority of the cases. When all the companies were taken together, null hypothesis was accepted for only three ratios, indicating thereby that there was no significant difference. From this, it can be inferred that the ratios for all categories of NBFCs were generally different from each other.

3. **Bhargavi, (2004)** in his study on **"A Study on Performance of NBFCs Engaged in Leasing Business with Special Reference to Sundaram Finance Ltd., Chennai"** found that all the sample companies had performed well except Tata Finance Ltd. Though these companies had faced recession during the period 2000-01, they had revived their performance in the subsequent period. After that, the companies had recorded better performance because they had diversified their activities. The study showed a decline in the performance of leasing companies. The main reasons that can be held responsible for the downfall of leasing industry was that capital intensive industry which required huge plants and machineries were badly hit by recession during the period 2000-01. The other reason was that companies had started to organise funds through loan and capital issues for the purpose of procuring assets.
4. **Rani, (2008)** in his thesis **"Impact of Financial Sector Reforms on Non-Banking Financial Companies"** studied about the comprehensive legislations recommended by Narasimham Committee II which empowered RBI with extensive powers to manage over the performance and existence of NBFCs. The study found that the growth rate of NBFC in respect of deposits continued to rise till the year 1997, but declined after 1998 as the regulatory framework in 1998 came as a source of extreme control to the real and genuine players in the market. However, it has been identified in the study that the main source of NBFCs had always been the acceptance of deposits.
5. **Harikrishnan, (2008)** in his thesis **"Receivable Management in Non-Banking Finance Companies with special reference to vehicle financing"** identified the key issues and problems in managing the receivable in respect of

vehicle financing of NBFCs. For this purpose, the number of NBFCs and their deposits were taken for the period from 1971 to 2007. The data were collected from the secondary sources. From the study, it was found that about 50 percent of the borrowers made repayment, 6.7 percent was defaulters from the very first instalment, and average cheque return was about 20 percent. Hardly 7 percent of them only contacted financiers by making alternate arrangements and it was seen that even a sizeable percentage of cheques of alternate payment made had bounced. About 3 percent of borrowers did not pay even a single instalment and 12 percent did not pay even 25 percent of loan availed by them. This proved that there were problems in the repaying behaviour of borrowers and it was concluded that the repaying behaviour of borrowers was not satisfactory.

6. **Bala** and **De (2009)** in their paper entitled **"NBFCs: A Major Show"** showed that the NBFCs under study had developed significantly and were even able to spread the financing activities considering the financing need throughout the country without having adequate security. NBFCs could reach the unorganized segments of society with their ability to provide innovative financial services. The NBFCs played a vital role in disbursing credit to the rural sector, thus preventing the concentration of credit risk in banks. The study also showed that in urban areas, NBFCs were also paying attention to non-salaried individuals, traders, transporters and stock brokers who were neglected by the banks.
7. **Khan, (2010)** in his study on **"Non-Banking Financial Companies (NBFCs) in India**: **Functioning and Reforms"** discussed the financial system in India emphasizing on the activities of Non-Banking Financial Companies (NBFCs).

The study covered the financial intermediaries including commercial banks, regional rural banks, cooperative banks and NBFCs in India and made a comparative analysis of their activities.

8. **Gumparthi and Manickavasagam, (2010)** in their paper **"Risk Assessment Model for Assessing NBFC (Asset Financing) Customers"** attempted to construct risk assessment model for NBFCs based on market forces. The study found 28 parameters (ratios and factors) to determine the risk associated with the customer satisfaction and payment settlement system. The study found that out of 28 parameters only 12 parameters were found important in the assessment of risk of financing.
9. **Saeid (2010)** in his paper entitled **"The Study of Non-Banking Financial Companies in India"** described that Non-Banking Financial Companies (NBFCs) emerged as significant 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 NBFCs had made substantial contributions by introducing various schemes that helped to meet the credit requirements of certain classes of borrowers. While NBFCs had been rendering many useful services, several adverse, unhealthy features of their working had also been observed. The protection of depositors from malpractices had been observed as one of the important issues in this regard. The study found that the authorities entrusted to control the activities of NBFCs recommended an appropriate regulatory and statutory supervisory framework to administer the operations of these companies.

10. **Paul (2011)** in his study **"Financial Performance Evaluation - A Comparative Study of Some selected NBFCs"** analysed the financial performance of the selected NBFCs during the period 2004 to 2009. The study was carried out on the secondary data. In the study, five listed NBFCs were taken as a sample for analysing the financial performance of the NBFCs. He concluded that the selected companies were significantly different in terms of their financial performance based on the selected performance indicators during the period under study.
11. **Vadde, Suresh (2011)** in his study **"Performance of Non-Banking Financial Companies in India - An Evaluation"** attempted to analyse the performance of 1211 non-government financial and investment companies (other than banking, insurance and chit-fund companies) during the year 2008-09. The study was based on the audited financial statement of 1,215 companies for the period April 2008 to March 2009. The study found positive growth trends in total income (interest income and other income). Though, growth in total expenditure decreased, the rate was higher than the growth in total income. The growth in expenditure occurred mainly due to the higher growth in interest payments. As a result, operating profits of the select companies declined along with fall in overall profitability during 2008-09. The study concluded that the business of selected non-banking financial and investment companies expanded at a slower rate during the year 2008-09.
12. **Saravanan and Haneef (2011)** in his paper **"SWOT analysis of NBFCs in the global scenario"** developed different strategies for NBFCs that took into account the SWOT analysis and constructed a matrix with those strategic factors. Strategies that could be worked out by those NBFCs were illustrated

