BANGALORE UNIVERSITY

A Project Report On

"A STUDY ON NON BANKING FINANCIAL SERVICES"

Submitted in partial fulfillment for the award of the degree in

UNDER GRADUATE DEGREE

In

BACHELOR OF BUSINESS ADMINISTRATION

Submitted By:

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During this period he was found to be punctual and hardworking.
We wish him the best of luck in all his future endeavours.

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DECLARATION

I hereby declare that this project titled **"A STUDY ON NON BANKING FINANCIAL SERVICES"**has been prepared under the guidance and supervision of **Prof. Sabita Ranilal, New Shores International College, Bangalore** in partial fulfillment of the requirements for the award of the Under Graduate Degree in

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I also declare that this project is the result of my own effort and that it has not been submitted to any other university for the award of any other Under Graduate Degree.

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ACKNOWLEDGEMENT

It is my immense pleasure to acknowledge and thank every individual, who directly or indirectly contributed to this project titled **"A STUDY ON NON BANKING FINANCIAL SERVICES"**which was done during the final year of the BBA degree course.

I am highly indebted to our Principal **Prof. Shashidhar Chiron,** of our College for providing an opportunity to complete this Project.

I express my deep sense of gratitude and thank my guide **Prof. Sabita Ranilal** for her timely help and encouragement given to me.

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CHAPTER 1

INTRODUCTION

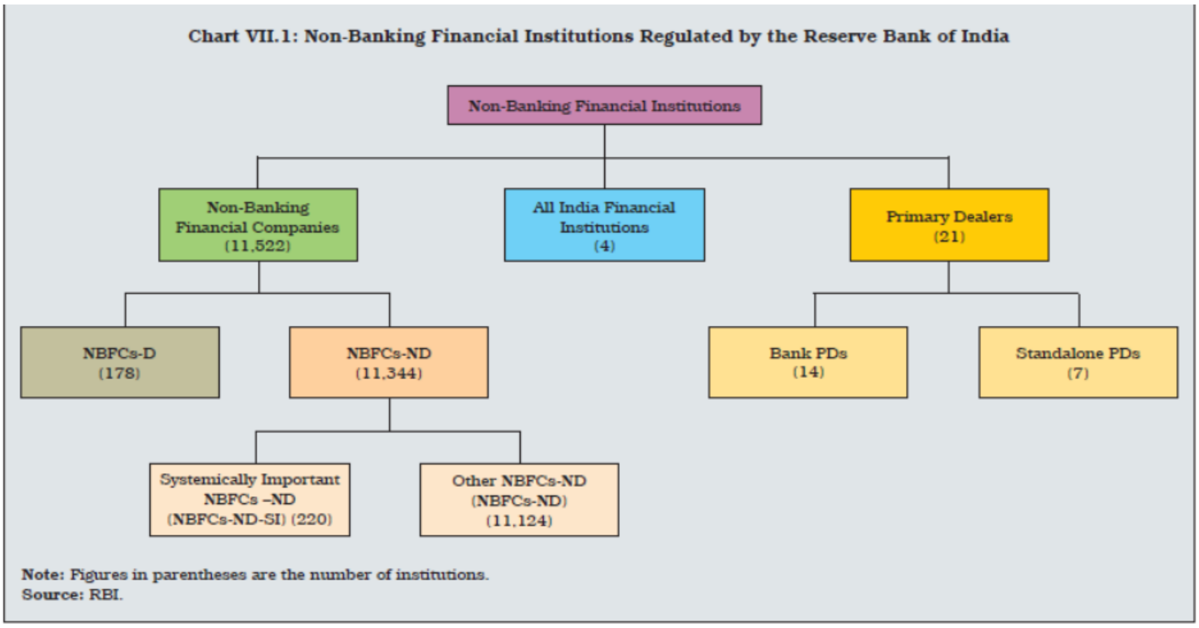
1.1 INTRODUCTION

Non-Banking Financial Services are provided by Non Banking Financial Institutions(NBFIs) which are an important alternative channel of finance for the commercial sector in India’s bank dominated financial sector. Their role in promoting financial inclusion and catering to the needs of small businesses and specialised segments is an additional dimension of their relevance in the Indian context. Regulations relating to governing non-banking financial companies (NBFCs) are being increasingly harmonised with those of banks to forge the right balance for financial stability while encouraging them to focus on specialised areas.

Non-Banking Financial Institutions (NBFIs) have been intermediating a growing share of the resource flows to the commercial sector. NBFIs regulated by the Reserve Bank are All-India financial institutions (AIFIs), non-banking financial companies (NBFCs) and primary dealers (PDs) (Chart VII.1). AIFIs, largely an outcome of development planning in India, were created as apex public entities for providing long-term financing / refinancing to specific sectors.

NBFCs on the other hand, are mostly private sector institutions that specialise in meeting the credit needs and a variety of financial services of niche areas which include financing of physical assets, commercial vehicles and infrastructure loans.

PDs, which came into existence in 1995, play an important role in both the primary and secondary markets for government securities. In terms of balance sheet size, AIFIs constitute 23 per cent of NBFIs’ total assets, while NBFCs represent 76 per cent and standalone PDs constitute 1 per cent.



1.2 NON-BANKING FINANCIAL COMPANY (NBFC)

Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956. It is engaged in the business of loans, securities, insurance, chit funds etc. They also provide products/services that includes margin funding, leasing and hire purchase, corporate loans, investment in non-convertible debentures, IPO funding, small ticket loans, venture capital etc.

