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Performance Of NBFC's And RNBC's In India

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Introduction:

Non-banking financial institutions (NBFIs) are an important constituent of India's financial system. NBFCs are registered companies, both government and non-government, which engage in credit intermediation and facilitate last-mile credit delivery to unbanked and under banked sectors. They are also at the forefront of the digital transformation of the lending space, leveraging technology to offer tailor-made credit offerings to customers.

The financial institutions which provide the various banking facilities but are not termed as banks because they do not hold the banking license are known as the non-banking financial company. It is a company registered under the companies act, 1956. Non-banking financial companies are governed by the directions issued by Reserve Bank of India. A company cannot commence or carry on business as a Non-banking financial company unless it is registered with Reserve Bank of India. Non-banking financial companies consist mainly of finance companies which carry on hire purchase finance, house finance, investment, loan, equipment leasing or mutual benefit financial companies but do not include insurance or stock exchanges or stock broking companies.

Given the inherently diverse and dynamic nature of these entities, applications were invited by the Reserve Bank for recognising self-regulatory organisations4 (SROs) for the NBFC sector in June 2024. This establishes principles for self-regulation, which complement the extant regulatory/statutory framework and incentivise enhanced professionalism, compliance, innovation and ethical conduct.

Definitions:

Non-Banking Financial Company (NBFC): According to the Reserve Bank (Amendment Act) 1997, "A Non-banking finance company means:

1. A financial institution which is a company;
2. A non-banking institution which is a company and which has as its principal business the receiving of deposits under any scheme or arrangement or in any other manner or lending in any manner;
3. Such other non-banking institution or class of such institutions, as the bank may with the previous approval of the central government specify.

The definition excludes those financial institutions which carry on agricultural operations as their principal business. It may be noted that a company carrying on any of the following activities as its principal business is not an NBFC:

1. Agricultural operations;
2. Industrial activity;
3. Purchase or sale of any goods (other than securities) or providing of any services or
4. Purchase, construction or sale of immovable property, so however, that no portion of the income of the institution is derived from the financing of purchase, construction or sale of immovable property by other person.[1]

Reserve Bank of India has clarified that for determining the principal business of a company for deciding whether it is a non-banking financial company or not, RBI will consider both, the assets and the income pattern as evidenced from the last audited balance sheet of the company. The company will be treated as NBFC, if its financial assets are more than fifty percent of its total assets (netted-off by intangible assets) and its income from financial assets is more than fifty percent of the gross income.

Residuary Non-Banking Company (RNBC): A Residuary non-banking company means a company which receives any deposit under any scheme or arrangement, by whatever name called -in one lump sum or in installments by way of contributions or subscriptions or by sale of units or certificates or other instruments or in other manner but it does not includes:

1. Equipment leasing company;
2. Hire-purchase finance company;
3. Housing finance company;
4. Investment company;
5. Loan company;
6. Miscellaneous non-banking company; and
7. Nidhi’s or mutual benefit finance company.

The business of Residuary Non-Banking Companies is acceptance of public deposits in the form of daily deposits, recurring deposits and fixed deposits. The deposit business is conducted by RNBCs through their branches and through a wide network of agents. The agents comprise mostly individuals working on the basis of commission.[2]

Hypothesis of the study:

1. The reporting of the registered NBFC’s and RNBC’s are increasing.
2. There is increasing trend in accepting deposits by reporting NBFC’s and RNBC’s.

Review of Literature:

Dubey. S (2007) analysed that NBFC's in India had a great revolution after 1991 liberalization which led to simple regulatory mechanisms and allowance to greedy investors to park their money with NBFC's. With more customers base and unwise investments start rising to have large profitability. This in turn leads to weak not compatible with strong players and fading of golden era for NBFC's.

Saeid Safania (2010) reviewed that the non-banking finance companies 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 class of borrowers. The quality of surveillance and supervision exercised by the bank over NBFCs is sustained by keeping pace with the developments that take place in this sector of the financial system and that the depositor's interest is safeguarded.

Data Collection: The secondary data has been collected from The Indian banker journal, The RBI bulletin, RBI Discussion papers and journals of finance.