by SWOT (Strengths, Weaknesses, Opportunities and Threats) matrix in the four quadrants with some illustrative examples. An attempt was made wherein the opportunities were compared with apparent strength and weaknesses. Similarly, threat was compared with strength and weakness with an intention to suggest appropriate strategies. From the SWOT Analysis, it was clear that NBFCs could themselves take steps to minimize their weaknesses and face all the threats by making better use of their strengths and opportunities, identified by them. The area where effective intervention was required was the debt recovery for which support and back-up of the Government was required.

13. **Sharma and Goel (2012)** in their study on "**Functioning and Reforms in Non-Banking Financial Companies in India"** stated that Non-Banking Financial Companies (NBFCs) offered, in some cases, banking services, such as loans and credit facilities, retirement investment planning, money market activities, underwriting and merger activities and described the features of those services. Those companies played a vital role in providing credit to the unorganized sector and to the small borrowers at the rural level. Hire purchase finance was found to be the largest activity of NBFCs. The rapid growth of NBFCs had led to a steady increase of dividing lines between banks and NBFCs, with the exception of the exclusive opportunity that commercial banks exercised in the issuance of cheques.

14. **Syal and Goswami (2012)** in their study on **"Financial Evaluation of Non-Banking Financial Institutions: An Insight"** analyzed the financial performance and growth of non-banking financial institutions in India during the period 2007 to 2011. The study was carried out on the secondary data. The study found that Indian financial system consisted of various financial

institutions, financial instruments and the financial markets that facilitated and ensured effective channelization of payment and credit of funds from the potential investors of the economy. Non-banking financial institutions in India were some major stakeholders of that financial system and catered to the diversified needs by providing specialized financial services across the country. Those financial services mainly included investment advisory, leasing, micro financing, hire purchase, asset management, etc.

15. **Samal and Pande (2012)** in their study **"A Study on Technology Implications in NBFCs: Strategic Measures on Customer Retention and Satisfaction"** observed that service mechanism and technology care for beneficiary had more influencing potentiality to increase the satisfaction of the beneficiaries. But NBFCs must have been careful about all other factors to increase its potentiality in technological advancement, as new beneficiary was more familiar with new technology to save their time.
16. **Thiyagarajan and Arulraj (2012)** in their research paper entitled **"Mediating Effects of Funding Strategies and Profit Maximization: Indian Non-Banking Finance Sector"** attempted to identify the mediating effects of funds with profitability and to spotlight focused on the funding strategies of the NBFCs to maximize profits in the non-banking financial sector in India. The study discussed various financing techniques to maximize profits. The study also examined the trends in sources of funds by using selected financial variables. An influential model was used to capture the mediating effects of funds with profitability by using the technique of structural equation modeling (SEM). Mediating effects of borrowings with profitability was also established. The paper concluded that the gap in funds

can be matched effectively through mobilization of funds of short duration. The study recommended that a systematic combination of fund raising strategies, such as flotation of debentures, bank borrowings and short term funding program be applied to improve the profitability of the NBFCs.

17. **Nanda and Misra (2012)** in their paper on "**Customer Relationship Management Practices in Non-Banking Financial Companies with Special Reference to Citi Financial**" attempted to study the impacts of Customer Relationship Management (CRM) practices in NBFCs with a special reference to the 'Citi Financial' company. The study was carried out on the primary data. For the purpose, the study was carried out among 200 customers of the company Citi Financial using a structured questionnaire. The major findings of the study revealed that in majority of the cases the Citi Financial had unsatisfactory CRM practices in their core service areas. But furthermore, it was also found that the services were lagging behind in two of the important aspects such as variety of products offered by the company and technologically equipped services, which came under the potential financial services segment. The study also found the areas where Citi Financial had to put their additional effort to streamline those deficit areas of services.
18. **Sornaganesh and Soris, (2013)** in their study **"A Fundamental Analysis of NBFCs in India"** attempted to analyze the performance of five NBFCs in India during the period 2010 to 2013. The study was carried out on the secondary data. The annual reports of the selected companies were evaluated to ascertain investments, loans disbursed, growth in schemes of investments, return, risk profile, etc. The study concluded that the NBFCs were generating

high proportion of margins on all the loans schemes and their financial efficiency was sound during the period under study.

19. **Taxmann's (2013)** in their study **"Statutory Guide for Non-Banking Financial Companies"** listed the set of laws and statutory guidelines relating to Non-Banking Financial Companies. The rules and laws governing the types of activities undertaken by different categories of NBFCs were also discussed.