1.3 IMPORTANCE OF NBFC'S

According to RBI Non-Banking Finance Companies (NBFCs) is a constituent of the institutional structure of the organized financial system in India. NBFCs perform a significant and important role in our financial system. They facilitate the process of channelizing of public savings and provide better return to the depositors. We are aware that due to liberalization and globalisation, banking industry and financial sector has gone through many reforms. In the present economic environment, it is very difficult to cater the need of society by Banks alone, so role of Non-Banking Finance Companies have become indispensable. The activities of non-banking financial companies(NBFCs) in India have undergone qualitative changes over the years through functional specialisation. The role of NBFCs as effective financial intermediaries has been well recognised as they have inherent ability to take quicker decisions, assume greater risks, and customise their services and charges more according to the needs of the clients. While these features, as compared to the banks, have contributed to the rapid increase of NBFCs, their flexible structures allow them to unbundle services provided by banks and market the components on a competitive basis. The distinction between banks and non-banks has been gradually getting blurred since both the segments of the financial system engage themselves in many similar types of activities. At present, NBFCs in India have become prominent in a wide range of activities like hire-purchase finance, equipment lease finance, loans, investments, etc. By employing innovative marketing strategies and devising tailor-made products, NBFCs have also been able to build up a clientele base among the depositors, mop up public savings and command large resources as reflected in the growth of their deposits from public, shareholders, directors and their companies, and borrowings by issue of non-convertible debentures, etc Double-digit growth in credit extended by NBFCs has improved resilience and stability of the economy by filling up the financing gap opened by the muted bank credit growth from 2014.

1.4 ROLE OF NBFC'S

(1) Promoters Utilization of savings:

Non-banking financial companies pay an important role in promoting the utilization of savings among public. NBFC's can reach certain deposit segments such as unorganized sector and small borrowers were commercial bank cannot reach. These companies encourage savings and promote careful spending of money without much wastage. They offer attractive schemes to suit needs of various sections of the society. They also attract idle money by offering attractive rates of interest. Idle money means the money which the public keep aside, but which is not used. It is surplus money

(2) Provides easy timely and unusual credit:

NBFC's provide easy and timely credit to those who need it. The formalities and procedures in case of NBFCs are also very less NBFCs also provides unusual credit means the credit which is not usually provided by banks such as credit for marriage expenses, religious functions, etc the NBFC's are open to all everyone whether rich or poor can use them according to their needs.

(3) Financial super market:

NBFCs play an important role of a financial supermarket. NBFCs create a financial supermarket for customers by offering a variety of services. Now NBFCs are providing a variety of services such as mutual funds, counselling, merchant banking etc apart from their traditional services. Most of the NBFCs reduce their risks by expanding their range of products and activities

(4) Investing funds in productive purposes:

NBFCs invest the small savings in productive purposes. Productive purposes mean they invest the savings of people in businesses which can earn good amount of returns. For example – In case of leasing companies lease equipment to industrialists, the industrialists can carry on their production with less capital and the leasing company can also earn good amount of profit

(5) Provide housing finance:

NBFCs, mainly the Housing Finance companies provide housing finance on easy term and conditions. They play an important role in fulfilling the basic human need of housing finance. Housing finance is generally needed by middle class and lower middle-class people. Hence, NBFCs are blessing for them.

(6) Provide investment advice:

NBFCs mainly investment companies provide advice relating to wise investment of funds as well as how to spread the risk by investing in different securities they protect the small investors by investing their funds in different securities. They provide valuable services to investors by choosing the right kind of securities which will help them in gaining maximum rate of returns. Hence NBFCs plays an important role by providing sound and wise investment advice

(7) Increase the standard of living:

NBFCs play an important role in increasing the standard of living in India. People with lesser means are not able to take the benefit of various goods which were once considered as luxury but now necessity, such as consumer durables like television, refrigerators, air conditioners, Kitchen equipment’s, etc. NBFCs increase the standard of living by providing consumer good on easy instalment basis NBFCs also facilitate the improvement in transport facilities through hire purchase finance etc improved and increased transport facilities help in movement of goods from one place to another ad availability of goods increase the standard of living of the society

(8) Accept deposits in various forms:

NBFC's accept deposits forms convenient in public. Generally, they receive deposits from public by way of depositor a loaner in any form. In turn the NBFC's issue debentures unit's certificates savings certificates units etc to the public

(9) Promote economic growth:

NBFC's play a very important role in the economic growth of the country. They increase the rate of growth of the financial market and provide a wide variety of investors. They work on the principals of providing a good rate of return on saving while reducing the risk to maximum possible extent. Hence, they help in the survival of business in the economy by keeping the capital market active and busy. the also encourage the growth of well organised business enterprises by investing their funds in efficient and financially sound business enterprises only.

One major benefit of NBFC's speculative business means investing in risky activities.

The investing companies are interested in price stability and hence NBFC's have a good influence on the stock market. NBFC's play a very positive and active role in the development of our country.

1.5 FUNCTIONS OF NON-BANKING FINANCIAL COMPANIES:

(1) Receiving benefits:

The primary function of NBFC's is receive deposits from the public in various ways such as issue of debentures, savings certificates, subscription, unit certification, etc. thus, the deposits of NBFCs are made up of money received from public by way of deposits or loan or investment or any other form.

(2) Lending money

Another important function of NBFCs is lending money to public. Non-banking financial companies provide financial assistance through:

(a) Hire purchase finance:

Hire purchase finance is given by NBFC's to help small important operators professionals and middle-income group people to buy the equipment on the basis on hire purchase. After the last instalment of Hire purchase paid by the buyer, the ownership of the equipment passes to the buyer.

(b) Leasing finance:

In leasing finance, the borrower of the capital equipment is allowed to use it as hire against the payment of a monthly rent. The borrower need not purchase the capital equipment, but he buys the right to use it.

(c) **Housing finance:**

NBFC's provide housing finance to the public, they fiancé for construction of houses, development of plots, land, etc.

Other types of finance provided by NBFCs include:

Consumption finance, finance for religious ceremonies, marriages social activities, paying of old debts, etc. NBFCs provide easy and timely finance ad generally those customers which are not able to get finance by banks approach these companies.