Regulation of NBFC's:

NBFCs regulated by the Reserve Bank are a group of heterogeneous financial entities operating with diverse business strategies. The Reserve Bank's scale-based regulation (SBR) framework categorises NBFCs into top, upper, middle and base layers, based on their size, activity, and perceived riskiness. The SBR framework is progressive in that it is built on the principle of proportionality, with regulations commensurate with the size and interconnectedness of the NBFCs. Smaller and/or less complex NBFCs are relatively lightly regulated, while larger and more systemically important NBFCs are subjected to enhanced regulatory scrutiny.

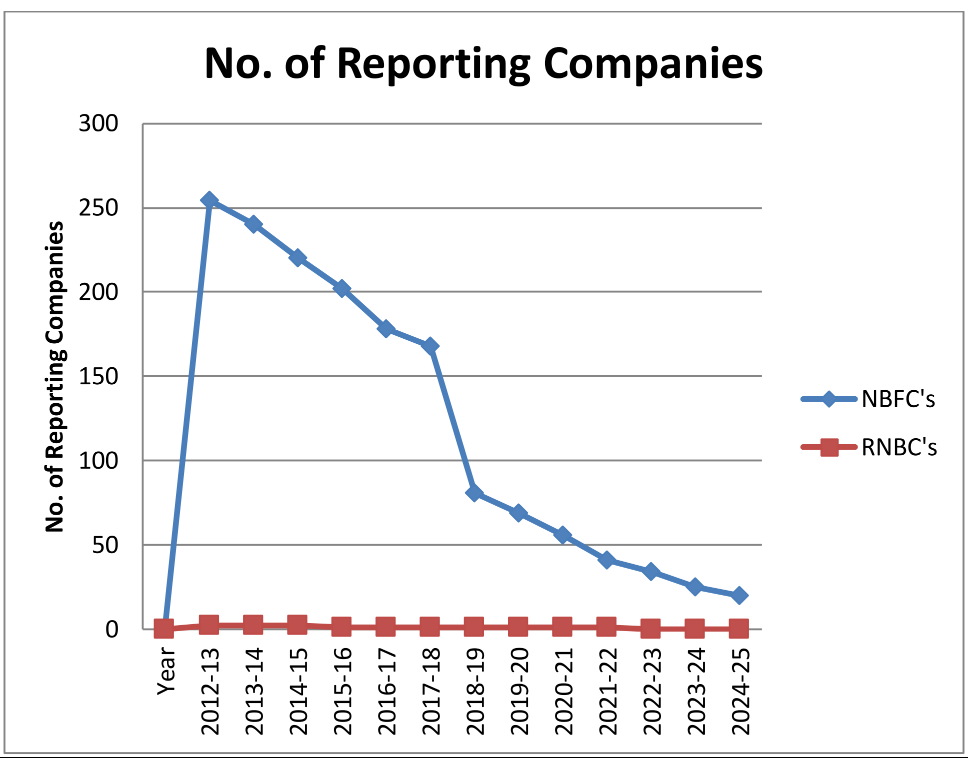
Due to the inherently diverse and dynamic nature of these entities, applications were invited by the Reserve Bank for recognising self-regulatory organisations (SROs) for the NBFC sector in June 2024. This establishes principles for self-regulation, which complement the extant regulatory/statutory framework and incentivise enhanced professionalism, compliance, innovation and ethical conduct. On Oct.3, 2025, RBI has decided to recognise Finance Industry Development Council (FIDC) as an SRO for NBFCs.[3]