20. **Perumal and Satheeskumar (2013)** in their paper **"Non-Banking Financial Companies"** dealt with the growth and development of Non-Banking Financial Companies (NBFCs) and performance assessment of the two selected NBFCs. The companies selected for the study were Sundaram Finance Ltd. and Lakshmi General Finance Ltd. The study was carried out for the period 2007-2012 and based on the secondary data. The study concluded that the involvement of NBFCs to economic development was extremely significant and there was a need to integrate it with the conventional financial system. The Reserve Bank of India (RBI) had taken steps from time to time for the regulation of NBFCs. It has been found that over the last three decades the regulations covered only the deposit taking activities without adequately covering the functional diversities of these companies. The study recommended that there should have been an appropriate regulatory framework for NBFCs and more powers should be vested with RBI to monitor them in an effective way to safeguard the interest of general investors.

21. **Kaur and Tanghi (2013)** investigated on the topic "**Non-Banking Financial Companies, Role & Future Prospects"** with a focus to analyze the role and significance of NBFCs in India. The paper concluded that NBFCs had to spotlight more on their core strengths and must have constantly attempted to

search for new financial products and services in order to survive and grow regularly.

22. **Thacker (2013)** in his paper **"Taxation of Non-Banking Finance Companies"** highlighted that NBFCs were regulated financial institutions whose operations and manner of presentation of financial statements are regulated by directions and guidelines issued by the RBI. The Income Tax Act 1961, however, did not include definite provision which may be relevant in computing the taxable income of a NBFC unlike in the case of banks or insurance companies. But the provisions of the computation of income of the NBFCs were similar to other companies. The accounts of a NBFC were also drawn up as per Schedule VI of the Companies Act, 1956 unlike in the case of banks and insurance companies. The study concluded that, the challenges for NBFCs in respect of taxation provisions like other tax payers under the same categories had been more or less similar; but in the absence of specific policy, compliances as per Income Tax Act in terms of correct implementation and interpretation of the existing tax provisions created ambiguities in compliances of taxation provisions.

23. **Arvind and Srividya (2013)** in their paper **"A Study on financial performance of Sakthi Finance Limited"** studied the efficiency and liquidity position of the company based on the secondary data and made several suggestions for improving the financial performance. The study was carried out for the period 2004-05 to 2008-09 and was based on descriptive research. The analysis found that the company had shown healthy liquidity positions. The current and quick ratios were found to be satisfactory. As a financing pattern on the assets side, stock-on-hire showed an increasing trend. On the

liabilities side, secured loan also showed an increasing trend. Return on equity capital (ROE) was found to be volatile and interest expenses ratio and bank charges were found to be on decreasing trends. The study also concluded that though the financing by NBFC's was not a new concept in India, it had developed with some additional coverage of financing from the years 1990s. But few NBFCs were so unsuccessful in their businesses that it led to social instability among the public to be more associated with NBFCs. But the implementation of regulatory norms by the Government of India to regulate the NBFCs had enabled them to recover from that unstable position in the later years.

24. **Dash et al. (2014)** in their paper on **"Housing Loan Disbursement in India: Suggestive Metrics to Prevent Bad Debts"** indicated that Non-Banking Financial Companies (NBFC) in different parts of India were involved in the activities of lending mortgage loans in respect of adequate security. The study focuses on the policies, terms, and conditions while making disbursement of loans. It has been suggested that the financing system of housing loan by NBFCs needed technological advancement in analyzing the credential of the borrowers and that there should have been a mechanism to obtain credit score from approved agencies. The study also suggested some quantitative parameters to check the credential of the borrowers. The different parameters were discussed in the study in respect of the credit scoring software, which were quantitative parameters as well as qualitative parameters. The study showed only those qualitative parameters which could be quantified.
25. **Makhijani (2014)** in his study **"Non-Banking Finance Companies: Time to Introspect"** revealed that over the last few years, the Non-Banking Finance

Companies (NBFC) had enjoyed significant advantages over the traditional banking system in supplying credit in the semi-urban and rural areas. However, of late, the Reserve Bank of India (RBI) introduced and recommended different changes in the existing regulatory norms prevailing for NBFCs with a view to bringing the regulations of NBFCs at par with the banks specially in the areas where it was rational. The study showed a systematic presentation of the continuing and proposed regulatory changes for the NBFCs by the appropriate authority including RBI in terms of augmented capital adequacy, appropriate provision for norms, removal from priority sector category and modification in securitization guidelines. The study also showed the outcomes in the variations of compliances of the regulatory norms which could bring down the profitability and growth of the NBFC sector. The study suggested that NBFCs would need to introspect and reorganize their business models as they then not only had to comply with rigorous regulatory norms but also had to face the challenge of increasing cost of funds, share capital, and straight competition from banks.

26. **Shakya (2014)** in his working paper entitled **"Regulation of Non-Banking Financial Companies in India: Some Visions & Revisions**" showed that Non-Banking Financial Companies (NBFCs) were pioneers in their cash employment and abilities to access the markets among the different categories of customers. NBFCs were known for their higher risk taking ability than the banks. Despite being an institution of attraction for the investors, NBFCs had played a major role in the financial system. NBFCs had been found to be successful in providing specialized services such as factoring, venture capital finance, and financing road transport. NBFC sector had seen a reasonable

degree of consolidation, leading to the materialization of financing needs of large companies in respect to their diversified activities. However, the recent financial crisis had highlighted the importance of widening the focus of NBFC regulations to take necessary actions in risks arising from the regulatory gaps, arbitrage opportunities, inter-connectedness of various activities and entities associated with the financial system. The study also showed that the regulatory administration of NBFCs was lighter and different from the banks. The study found that the stable increase in bank credit as compared to NBFCs over the recent years had made it difficult to exclude the possibility of risks which was not adequately regulated in the NBFC sector in India.