Investment of surplus money:

NBFC's invest their surplus money in various profitable areas

1.6 ON GLOBAL CRISIS

According to Credit analysis and research (CARE): NBFC sector faced significant stresses on asset quality, liquidity and funding costs due to the global economic slowdown & its impact on the domestic economy. While all the NBFCs were affected, the impact varied according to the structural features of each NBFC. Asset-liability maturity (ALM) profiles, type of assets financed, and origination / collection models followed were the primary differentiators within NBFCs on a structural basis, the sector is now more robust due to the lessons learned by NBFCs from this crisis. Profitability is expected to be lower than historical levels due to conservative ALM management, higher provisioning and avoidance of high yielding unsecured loan segments. However, profits are at the same time expected to be much more stable & less susceptible.

1.7 HISTORY OF NBFCS IN INDIA

The Reserve Bank of India Act, 1934 amended on 1 December 1964 by Reserve Bank Amendment Act, 1963. In this new 'Chapter III-B' introduced to Regulate 'Deposit Accepting' NBFCs.

The different types of Committees to Review existing framework of NBFCs are

James S. Raj Committee

In early 1970s Government of India asked Banking Commission to Study the Functioning of Chit Funds and Examining activities of Non-Banking Financial Intermediaries. In 1972, Banking Commission recommended Uniform Chit Fund Legislation to whole country.

Reserve Bank of India prepared Model Bill to regulate the conduct of chit funds and referred to study group under the Chairmanship of James S. Raj.

In June 1974, study group recommended ban on Prize Chit and other Schemes. Directed the Parliament to enact a bill which ensures uniformity in the provisions applicable to chit funds throughout the country.

Parliament enacted two acts. Prize Chits and Money Circulation Schemes (Banning) Act, 1978 and Chit Funds Act, 1982.

Chakravarty Committee

During Planning Era, Reserve Bank of India tried best to 'Manage Money' and evolve 'Sound Monetary' system but no much appreciable success in realising social objectives of monetary policy of the country.

In December 1982, Dr Manmohan Singh, Governor of RBI appointed committee under the Chairmanship of 'Prof Sukhamoy Chakravarty' to review functioning of monetary system in India.

Committee recommended assessment of links among the Banking Sector, the Non-Banking Financial Institutions and the Un-organised sector to evaluate various instruments of Monetary and Credit policy in terms of their impact on the Credit System and the Economy.

Dr. A.C. Shah Committee (1992)

The working group of financial companies constituted in April 1992 i.e. the shah committee set out the agenda for reforms in the NBFC sector. This committee made wide ranging recommendations covering inter-alia entry point norms for NBFCs on the lines of banks, stipulation of credit rating for acceptance of public deposits and more statutory powers to reserve bank for better regulation of NBFCs.

1.8 GENERAL NORMS: RBI

Maintenance of Liquid Assets

Minimum level of liquid asset to be maintained by NBFCs is 15 % of public deposits outstanding as on the last working day of the second preceding quarter of the 15%, NBFCs are required to invest not less than 10% in approved securities and the remaining 5% can be in unencumbered term deposits with any scheduled commercial bank. Thus, the liquid assets may consist of government securities, government guaranteed bonds and term deposits with any scheduled commercial bank.

Creation and Maintenance of Reserve fund

All NBFCs are required to create a reserve fund and transfer not less than 20% of their net profit (before declaration of dividend) to the fund

Submission of Certificate

All NBFCs should submit a certificate from their Statutory Auditors every year to the effect that they continue to undertake the business of NBFI requiring holding of CoR (Company Application Reference Number) under Section 45-IA of the RBI Act, 1934.

Information Exchange

All NBFCs are required to furnish the information in respect of any change in the composition of its board of directors, address of the company and its directors and the name/s and official designations of its principal officers and the name and office address of its auditors.

1.9 HOW INDIAN FINANCIAL SECTOR IS PROMOTING THE GROWTH OF NBFCS

Traditionally, the financial sector in India was dependent and solely dominated by the private financial institutions. There used to be a time when banks and other financial institutions hesitated in lending to small businesses, considering it as a risky proportion. But now the times have changed, the nation's current financial scenario is being balanced out equally between both the private and public sector financial institutions. This has paved the way for meeting the credit needs of the unorganized sector and filling up the long-left financial gap between the formal and medium enterprises on the one hand and the unorganized ones on the other. The small business finance market that was continually getting rejected from the banks have now turned out to be a great opportunity for the Non-banking finance companies (NBFCs) with localized presence and domain knowledge. Since their association with the small firm's financial sector, the NBFCs have evolved substantially in terms of operation, a variety of products, instruments, technological sophistication, etc.

An Era of Progressive Shift

Undoubtedly, the NBFCs have scripted a great success story that will reap some of the most fruitful benefits in the near future. Taking a cue from the recent statistics, it's evident that in terms of financial assets, NBFCs have registered a robust growth, i.e., a compound annual growth rate (CAGR) of 19% over the past few years. Their contribution to the Indian economy has risen all the way from 8.4% in 2006 to more than 14% in March 2015. The NBFCs stand supported by several factors such as superior product lines, low cost, broader and effective reach, robust risk management capabilities to check and control bad debts, and proper comprehension of their customer segments. While catering to the needs of the informal sector, the NBFCs primarily rely on their ability to assess the clients' income, develop templates accordingly to gain a better insight of the margins and cash flows of local businesses, and have a strong in-house process of credit and security verification. The number of originators in the small sector and the value of assets managed by them are very less than the demand. If talking on an overall average market scale, presently they are collectively managing less than INR 4000 Crore.