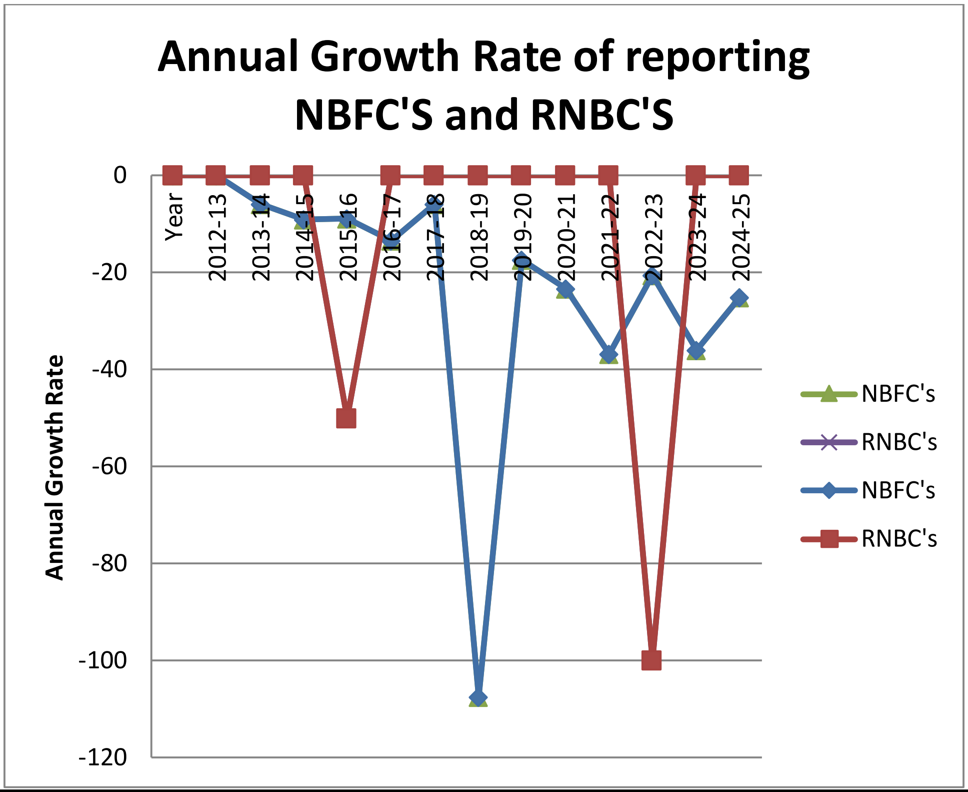
Analysis of the Study:

For the purpose of analysis of study, 13 years time period has been taken from 2012-13 to 2024-25. The statistical technique Annual Growth Rate (A.G.R.) and Trend analysis (Yc) has been used to analysis the data.[4]

Table No. 1

No. of Reporting NBFC's and RNBC's						
	NBFC's		RNBC's		Total	
Year	No. of Companies	A. G. R.	No. of Companies	A. G. R.	No. of Companies	A. G. R.
2012-13	254	0	2	0	256	0
2013-14	240	-5.83	2	0	242	-5.47
2014-15	220	-9.09	2	0	222	-9.01
2015-16	202	-8.91	1	-50	203	-9.36
2016-17	178	-13.48	1	0	179	-13.41
2017-18	168	-5.95	1	0	169	-5.92
2018-19	81	-107.41	1	0	82	-106.09
2019-20	69	-17.39	1	0	70	-17.14
2020-21	56	-23.21	1	0	57	-22.81
2021-22	41	-36.85	1	0	42	-35.71
2022-23	34	-20.59	0	-100	34	-23.53
2023-24	25	-36	0	0	25	-36
2024-25	20	-25	0	0	20	-25