27. **Kumar and Agarwal (2014)** in their paper entitled **"Latest Trends in Non-Banking Financial Institutions"** indicated that in Indian economy, there were two major groups of financial institutions, one was banking and the other non-banking. The Non-Banking Financial Institutions (NBFI) played a vital role in our economy as they provided financial services on an extensive range. They also worked to offer improved equity and risk-based products. These institutions also provided short and long term finance to different sectors covering a wide range of scale of business volume of the economy, and did many other functions to fulfill the small financing needs.

28. **Thilakam and Saravanan (2014)** in their study **"CAMEL Analysis of NBFCs in Tamil Nadu"** observed that financial intermediation was a crucial function of Banks, Non-Banking Financial Companies (NBFCs) and Development Financial Institutions (DFIs). The study had been carried out for the period from 2003 to 2012 and it was based on secondary data. 30 NBFCs were selected for the study and CAMEL (C=Capital Adequacy, A=Assets

Quality, M=Management, E=Earnings, and L=Liquidity) model was used to analyse the data. The study found that in the post reform period in India was characterized by significant growth of NBFCs as a complementary role of banks in mobilizing funds and making it accessible for investment purposes. From the analysis it was found for the small NBFCs that management and liquidity appeared to be in risky situation and their capital base seemed to be moderate. For top NBFCs in respect of their volume of business the assets and earnings appeared to be in satisfactory situations and their management quality was enhanced during the period under study. The study also showed that considering all the factors covered under study, the overall performance had shown a step up for both small and large NBFCs. The study finally concluded that the RBI regulation had ensured a significant commitment of the NBFCs to sustain in the market and the NBFCs not managing their operations with compliance of all the regulatory parameters would have to quit the market. Any consolidation and restructuring between the NBFCs would also change the profile of this sector.

29. **Arun kumar (2014)** in his study **"Non-Banking Financial Companies (NBFCs): A Review"** concluded that the NBFCs played a major role in meeting the financial requirements of the medium sized and small sized industries and development of Indian economy by some means. On the other hand, policies of NBFCs had provided investment security for the investors. It was demonstrated that due to the regulations of the Reserve Bank of India (RBI), still the NBFCs did not extend more credit. It was suggested to the NBFCs credit policy to decrease the rate of interests, which would help the small business to get loans for their different financing needs. The review

made above showed that research in NBFCs was not as progressive as many of the published research papers showed only basics of the NBFCs, though it was still necessary to study and empirically evaluate the performance of NBFCs in India.

30. **Mohan (2014)** in his study **"Non-Banking Financial Companies in India: Types, Needs, Challenges, and Importance in Financial Inclusion"** suggested to improve Corporate Governance Standards (CGS) in respect of the NBFCs and concluded that NBFCs had turned out to be positive and responsive of growth and were a vital part of the Indian financial system, enhancing competition and diversification in the financial sector, spreading risks specifically at times of financial distress and increasingly recognized as complementary of banking system at competitive prices.
31. **Sowndharya and Shanmugham (2014)** in their study **"Analysis of Financial Performance of Non-Banking Financial Companies in India"** examined the qualitative change in the activities of NBFCs in respect of the issues like liquidity, profitability, interest margins, etc. during the period from 2007 to 2012. The study was based on the secondary data. The study attempted to evaluate the overall financial performance of NBFCs. Financial ratios as performance indicators were selected in the study to examine the profitability, efficiency, and turnover aspects of the NBFCs. The study found that the overall average of Return on Net worth and Return on Capital Employed, Earnings Per share and Price Earnings Ratios showed an improved profitability position of the NBFCs. The Interest Coverage Ratio was also observed to be low for the NBFCs. It showed that the capacity to service the additional debts were low for the NBFCs. It was also observed that the

selected NBFCs differed significantly in terms of Profitability and Leverage indicators from one another. But in respect of the aggregative analysis, i.e., when all companies were taken together, it was found that there was no significant difference for only two ratios i.e., Price Earnings Ratio and Current Ratio but difference existed for other ratios selected for the study.

32. **Niwassangwan (2014)** in his study **"Performance of non-banking financial companies and residuary non-banking companies in India"** examined the annual growth rate of a number of reporting non-banking financial companies during the study period. The study was carried out in two phases i.e., from 1997-98 to 2004-05 which was termed as Phase I (Post liberalization) and from 2005-06 to 2012-13 which was termed as Phase II (Post liberalization). The maximum decrease in annual growth rate of NBFCs and RNBCs was observed in the year 2007-08 in phase II (Post liberalization) period. The public deposits of RNBCs increased every year as differing ~~to~~ from NBFCs in both the phases of post liberalization period. The maximum decrease in annual growth rate of NBFCs was observed in the year 1998-99 i.e., 39%, while the maximum increase in annual growth rate of RNBCs was found in the year 2002-03 i.e., 14%. In phase II (Post liberalization) period, the public deposits of NBFCs increased after 2008-09, while the public deposits of the reporting NBFCs decreased gradually. This showed that the working efficiency of NBFCs had improved during the study period. The public deposit of RNBCs decreased in the phase II (Post liberalization) period. This might be due to the fact that the reporting RNBCs were very small a number in this period.