Proven Performance

While the banking industry struggled to get rid of the rising pile of bad loans, their counterparts, better known as the Non-banking financial companies, improved their performance on most of the metrics in the fiscal year 2015. It is mentioned in the financial stability report (FSR) of June 2016 the NBFC loans expanded 16.6% annually which was twice as fast as the 8.8% credit growth across the banking sector on an aggregate level.

The aggregate balance sheet of the NBFC sector expanded 15.5% in fiscal 2016 compared with 15.7% in the year 2015. The non-food credit data compiled by Reserve Bank of India clearly indicates that NBFCs have started moving at twice the pace of the banks. In August 2016, the regulated NBFCs got the union cabinet's permit to enjoy the benefits of Foreign Direct Investment (FDI) but only from the automatic routes. According to a 2016 report by consulting firm PwC India, it is stated that by 2020, the credit lending ability of Indian NBFCs is estimated to account for anywhere between 18.2% and 20.9% of the total credit off-take in the country.

Dynamics of Growth

Indeed, it is evident that the development of NBFCs segment within the overall financial system of India is picking up as a challenge for the other sectors - i.e., banks to innovate, to improve quality and competence. At times, in several un-treaded trajectories, NBFCs were the first to explore the market and develop before the banks entered the scene.

Their unique team of underwriting and credit delivery has gained much appreciation and credits for scaling up the finance provision for the small businesses while maintaining strong portfolio quality. The loans provisions provided by NBFCs further facilitate the small marketers with their occupational needs such as equipment purchase, business expansion, and technology up gradation and working capital requirements.

There are some from the many numbers of originators in the small sector that have developed their niche of operations to meet specific gaps of working capital needs of corporate, equipment financing, ongoing business requirements for smaller businesses, etc. On the other hand, rests of them are focused on developing their networks in specific geographies. These new lending institutions have developed innovative processes to expand target clientele – referral systems integrated with the supply chain, systematic cluster-based approaches, direct marketing, and strategic relationships with other institutions which work with the same target clientele.

NBFCs may see 35% earnings growth

MUMBAI: Non-Banking Finance companies are expected to report as much as 35 per cent growth in earnings as retail loans by small and medium enterprises continued at a brisk pace even as state-run lenders continued to hold on to their purse strings due to bad loans.

Housing finance companies will maintain momentum with the growth coming from the affordable segment.

Good monsoon, lower income reversal and lower credit cost due to stable asset quality will help vehicle financing report strong traction particularly tractor and commercial

Consumer finance companies will maintain growth momentum due to pick up in sales in festive season. Micro finance institutions are expected to report softer earnings due to increased provisioning

HDFC's disbursement growth is likely to be strong benefitting from various government initiatives on affordable housing.

Gold finance companies including Manappuram BSE 1.73 % and Muthoot Finance BSE 0.92 % are expected to see growth momentum continuing while the challenge on asset quality front will exist. Small finance banks are expected to see marginal growth in assets under management coming from pick up in SME, LAP and home loans and conscious effort to lower exposure in MFI portfolio

1.10 CLASSIFICATION OF NBFCS ACCORDING TO RBI

NBFCs are classified on the basis of their liability structures, the type of activities they undertake and their systemic importance. NBFCs were categorized as Type I and Type II companies in June 2016. The applications for Type I NBFCs, which do not have / intend to accept public funds and do not have / intend to have customer interface, are considered on a fast- track basis.

In terms of liability structure, NBFCs are classified into two categories

(i) NBFC accepting deposits from customers
(ii) NBFC which does not take deposits from customers

• NBFCs taking deposits from public are referred to as NBFC-D and those who don't take public deposits are referred to as NBFC- ND

• Those NBFCs NBFCs-ND with an asset size of Rs.100 crore and above (as per the last audited balance sheet) are designated as systemically important NBFCs- ND (NBFCs-ND-SI)

Regulations on NBFCs taking Deposits

1. All NBFCs are not entitled to accept public deposits. Only those NBFCs holding a valid certificate of registration with authorization to accept public deposits can accept/hold public deposits
2. New NBFCs are not allowed to raise public deposits for period of two years from the date of registration. After completion of two years, detailed review is taken of the company by the regulator
3. The NBFCs can accept/renew public deposits for a minimum period of 12 months and maximum period of 60months. They cannot accept deposits repayable on demand
4. NBFCs cannot offer interest rates higher than the ceiling rate prescribed by RBI from time to time. The present ceiling is 12.5per cent per annum. The interest may be paid or compounded at rests not shorter than monthly rests.
5. NBFCs cannot accept deposits from NRI except deposits by debit to NRO account of NRI provided such amount do not represent inward remittance or transfer from NRE/FCNR account.
6. NBFCs with net owned fund (NOF) of less than Rs.25 lakhs (with or without credit rating) are not entitled to accept public deposits
7. Evaluation of the quality of management in respect of the promoters/directors is taken into consideration while giving allowance for taking public deposits

1.11 ONGOING REGULATIONS: NBFCS-D(HOLDING PUBLIC DEPOSITS)

The NBFCs accepting public deposits should furnish to RBI:

• Audited balance sheet of each financial year and an audited profit and loss account in respect of that year as passed in the general meeting together with a copy of the report of the Board of Directors and a copy of the report and the notes on accounts furnished by its Auditors

• Statutory Annual Return on deposits - NBS 1

• Certificate from the Auditors that the company is in a position to repay the deposits as and when the claims arise

• Quarterly Return on liquid assets

• Half-yearly Return on prudential norms

• Half-yearly ALM (Asset Liability Management) Returns by companies having public deposits of Rs 20 crore and above or with assets of Rs 100 crore and above irrespective of the size of deposits

• Monthly return on exposure to capital market by companies having public deposits of Rs 50 crore and above

• A copy of the Credit Rating obtained once a year along with one of the Half-yearly returns on prudential norms

Other Regulations: NBFCs-ND (Not Holding Public Deposits)