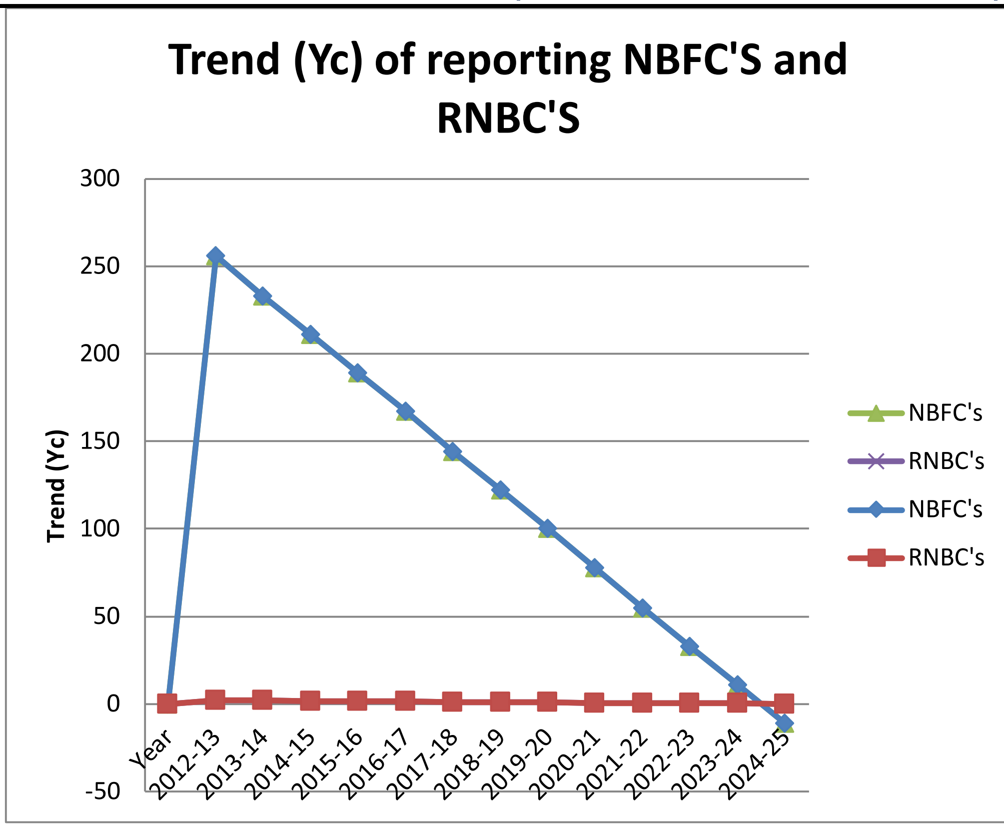




The table no. 1 shows, the no. of reporting companies and their annual growth rate. The no. of reporting NBFC's companies are decreasing every year from 2012-13 to 2024-25. The no. of reporting RNBC's are also decreasing every year during the research period and there was only 02 RNBC's, which were reporting in 2012-13, which is decreased to 01 company in 2015-16 and no RNBC's was reporting from 2022-23 onwards. The highest decrease in Annual Growth Rate (AGR) of reporting NBFC's was in the year 2018-19 i.e. -107.41 and the lowest decrease in AGR of reporting NBFC's is in the year 2013-14 i.e. -5.83.

Table No. 2

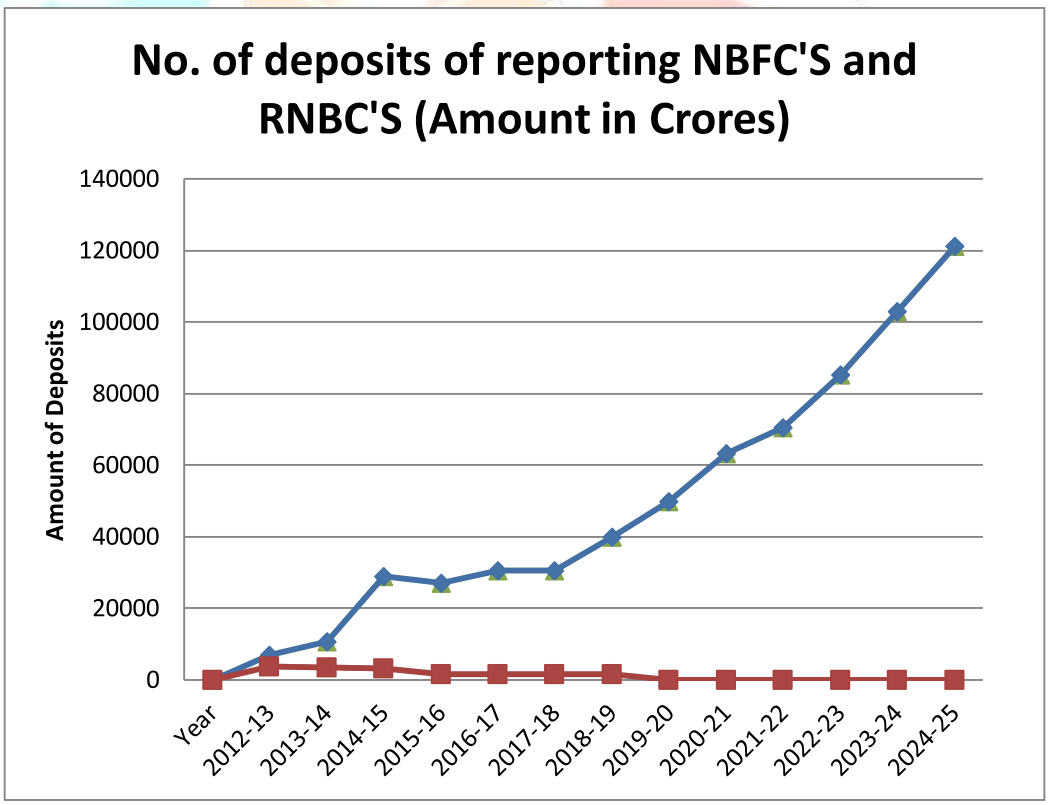
No. of Reporting NBFC's and RNBC's						
	NBFC's		RNBC's		Total	
Year	No. of Companies	Yc (Trend)	No. of Companies	Yc (Trend)	No. of Companies	Yc (Trend)
2012-13	254	256	2	1.99	256	258
2013-14	240	233	2	1.82	242	235
2014-15	220	211	2	1.66	222	213
2015-16	202	189	1	1.5	203	190
2016-17	178	167	1	1.33	179	168
2017-18	168	144	1	1.17	169	146
2018-19	81	122	1	1	82	123
2019-20	69	100	1	0.84	70	101
2020-21	56	78	1	0.67	57	78
2021-22	41	55	1	0.51	42	56
2022-23	34	33	0	0.34	34	34
2023-24	25	11	0	0.17	25	11
2024-25	20	-11	0	0.01	20	-11