33. **Devi (2014)** in his paper **"Investment Strategies in NBFCs"** showed that financial intermediaries like Non-Banking Financial Companies (NBFCs) comprised a significant element of the financial system and had penetrated into those areas where banks would have been able to take both the operational and regulatory risks. The study analyzed the investment strategies of NBFCs, in respect of various funding sources, investment tenure, and investment attitude. Sources of funds of NBFCs comprised debentures, borrowings from banks and other financial institutions, public deposits, commercial papers, and inter-corporate loans. It was found that among all the components of assets, advances accounted for a principal share of the total assets followed by investments in securities. The overall investment attitude depended on delivering higher risk adjusted returns to investors over an extended time period. The investment philosophy in NBFCs was rooted in a set of well recognized but flexible principles that were based extensively on fundamental research. NBFCs had moved towards an era of concentrated regional operations, low credibility but poor risk management practices. But the operations and services of the NBFCs were highly popular to be the alternate choice of financial intermediation. The study concluded that the growth of NBFCs had been constrained due to lack of adequate sources of capital. The study suggested that capital infusion and leverage management would have created hindrances in the growth of NBFCs in size and scale.
34. **Pellissery and Koshy (2015)** in their study **"An evaluation of financial performance of public sector banking companies and non-banking financial companies in India"** examined the comparative financial performance of the selected NBFCs and selected banks during the period

2006-2007 to 2010- 2011. The study was conducted with three NBFC companies and three public sector banks. The study was based on the secondary data. The two selected groups of financial institutions (i.e., NBFCs and banking companies) provided different types of services at different interest rates. The study analysed the top performer among the selected NBFCs based on the selected performance indicators and also analysed the better one of the two groups of financial institutions selected for the study. The study found that selected NBFCs showed more improved position in the instruments of capital markets than in the selected banking companies. This implied that the NBFCs had good standing in the instruments of capital market because of its principal activities of financing. On the analysis of the performances of these financial institutions in terms of ratios like Current Ratio (CR), Quick Ratio (QR) and Pay-out Ratios, the NBFC company, namely, LICHFL (LIC Housing Finance Limited) was found to be the best performer among the selected NBFCs. The banking companies like Bank of India (BOI), Central Bank of India (CBI), and Indian Overseas Bank (IOB) were not good leveraged institutions in capital structure management since they did not have much of long term debts to equities. The NBFCs in this respect showed better leverage in capital structure management and all the selected NBFCs like LICHFL, Reliance Cap Ltd. (RCL) and Bajaj Finance Ltd. (BFL) showed favourable debt equity ratios. On the whole, the NBFC i.e. LICHFL, showed the best performance among all the selected NBFCs, even better than all the selected banks in respect to the selected performance indicators. The study concluded that NBFCs performed better than the banks during the period under study.

35. **Mondal (2015)** in his study **"Comparison of growth between Non-Banking Financial Companies and Banks and their contribution in the Indian economy"** compared the growths of NBFC sector and Banking Sector in India and analysed the contribution of NBFCs and Banks to the GDP of India. The study was carried out for a time period from 2006 to 2014 and was based on secondary data. It was found that NBFC sector approved loans around 58% to the infrastructure sector in comparison to the volume of credit approved by the banks. Thus NBFCs had major portion of funds invested as loan to infrastructure sector, more than the investments made in the same infrastructure sector by the banking sector. It was also observed that there was a positive relationship between the GDP growth rate and the growth of banking and NBFCs during most of the years under study. The components of balance sheet observed higher growth in respect of NBFCs as compared to the rate of growth of the banking sector. Similarly, credit approval of NBFC sector also increased more quickly as compared to that of the banking sector. The results showed that overall performance in respect of the selected performance indicators of NBFC sector had higher growth over the growth achieved by the banking sector during the study period. The study finally concluded that the overall contribution of NBFC sector to capital formation across the country as well as overall economic growth had augmented at a higher rate than that of the banks.

36. **Jhalani and Dubey (2015)** in their study **"An impact study of role of NBFC: new path of development"** mainly emphasised the role of NBFCs in Indian economic environment and the future prospects of NBFCs under current monitoring and regulatory scenario. It was found that the NBFC sector

had been overburdened in asset quality management during the last few years due to weak operating environment and fiscal depression. Different financial sectors which were directly connected to monetary activities like commercial vehicle, construction equipment, and infrastructure financing had witnessed sharp decline in asset quality management. Gold loan of the NBFCs had also found inefficient asset quality management in respect of the regulatory reservations, correction in gold prices, and funding constraints. It was also observed in the study that NBFCs had played a vital role in terms of the macroeconomic viewpoint as well as intensification of the structure of the Indian monetary system. Consolidation of the companies in the sector and better regulatory and supervisory framework for the NBFCs had enriched the performance of the NBFCs.