• The NBFCs-ND having assets size of Rs 100 crore are required to submit a Monthly Return on important financial parameters of the company

• Board resolution to be passed to the effect that the company have neither accepted public deposit nor would accept any public deposit during the year

Classification of NBFCs Based on Activity

NBFCs are also categorized on the basis of the activities undertaken by them with a view to meeting sector-specific requirements, entailing appropriate modulation of the regulatory regime. With addition of new categories over time, there were 12 types of NBFCs as of date under this categorization as shown in Table VII.1

Table VII.1: Classification of NBFCs Based on Activity

Type of NBFC	Ac tiv ity
1. Asset Finance Company (AFC)	Financing of physical assets supporting productive / economi activities, including automobiles, tractors and generators.
2. Loan Company	Providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an asset finan company.
3. Investment Company	Acquiring securities for purpose of selling.
4. NBFC- Infrastructure Finance Company (NBFC-IFC)	Providing infrastructure loans.
5. NBFC-Systemically Important Core Investment Company (CIC-ND-SI)	Acquiring shares and securities for investment mainly in equi market.
6. Infrastructure Debt Fund-NBFC (IDF-NBFC)	For facilitating flow of long-term debt into infrastructure proje
7. NBFC-Micro Finance Institution (NBFC-MFI)	Extending credit to economically disadvantaged groups.
8. NBFC-Factor	Undertaking the business of acquiring receivables of an assignor extending loans against the security interest of the receivables at a disc
9. NBFC- Non-Operative Financial Holding Company (NOFHC)	For permitting promoters / promoter groups to set up a new b
10. Mortgage Guarantee Company (MGC)	Undertaking mortgage guarantee business.
11. NBFC-Account Aggregator (NBFC-AA)	Collecting and providing information about a customer's financ assets in a consolidated, organised and retrievable manner to the custom others as specified by the customer.
12. NBFC-Peer to Peer Lending Platform (NBFC-P2P)	Providing an online platform to bring lenders and borrowers tog help mobilise funds.

Source: RBI.

1.13 SOME OF THE MAJOR ACTIVITIES ARE AS FOLLOWS

Asset Finance Company (AFC)

An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic, such as automobiles, tractors, lathe machines, cranes, generator sets, earth moving and material handling equipment's, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

Loan Company (LC)

LC means any company which a financial institution is carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

Investment Company (IC)

IC means is any company which a financial institution is carrying on as its principal business the acquisition of securities

Infrastructure Finance Company (IFC)

Infrastructure finance companies deploys a minimum of three-fourths of their total assets in infrastructure loans. The net owned funds are more than 300 crores and a minimum crediting rating of 'A' and the Capital to Risk-Weighted Assets Ratio is 15%.

Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC)

IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through Multiple-Currency bonds of minimum 5-year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

NBFC-Factors

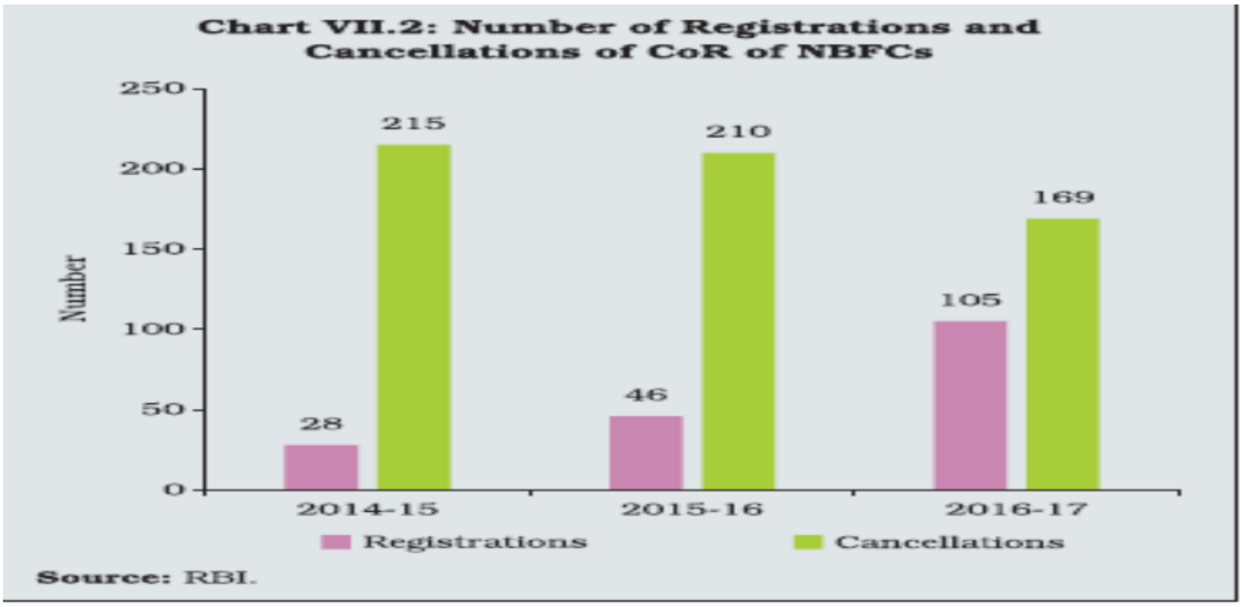
NBFC Factors has principle business of factoring. Factoring is a financial transaction and a type of debtor finance

Gold Loan NBFCs in India

Over the years, gold loan NBFCs witnessed an upsurge in Indian financial market, owing mainly to the recent period of appreciation in gold price and consequent increase in the demand for gold loan by all sections of society, especially the poor and middle class to make ends meet. Though there are many NBFCs offering gold loans in India, about 95 per cent of the gold loan business is handled by three Kerala based companies, viz., Muthoot Finance, Manappuram Finance and Muthoot Fincorp. Growth of gold loan NBFCs eventuating from several factors including Asset Under Management (AUM), number of branches, and also the number of customers etc. Growth of gold loan NBFCs occurred both in terms of the size of their balance sheet and their physical presence that compelled to increase their dependence on public funds including bank finance and non-convertible debentures. Aggressive structuring of gold loans resulting from the uncomplicated, undemanding and fast process of documentation along with the higher Loan to Value (LTV) ratio include some of the major factors that augment the growth of Gold loan NBFCs.