The table no. 02 shows, the trend analysis (Yc) of the reporting NBFC’s and RNBC’s during the research period i.e. 2012-13 to 2024-25. Table shows a continuous decreasing trend of NBFC’s and RNBC’s every year during the research period. It means the reporting NBFC’s and RNBC’s are decreasing every year.

Table No. 3

No. of Deposits of NBFC's and RNBC's (Amount in Crore)						
	NBFC's		RNBC's		Total	
Year	Public Deposits	A. G. R.	Public Deposits	A. G. R.	Public Deposits	A. G. R.
2012-13	7085	0	3817	0	10902	0
2013-14	10808	34.45	3582	-6.56	14390	24.23
2014-15	28941	62.66	3183	-12.54	32124	55.21
2015-16	27069	-6.92	1558	-104.3	28627	-12.22
2016-17	30624	11.61	1552	-0.39	32176	11.03
2017-18	30439	-0.61	1550	-0.13	31989	-0.59
2018-19	40058	24.01	1547	-0.19	41605	23.11
2019-20	50022	19.92	22	-98.58	50044	16.86
2020-21	63199	20.85	5	-340	63204	20.82
2021-22	70564	10.44	0.01	-49900	70564	10.43
2022-23	85254	17.23	0	0	85254	17.23
2023-24	102994	17.22	0	0	102994	17.22
2024-25	121178	15.01	0	0	121178	15.01