37. **Kaushal (2016)** in his study **"Impact of Non-Banking Financial Companies (NBFCs) in Indian Economic Growth"** observed that after the proliferation phase of 1980s and early 1990s, the NBFC witnessed consolidation among the companies and more number of NBFCs then were eligible to accept deposit. But the number of NBFCs had been reduced from 40000 to 600 in the early 1990s. The number of asset financing NBFCs was found to be around 350 and the rest were investment and loan companies. Almost 90% of asset financing of NBFCs were involved in financing transportation equipments and the balance in equipments for infrastructure projects. Therefore, the role of NBFC sector in both manufacturing and service sector was vital and they played the role of an intermediary by facilitating the flow of credit in variety of customers particularly in transportation and other organised sectors in India. The study finally concluded that NBFC represented an extremely varied group

of intermediaries engaged in mobilisation of financial resources and their beneficial development in various forms of financing needs. The NBFCs played the crucial role of intermediaries between depositors and the borrowers.

38. **Vivekanandan and Mohan (2016)** in their study **"A review on impact of financial sector reforms on non-banking financial corporation"** analysed the comparatively mature financial service practices in India particularly by Non-Banking Financial Corporations (NBFCs) in terms of services offered by this sector. NBFCs had turned out to be an integral part of growth of Indian financial system and the reforms of these sectors showed a positive response in terms of providing services across the country. The activities of NBFCs also enhanced competition and diversification in the financial sector which also spread risks, particularly at the time of financial distress, and had been increasingly recognized as complementary service provider of banking system at competitive cost of financing. The study showed that NBFCs in India represented a varied group of privately-owned, medium and small-scaled financial intermediaries which offered a variety of services including hire purchase, equipment leasing, short term and long term loans, investments and chit fund activities, gold loan, etc. These companies also played an important role in providing credit to the unorganized sector and to the small borrowers at the semi-urban and rural areas. The study finally concluded that as the banking sector was highly regulated, the NBFCs received an advantage over banks in respect of simplified sanction procedures, flexibility, suitability in meeting the credit needs and low cost financing in the course of providing financial services.

39. **Das (2016)** in his paper **"Performance and Growth of Non-Banking Financial Companies as Compared to Banks in India"** compared the growth of NBFC sector and banking sector in India. The study was carried out from the period 2006 to 2013 and was based on the secondary data. Holding on an average, almost 13% of total assets, NBFC sector had approved loan, almost 58% financing to the infrastructure sector, in comparison to the total volume of credit granted by the banks in this sector. So the NBFCs had approved major portion of fund as a loan to the infrastructure sector as compared to the banking sector in India. A positive relationship was found between the GDP growth rate and the growth of banking and NBFC sector. The analysis also revealed that the growth of loans and advances of the NBFCs was higher than that of banking sector during the study period. During the study period, the percentage of NBFCs' "assets to banks" increased gradually and the Return on Assets (ROA) was better than that of banking sector. The share of NBFCs in financing assets had increased from 10.70% of banking financing assets in 2009 to 14.3% of banking financing assets in 2014. The analysis also revealed that the proportion of NBFCs' assets to GDP had increased from 8.4% in the year 2006 to 12.5% in the year 2013. So, rate of increase in case of NBFCs was almost 50%. During the study period the percentage of banks' assets to GDP had increased by 27%. The study concluded that the overall growth performance of NBFC was better than banks during the study period. The study also suggested that the role of NBFC sector in capital formation across the country had been raised at a higher proportion than that of the banks in India.

40. **Basu (2019)** in his paper **"Financial Performance of NBFC – An Empirical Study on Selected Assets Finance Companies"** assessed the financial performance of NBFCs in India on selected Assets Finance Companies (AFCs) in respect of growth performance, measuring the deviations in performance and identification of most important indicator among the selected financial indicator. The growth rates were positive in case of the performance indicators, namely, ROE, DE Ratio, NPR, and CR but it was negative for ROA and ROCE. But the growth rate of ROA, ROE, and NPR were statistically insignificant. The growth rates of ROCE, DE Ratio, and CR were statistically significant. It was observed that for all the selected performance parameters, the result of Chi-square test was found to be insignificant at 5% probability level. Thus it was concluded that the actual performances were not different in respect of the performances for the selected AFC (aggregate). The study found that the overall performance of the selected assets finance companies was not satisfactory during the period under study.
41. **Basu (2019)** in his paper **"Assets-Liabilities Structure and Financial Performance of NBFC – An Empirical Study on Selected Investment Companies"** concentrated on the study of financial performance of the Investment Companies (ICs). The principal objective of the study was to assess the financial performance of some selected ICs during the period from 2005-06 to 2014-15. After analyzing the assets–liabilities structure, the study found that the growth rates were positive in case of the entire set of performance indicators, but out of the six indicators, the growth rate of ROA, ROE, ROCE, DE Ratio, and NPR were found to be statistically insignificant. Only the growth of CR was statistically significant. The result of Chi-square

test was insignificant at 5% probability level. The exercise to identify the most important indicator among the selected performance indicators showed that NPR was the most influencing factor. The study found that the overall performance of the selected ICs were not satisfactory during the period under study.

42. **Basu (2019)** in his paper **"Financial Performance of NBFCs – A Comparative Study on Selected Investment and Assets Finance Companies"** make a comparative analysis of the financial performance of selected investment and assets finance companies during the period from 2005-06 to 2014-15. To compare the performance of NBFCs on the basis of selected performance indicators the study employed Kruskal-Wallis Test (H Test).The study concluded that there is no difference between the financial performances of each category of NBFCs apart from their nature of activities under their respective categories.