1.14 CANCELLATIONS OF NBFCS

The number of NBFCs has been declining over time with cancellations of registrations exceeding new registrations because of voluntary surrender or cancellation of CoR due to non- compliance of revised criteria of net owned fund



1.15 COMMERCIAL BANK VERSUS (V/S) NON-BANKING FINANCIAL COMPANIES

While commercial banks and Non – Banking financial companies are both financial intermediaries (middleman) receiving deposits from the public and lending them. Commercial bank is called as “Big brother” while the “NBFC” is called as the “Small brother. But there are some important differences between both are as follows;

No	**Commercial Banks**	**Non-Banking Financial Companies**
1	**Issue of cheques:** In case of commercial banks, **a cheque can be issued** against bank deposits	In case of NBFC's there is **no facility to issue cheques** against bank deposits
2	**Rate of interest:** Commercial bank offers **lesser rate of interest** on deposits and charge less rate of interest on loans as compared to NBFCs	NBFCs offer **higher rate of interest** on deposits and charge **higher** rate of **interest on loans** as compared to commercial banks.
3	**Facilities provided by them:** Commercial banks can enjoy the benefit of certain facilities like deposit insurance cover facilities, refinancing facilities, etc.	NBFC's are not given such facilities
4	**Law which governs them:** Commercial banks are regulated by Banking regulation act 1949 and RBI	NBFCs are regulated by different regulation such as SEBI, Companies Act, National housing bank, Unit Fund act and RBI
5	**Types of assets:** Commercial banks hold a **variety of assets** in the form of loans, cash credit, bill of exchange, overdraft etc.	NBFCs specialize in **one type of asset**. For e.g.: Hire purchase companies specialize in consumer loans while Housing Finance Companies specialize in housing finance only

Payments Banks

Payments banks (PBs) were set up in India on the recommendations of the Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households (Chairman: Shri Nachiket Mor, 2014) with the aim of expanding financial inclusion by providing

(i) Small savings accounts

(ii) Payments/ remittance services using the digital medium to migrant labour, small businesses, low income households and other entities in the unorganized sector.

(iii) PBs are allowed to accept demand deposits up to one lakh per customer; they are prohibited from issuing credit cards or accepting deposits from non-resident Indians or undertaking lending activities. These banks are covered by deposit insurance from the Deposit Insurance and Credit Guarantee Corporation (DICGC).

The Reserve Bank began issuing PB licenses in 2015-16. So far, seven licenses have been issued out of which two banks – Airtel Payments Bank and India Post Payments Bank - had commenced operations before March 31, 2017 and two others Paytm and Fino had started operations by the quarter ending-June

Brief Profile of Payments Banks

Stage	Airtel PB	India Post PB	Paytm PB	Fino PB	Aditya Birla Idea PB	NSDL PB	Jio PB
1	2	3	4	5	6	7	8
Date of issuing license	11-04-2016	20-01-2017	03-01-2017	30-03-2017	03-04-2017	30-03-2017	27-01-2017
Date of start of operations	23-11-2016	30-01-2017	23-05-2017	30-06-2017	Yet to start operations		

Source: RBI.

1.16 ALL INDIA FINANCIAL INSTITUTIONS

There are three broad categories of non- bank financial institutions: First, term-lending institutions such as the Export Import Bank of India (EXIM Bank) that engage in direct lending by way of term loans and investments. Second, institutions such as the National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB), which mainly extend refinance to banks and NBFIs. Third, investment institutions such as the Life Insurance Corporation of India (LIC), which deploy their funds largely in marketable securities. State/regional level institutions are another distinct group and comprise State Financial Corporations (SFCs), State Industrial and Development Corporations (SIDCs) and North- Eastern Development Finance Corporation Ltd. (NEDFI).

Four AIFIs *viz.*, the EXIM Bank, the NABARD, the NHB and the SIDBI, are under the oversight of the Reserve Bank (Table VII.19).

Table VII.19: Ownership Pattern of AIFIs

(End-March 2017)

Institution	Owner	Ownership share
1	2	3
EXIM Bank	Government of India	100.0
NABARD	Government of India	99.6
	Reserve Bank of India	0.4
NHB	Reserve Bank of India	100.0
SIDBI *	Public Sector Banks	61.6
	Insurance Companies	18.5
	Financial Institutions	4.5
	Others	15.4

*: State Bank of India (16.7 per cent), IDBI Bank Ltd. (16.3 per cent) and Government of India

(15.4 per cent) are SIDBI's three major shareholders.

Financial assistance sanctioned by AIFIs during 2016-17 increased by 15.7 per cent whereas their disbursement growth was moderate at 7.7 per cent amidst sluggish demand conditions. Notably, disbursements by the SIDBI contracted during the year indicating moderation in industrial activity while those by the EXIM Bank declined due to deleveraging in view of bad assets and provisioning requirements. The increase in disbursements by the NABARD and the NHB reflects resilience in the agriculture and housing sectors (Table VII.20) (Appendix Table VII.2).

Table VII.20: Financial Assistance Sanctioned and Disbursed by AIFIs

(₹ billion)

Category	2015-16		2016-17 P	
	S	D	S	D
1	2	3	4	5
SIDBI	561	559	406	395
NABARD	1,695	1,582	2,401	1,977
NHB	357	219	379	234
EXIM Bank	753	552	709	531
Total	**3,366**	**2,912**	**3,895**	**3,137**

P: Provisional; S: Sanction; D: Disbursement
Source: Respective financial institutions.

