"PERFORMANCE ASSESSMENT OF NON-BANKING FINANCIAL COMPANIES IN INDIA: AN EMPIRICAL STUDY"

Abstract

Financial Institutions can be classified as banking and non-banking financial institutions. Banking institutions are formulators as well as suppliers of credit, while non-banking financial institutions are only suppliers of credit.

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 / Companies Act, 2013, and getting involved in dealing with loans and advances, acquisition of securities issued by the Government or local authority, hire-purchase, leasing, insurance services, and chit fund business. Basically, NBFCs act as intermediaries between the final depositors and the final borrowers. The functions of NBFCs are categorically restricted as per the guidelines of the Reserve Bank of India. The rationale of the existence of NBFCs is derived from the concept of saving of surplus and earnings from the same. The deficit, if any, can be financed by the sacrifice of some additional payments with respect to the unorganised sector. As compared to the commercial banks, the activities of NBFCs are not extensively managed by monetary authorities. So, the credit extended by these institutions may not necessarily be in accordance with the needs and priorities of the unorganised sectors. The major function of these financial intermediaries is to shift the savings of surplus units to deficit units at micro perspective and to unreached areas of commercial banks. Hence, these institutions can play a vital role in the economy of the country for financing small scale units.

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The country therefore, needs some institutions over and above the banks to provide finance through reaching out to the areas where banks' presence is very much needed. So, it can be said that the NBFCs have enjoyed an advantage over the conventional banking system in the semi-urban and rural financial markets in India.

The present study may be considered as the first time attempt to assess the financial performance of the selected NBFCs at aggregative level as well as at the individual company level under the new categories of classification by the RBI in India.

In this backdrop, the present study is of extreme importance to assess the overall performance of NBFCs because such an assessment will bring out the current position of the NBFCs taken collectively and individually, and, *inter alia*, the overall performance of this sector as a whole. The policy implications of the findings of this study are expected to help the regulators/policy makers to frame appropriate policies for NBFCs so as to ensure economic and social development of the urban, semi-urban and rural areas in India.