

Non-banking financial companies (NBFCs)

3.57 As per extant guidelines, NBFCs that were granted certificate of registration (COR) in the non-public deposit-taking category should meet the minimum capital requirement of Rs.2 crore for being eligible to apply to the RBI for accepting deposits. By the end of March 2005, the RBI had received 38,096 applications for grant of COR. Of these, the RBI has approved 13,187 applications (net of cancellation), including 474 applications (net of cancellation) of companies authorised to accept/hold public deposits. By end-June 2005, the total number of NBFCs increased to 13,261 (net of cancellation), of which 507 were public deposit accepting companies.

3.58 The number of reporting NBFCs (registered and unregistered) declined from 875 at end-March 2003 to 777 at end-March 2004 and further to 573 at end-March 2005. The decline was mainly due to the exit of many NBFCs from deposit-taking activity. The number of Residuary Non-banking Companies (RNBCs), which were five at end-March 2003, declined to three at end-March 2004 and remained unchanged at that level at end-March 2005. Assets and public deposits accepted by reporting NBFCs, which declined during the year ended March 2004, increased marginally during the year ended March 2005 even as the number of reporting NBFCs declined sharply. The net owned funds of NBFCs increased in 2004 as well as 2005. Deposits of reporting NBFCs constituted 1.1 per cent of aggregate deposits of scheduled commercial banks at end-March 2005 as against 1.2 per cent at end-March 2004 and 1.5 per cent at end-March 2003.

3.59 Total assets/liabilities of NBFCs (excluding RNBCs), which had declined sharply by 13.1 per cent during 2003-04, increased marginally by 3.3 per cent during 2004-05. Borrowings represented the major source of funds for NBFCs, followed by owned funds (capital and reserves) and public deposits. All these sources of funds declined during 2003-04 as well as 2004-05 except borrowings, which increased marginally during 2004-05 after a sharp decline in 2003-04. The decline in assets continued during 2004-05, except hire-purchase assets, bill business and SLR investments that increased sharply.

3.60 Financial performance of NBFCs improved during 2003-04 and 2004-05 due mainly to containment of expenditure. While both fund-based and fee-based income of NBFCs declined in 2003-04, they improved marginally in 2004-05. The improvement in operating and net profits was due to declines in financial and operating expenditure and also in tax provisions.

3.61 Gross and net NPAs of reporting NBFCs registered a steady decline between end-March 2001 and end-March 2004. However for 2004-05, while the gross NPAs declined to 7.0 per cent of credit exposure at end-March 2005 from 8.2 per cent of credit exposure at end-March, 2004, net NPAs increased significantly to 3.4 per cent of credit exposure at end-March 2005 from 2.4 per cent of credit exposure at end-March 2004.