[3] The financial year for EXIM Bank, SIDBI and NABARD runs from April to March and for NHB it runs from July to June.

AIFIs' consolidated balance sheet expanded during 2016-17 on the back of loans and advances, which constituted the largest share of assets (Table VII.21). Investments contracted in contrast, with the NHB showing a significant decline due to redemption of treasury bills (T-bills) in June 2017. Notably, AIFIs' cash and bank balances at the close of 2016-17 were 30 per cent lower than a year ago as they did not renew their fixed deposits with banks that matured towards the end of the year and instead used them for normal business activities. Growth in deposit mobilization was moderate leading to a decline in their share in total liabilities over the year. On the other hand, resources raised through borrowings expanded sizably during the year.

Table VII.21: AIFIs' Balance sheet

(Amount in ₹ billion)

Items	2015-16	2016-17	Percentage variation
1	2	3	4
Liabilities			
1. Capital	136 (2.4)	155 (2.6)	14.0
2. Reserves	435 (7.8)	490 (8.1)	12.6
3. Bonds and debentures	1,386 (24.7)	1,472 (24.4)	6.2
4. Deposits	2,387 (42.5)	2,467 (40.9)	3.4
5. Borrowings	741 (13.2)	898 (14.9)	21.2
6. Other liabilities	528 (9.4)	552 (9.1)	4.5
Total liabilities/assets	**5,613**	**6,034**	**7.5**
Assets			
1. Cash and bank balances	273 (4.9)	193 (3.2)	-29.3
2. Investments	422 (7.5)	408 (6.8)	-3.3
3. Loans and advances	4,762 (84.8)	5,283 (87.6)	10.9
4. Other assets	157 (2.8)	150 (2.5)	-4.5

Note: Figures in parentheses are percentages to total liabilities / assets.
Source: Audited OSMOS returns.

The resources mobilized by the AIFIs picked up during 2016-17 resulting in the utilization of about 83 per cent of their 'umbrella limit' for raising resources from the money market as compared to 71 per cent a year ago. Mobilization through CPs increased significantly, reflecting competitive interest rates on these instruments (Table VII.22).

Table VII 22: Resources raised by AIFIs from the Money Market (End-march)

(Amount in ₹ billion)

Instrument	2015-16	2016-17
1	2	3
A. Total	**475**	**613**
(i) Term deposits	12	24
(ii) Term money	15	22
(iii) Inter-corporate deposits	0	0
(iv) Certificate of deposits	139	125
(v) Commercial paper	308	442
Memo:		
B. Umbrella limit	**672**	**742**
C. Utilisation of umbrella limit (A as percentage of B)	**70.7**	**82.6**

#: End-June for NHB.

Note: AIFIs are allowed to mobilise resources within the overall 'umbrella limit', which is linked to the net owned funds (NOF) of the financial institution concerned as per its latest audited balance sheet. The umbrella limit is applicable for five instruments – term deposits, term money borrowings, certificates of deposits (CDs), commercial papers (CPs) and inter-corporate deposits.

Source: Respective financial institutions.

1.17 SOURCES AND USES OF FUNDS

During the year, internal sources of funds increased with scaling up of operations as well as higher capital and reserves. External sources, which include resources raised from the market and capital infusion from the government, increased marginally (Table VII.23). The deployment of resources during 2016-17 indicates a preference for investments followed by fresh deployment and repayment of past borrowings. The share of interest payments in the deployment of funds has declined in 2016-1

Table VII.23: Pattern of AIFIs' Sources and Deployment of Funds

(Amount in ` billion)

Items	2015-16	2016-17
1	2	3
A. Sources of funds		
(i) Internal	7,584	11,331
	(60.7)	(67.2)
(ii) External	3,146	4,374
	(25.2)	(26.0)
(iii) Others*	1,754	1,148
	(14.0)	(6.8)
Total	**12,484**	**16,853**
	(100)	**(100)**
B. Deployment of funds		
(i) Fresh deployment	2,706	3,175
	(21.7)	(18.8)
(ii) Repayment of past borrowings	2,125	2,217
	(17.0)	(13.2)
(iii) Other deployment	7,653	11,460
	(61.3)	(68.0)
Of which, Interest payments	253	296
	(2.0)	(1.8)
Total	**12,484**	**16,853**
	(100)	**(100)**

*: Includes cash and balances with banks and the Reserve Bank of India.
Note: Figures in parentheses are percentages to total.
Source: Respective financial institutions.

1.18 MATURITY AND COST OF BORROWINGS AND LENDING

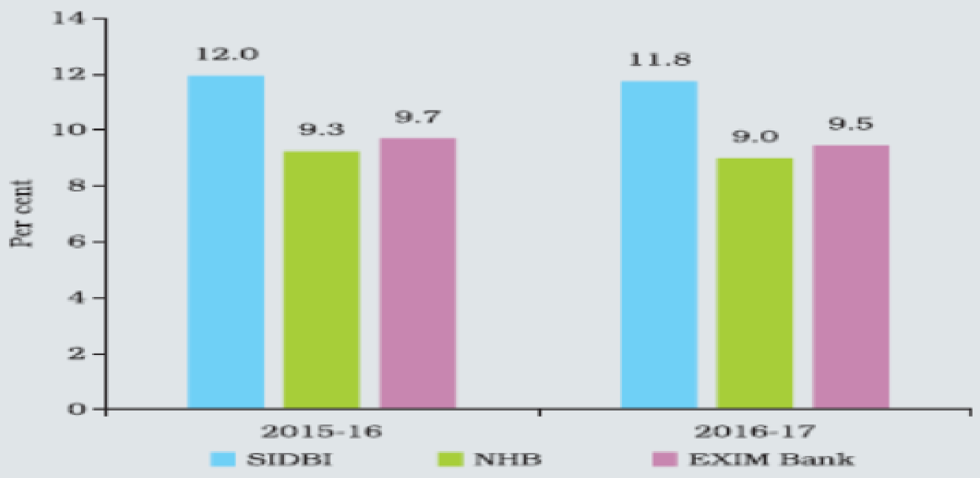
The weighted average cost (WAC) of rupee resources raised by AIFIs declined in 2016-17 for all AIFIs with faster transmission of monetary policy accommodation. The weighted average maturity (WAM) of rupee resources increased for the NHB and the EXIM Bank while it declined for the SIDBI and the NABARD. The EXIM Bank had the highest WAC of rupee resources while the NHB had the longest WAM (Table VII.24).