2.2 FOREIGN STUDIES

1. **Koros (2001)** in his research paper **"An evaluation of the financial performance of non-banking financial institutions that converted into commercial banks in Kenya"** evaluated the performance of Non-banking financial institutions (NBFIs) that were converted into full-fledged commercial banks. The data used covered a period of 10 years and were collected from the Nairobi Stock Exchange (NSI) for the quoted companies while for the others, data were collected from annual publications or directly from the institutions. The study showed that declining trends in most of the performance indicators, though, however, the trends were not statistically significant. The findings also indicated that the policy modification by the

regulators in respect of the NBFIs showed inflexibility in the cash ratios and capital adequacy. This was due to ignorance of more fundamental issues that the NBFIs had failed to manage properly while adopting conversion policy.

2. **Cheema and Shah (2006**) in their research paper **"The Role of Mutual Funds and Non-Banking Financial Companies in Corporate Governance in Pakistan"** attempted to concentrate on the increasing importance as an investment vehicle, and their potential role in promoting better corporate governance. The Securities and Exchange Commission of Pakistan (SECP) had introduced a new framework for the regulation of mutual funds and their associated Non-Banking Financial Companies (NBFC). The State Bank of Pakistan (SBP) regulated and supervised the Non-Banking Financial Institutions (NBFI) prior to the implementation of separate NBFC rules. In December 2002, the responsibilities for the regulation and supervision of NBFIs were transferred from the SBP to the SECP in accordance with the recommendations of the Joint Committee for Reconstruction (JCR) of NBFIs in Pakistan. The Banking Companies Ordinance (BCO), 1962 and the Companies Ordinance (CO), 1984 were amended in order to attain this rebuilding. The SECP, in promulgating the NBFC Rules, gave privilege to the concept of the NBFCs, which brought together in one regulatory framework to serve all non-banking services including investment banking, venture capital financing, asset liability management, and investment advisory services. The study concluded that the SECP should be familiar with the implication of mutual funds and related NBFCs for better corporate governance and the role that they could have played in developing the investors' confidence in the securities markets.

3. **Islam (2007**) in his thesis **"The role of non-bank financial intermediaries (NBFIs) in economic growth (1971-2004): An empirical case study of Malaysia"** discussed that NBFIs in Malaysia comprised broadly 4 groups of institutions, namely, the provident, pension, and insurance (together also called contractual savings, PPI) funds, development financial institutions (DFIs), savings institutions (SIs) and a group of other non-bank financial institutions (OFIs). They played a vital role in creating and enhancing opportunities to equip the financial intermediation for the economy. The most prominent function through which NBFIs performed growth stimulating role was the direct help to the development of capital market by making available those long-term financial resources to productive investments, which were in general inappropriate for banking system particularly for the commercial banks. The reason behind that was that the financial assets that NBFIs mobilized were mainly of long-term in nature which were channelled to the economy via direct participation in equity, bonds, Government bills or securities. This enhanced capital market depth also eased the stress of liquidity risk of the firms and entrepreneurs with competitive cost. The findings of the study suggested that a well-developed financial system had positive impacts on economic growth of Malaysia. However, distinct from banks and stock market development, the role of NBFIs in Malaysia was found to be an influencing factor for the overall economic development of the country. Finally, the study showed that the growth in NBFIs in respect of some selected performance indicators had beneficial impact on economic growth in Malaysia both directly (in the case of private and small credit) and indirectly through motivating investment channel (in the case of NBFIs assets).

4. **Zagaris (2007)** in his paper entitled **"Problems Applying Traditional Anti-Money Laundering Procedures to Non-Financial Transactions, 'Parallel Banking Systems' and Islamic Financial Systems"** considered the distinctive 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 examined 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 like speed, transaction cost, cultural convenience, and versatility also contributed to their mistreatment. The paper examined 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 indicting the non-banking institution being involved in it. The paper also discussed legal issues involving IFTs in developing and developed countries. The factors of designing regulatory systems should consider the international community in respect of these transactions by non-banking institutions. The paper reviewed 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 concluded that IFTs were strong in jurisdictions where formal banking systems were absent or weak, or where structural obstacles distorted foreign exchange and other financial markets. The paper also considered the various aspects of licensing or registration requirements

and the rationale for choosing over those instruments and the need for competent authority of due diligence on IFT operators and control in respect of the functioning of non-banking institutions associated with them specially in the Islamic Financial Systems.

5. **Sufian (2009)** in his research paper titled **"Determinants of non-bank financial institutions' profitability: empirical evidence from Malaysia"** analyzed the determinants of profitability measured by selected ratios for NBFIs in Malaysia as well as in some other developed countries. The study found that NBFIs in Malaysia had exhibited a higher risk with lower profitability level. On the other hand, the large Malaysian NBFIs in terms of the business volume showed high operational overhead expenses but exhibited relatively higher profitability performance, thus supporting the expense preference behavior hypothesis.
6. **Ahmed, Khalil and Group (2011)** in their stud**y "Financial Performance of Non-Banking Finance Companies in Pakistan"** analysed the financial performance of non-bank finance companies (NBFCs) which were providing Investment Advisory Services (IAS), Asset Management (AMS), and Leasing and Investment Finance (IF). The study had been carried out for two years from 2008 to 2009. Traditional ratio analysis method was used to analyse the financial performance of non-bank financial institutions. The study concluded that the performance of NBFCs adopting selected performance indicators was better in the year 2008 than in the year 2009. Basically the performance showed a declined situation in the year 2009. The study also suggested various factors for decline in the performances in the year 2009 as compared to the

year 2008 and recommended different initiatives to be taken to improve the performances of NBFCs.