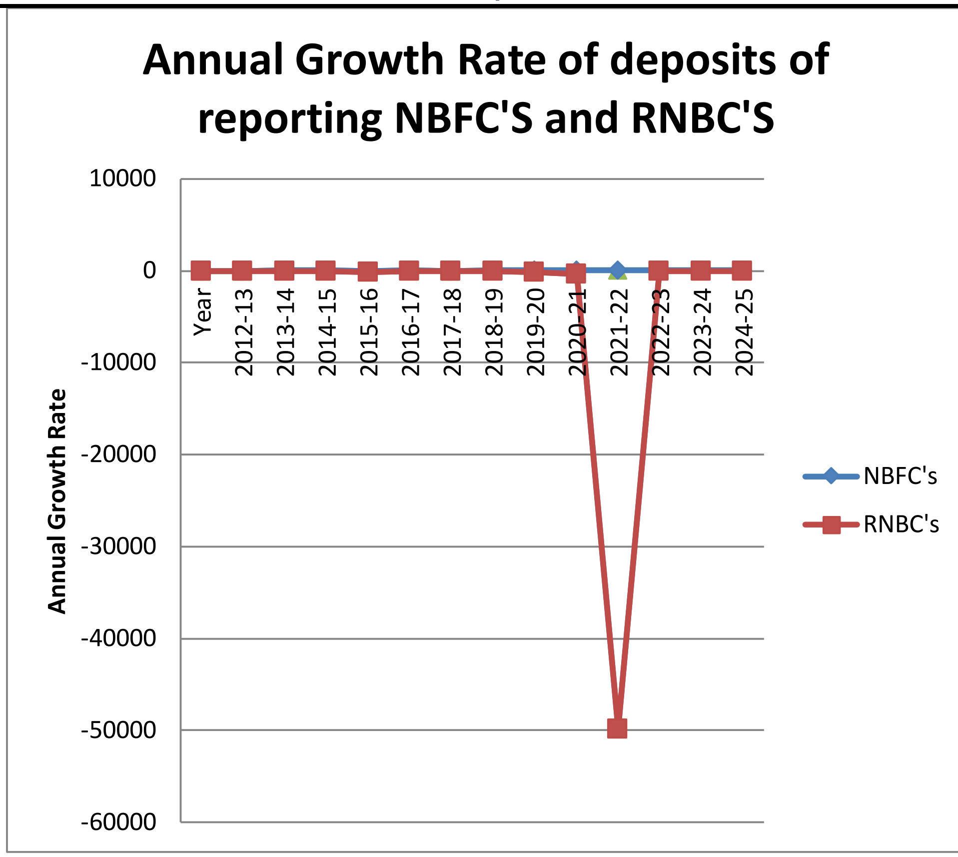


Table no. 3 shows the public deposits accepted by NBFC's and RNBC's during the research period i.e. 2012-13 to 2024-25. The public deposits of NBFC's are increasing every year except in the year 2015-16 and 2017-18. There is some decrease of public deposits as compare to its previous years in 2015-16 and 2017-18. The public deposits of RNBC's are decreasing every year during the research period and it has become 'Zero' in the year 2022-23 and afterwards. The AGR of public deposits of NBFC's are also increasing every year except in the year 2015-16 and 2017-18. In the year 2015-16, the AGR is decreased by -6.92 and in the year 2017-18, the AGR is decreased by -0.61. The highest increase in AGR of deposits accepted by NBFC's is in the year 2014-15 i.e. 62.66. The AGR of deposits accepted by the RNBC's is decreasing every year it becomes 'Zero' in the year 2022-23 and afterwards.

Table No. 4

No. of Deposits of NBFC's and RNBC's (Amount in Crore)						
	NBFC's		RNBC's		Total	
Year	Public Deposits	Yc (Trend)	Public Deposits	Yc (Trend)	Public Deposits	Yc (Trend)
2012-13	7085	-882	3817	3365	10902	2484
2013-14	10808	7832	3582	3020	14390	10852
2014-15	28941	16547	3183	2675	32124	19221
2015-16	27069	25261	1558	2329	28627	27590
2016-17	30624	33975	1552	1984	32176	35959
2017-18	30439	42689	1550	1639	31989	44328
2018-19	40058	51403	1547	1294	41605	52696

2019-20	50022	60117	22	948	50044	61065
2020-21	63199	68831	5	603	63204	69434
2021-22	70564	77545	0.01	258	70564	77803
2022-23	85254	86259	0	-88	85254	86171
2023-24	102994	94973	0	-433	102994	94540
2024-25	121178	103687	0	-778	121178	102909