7. **Rahman and Farah (2012)** in their research paper on **"Non-Bank Financial Institutions' Profitability Indicators: Evidence from Bangladesh"** examined the indicators of the profitability of the companies involved in the activities of Non-Banking Financial Institution (NBFIs) sector of Bangladesh. The study had been carried out by using the data of 30 NBFIs in Bangladesh for the period 2006 to 2008. The data had been collected from secondary sources. The study had been carried out by using Net Profit as dependent variable and Current Asset, Financial Cost, long term liability, Interest Income, and other operating income as independent variables. The analysis also showed that liquidity position and operating efficiency had significant impact on profitability of the NBFI sector in Bangladesh. The results of the statistical analysis of multiple regressions and simple regression showed consistent results for all the selected variables. The results that were statistically significant in all the cases provided an overall idea that the liquidity was the primary determinant of profitability in NBFI sector. The study concluded that the NBFI had been a promising and prospective financial service sector in Bangladesh.

8. **Khandoker, Raul, and Rahman (201*2)*** in their study **"Determinants of profitability of Non Bank Financial Institutions in a developing country: Evidence from Bangladesh"** attempted to identify the major financial factors and most significant influencing variable that affected the profitability of the NBFC sector in Bangladesh. The data had been collected from secondary sources. The study found that the selected profitability determinants had

significant impact on net profit margin. But among all selected independent variables considered in the study, only total asset, amount of deposit, operating revenue and operating expenses had significant impact - some positive and some negative - on the profitability of Non Banking Financial Sector (NBFC) in Bangladesh. These results had been treated as sufficient impact to determine the overall profitability of the NBFCs in Bangladesh. The study also suggested various measures for managers to improve the financial performance NBFIs in Bangledesh.

9. **Costea, Adrian (2012)** in his paper **"Evaluating the Performance of Non-Banking Financial Institutions by the Means of C-Means Algorithm"** described the concept of C-Means as a statistical clustering technique first proposed by Mac Queen (1967). The goal of the C-Means algorithm was to minimise the sum of the variances within clusters. In this experiment the study assessed the performance of different Non Banking Institutions (NFIs) in Romania. NFIs included all the financial institutions other than banks which were engaged in lending activities in specialized schemes. The study was carried out for the period from 2007 to 2010. After considering the performance dimensions of the NFIs, the study selected a ratio for each dimension based on the analysis of the annual financial statements of the NFIs. It has been noted in the study that the state-of-art of using the existing Computational Intelligence (CI) methods had been used in the process of financial performance benchmarking in order to apply them in the performance assessment of non-banking financial institutions (NFIs). The study applied C-Means on the selected NFIs' data set to assess the performance and then compared the results with the results obtained by

applying a neural network-based clustering algorithm, called Self-organising Map (SOM) algorithm. From the analysis of the C-Means it has been found that in Romania NFIs were more involved in the activity of financial leasing. However, the study also suggested that the visualization capability of SOM should be taken into account while analysing the performance evaluation for a long period of time.

10. **Costea, Adrian (2013)** in his research paper "**Performance benchmarking of Non-Banking Financial Institutions by means of self-organising map algorithm"** compared the performance of Non-Banking Financial Institutions (NBFIs) in Romania by constructing a benchmarking model based on predetermined selective measures in the form of a two dimensional Self-organising Maps (SOM). The study showed how one Data Mining technique, namely, the SOM algorithm, could be used in determining the NBFIs' performance benchmarking based on a number of financial (profitability, liquidity, and coverage) ratios that covered different performance dimensions. It included the measures of capital adequacy, assets quality risk, and overall profitability. It was seen that for the selected companies, data analysis showed a marginal drop in the performance of NFIs in 2009 as compared to that in 2008. The global financial crisis in the year 2009 also affected the financial performance of NBFIs in Romania. But the auto sales industry activities as supported by NBFIs were not affected in the year 2009. The study suggested the application of neural networks model (NNM) to evaluate comparative financial performance of NBFIs. It also suggested that with the effective application of this model, investors would be able to evaluate the alternative investment opportunities.

2.3 RESEARCH GAP

From the literature review, the following gaps have been identified:

1. Majority of the studies have been carried out in the context of various regulatory norms and strategies adopted by NBFCs which are theoretical in nature.
2. Few studies were empirical in nature. All those studies attempted to analyze the financial performance of NBFCs in India using primary data and that too in most of the cases over very short time periods.
3. Most of the previous studies focused on the performance of very few companies using primary data on various deposits schemes and advances collected from individual customer-respondents.
4. Very few studies focused on both the categories of NBFCs after reclassification and, therefore, we hardly get any idea about the relative performance of these two categories of NBFCs during the post-classification period.
5. Very few studies have been conducted till now at the aggregative level helping us to get an idea about the performance of NBFCs in general.

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