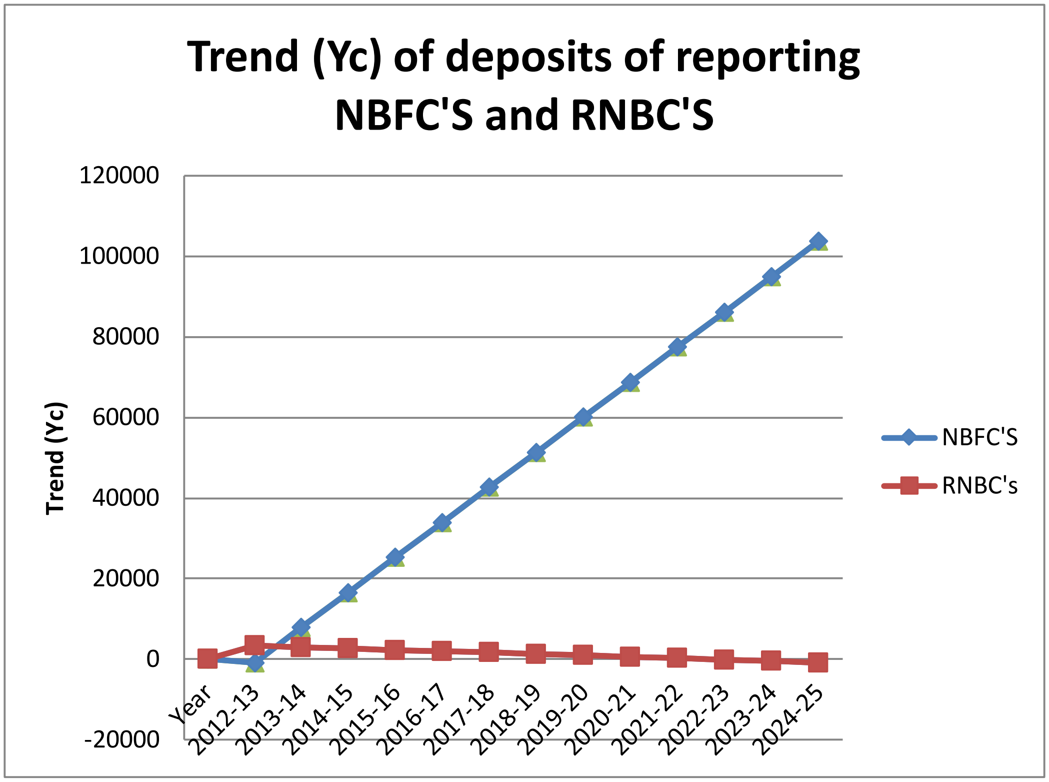


Table no. 4 is showing the trend (Yc) analysis of deposits accepted by reporting NBFC's and RNBC's during the research period i.e. 2012-13 to 2024-25. There is increasing trend of public deposits of NBFC's during the research period while there is decreasing trend of public deposits of RNBC's during the research period. The trend of deposits accepted by the RNBC's becomes 'Zero' in the year 2022-23 and afterwards.

Testing of Hypothesis:

After analysis of study, we would like to point wise test the hypothesis of study:

1. Our first hypothesis was "The reporting of the registered NBFC's and RNBC's are increasing". From analysis of table no. 1, it is clear that reporting of registered NBFC's and RNBC's are decreasing. Hence, our null hypothesis is rejected and alternative hypothesis is accepted.
2. Our second hypothesis was "There is increasing trend in accepting deposits by reporting NBFC's and RNBC's". From analysis of table no. 4, it is clear that accepting deposits trend of NBFC's are increasing, while accepting deposits trend of RNBC's are decreasing. Hence, our null hypothesis is rejected and alternative hypothesis is accepted.

Conclusion:

The total no. of reporting NBFC's and RNBC's are decreasing every year but the total no. of deposits accepted by the reporting NBFC's and RNBC's are increasing every year. This shows that there is negative co-relation between the total no. of reporting NBFC's and RNBC's and deposits accepted by the reporting NBFC's and RNBC's.

During 2023-24, the NBFC sector remained healthy, with sustained double digit balance sheet growth. The importance of NBFCs in domestic credit intermediation is rising. Innovative approaches like the first loss default guarantee (FLDG) framework and the co-lending model have the potential to help NBFCs in expanding their footprint. The HFCs also exhibited double-digit growth in credit, adjusted for the merger. Asset quality of NBFCs improved further across layers. The consolidated balance sheet of AIFIs grew at a marginally higher pace in 2023-24. All PDs exceeded their minimum bidding commitments in 2023-24 and individually achieved the minimum stipulated annual turnover ratio.

Suggestion:

Going forward, besides the challenges emanating from cyber security threats, NBFCs need to be mindful of the evolving concentration risk and climate-related financial risks associated with credit to certain sectors. The dependence of NBFCs on banks remain high, notwithstanding some moderation; NBFCs need to further diversify their sources of funds as a risk mitigation strategy. An imprudent 'growth at any cost' approach would be counter-productive, and a robust risk management framework should be implemented. Moreover, they need to strengthen their initiatives to address customer grievances, adhere to fair practices and avoid recourse to usurious interest rates so as to ensure their relevance in a fast-changing financial landscape.

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