Institution	Weighted average cost (Per cent)		Weighted average maturity (Years)	
	2015-16	2016-17	2015-16	2016-17
1	2	3	4	5
1. SIDBI	7.55	6.54	1.13	0.51
2. NABARD	8.41	7.89	2.27	1.78
3. NHB	6.32	6.17	4.10	4.62
4. EXIM Bank	8.69	8.12	3.33	3.55

Source: Respective financial institutions.

The long-term prime lending rate (PLR) of all AIFIs declined in 2016-17 reflecting a reduction in the cost of funds for the borrowers. The SIDBI and the NHB had the highest and the lowest PLRs, respectively (Chart VII.15).

Chart VII.15: Long-term PLR Structure of Select AIFIs



Note: EXIM Bank is using long-term minimum lending rate based on the base rate.
Source: Respective financial institutions.

AIFIs posted a modest growth in income during the year, partly reflecting the impact of declining interest rates, lower bank balances and subdued activity under bill discounting / rediscounting. Non-interest income showed strong growth (Table VII.25).

Table VII.25: Financial Performance of Select AIFIs

(Amount in ₹ billion)

Item	2015-16	2016-17	Variation	
			Amount	Per cent
1	2	3	4	5
A. Income	395	424	29	7.3
(a) Interest income	386 (97.6)	409 (96.5)	23	6.0
(b) Non-interest income	9 (2.4)	15 (3.5)	6	66.7
B. Expenditure	301	326	25	8.3
(a) Interest expenditure	279 (92.6)	298 (91.3)	19	6.8
(b) Operating expenses	22 (7.3)	28 (8.7)	6	27.3
Of which, Wage bill	15	21	6	40.0
C. Provisions for taxation	22	26	4	18.2
D. Profit				
Operating profit	70	73	3	4.3
Net profit	48	47	-1	-2.1

Note: Figures in parentheses are percentages to total income/expenditure.
Source: Audited OSMOS returns.

Although the operating profit ratio improved, relatively higher growth in the wage bill moderated net profits (Table VII.26).

Table VII.26: AIFIs' Financial Ratios

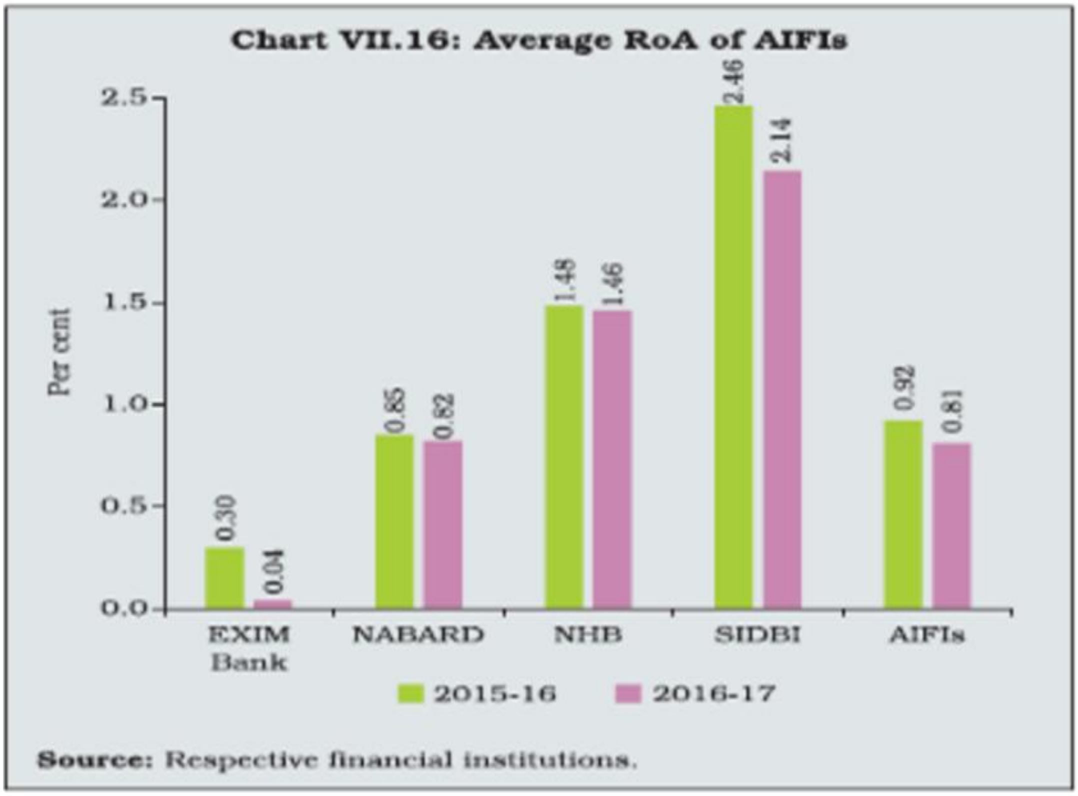
(Per cent)

Financial Ratios*	2015-16	2016-17
1	2	3
1. Operating profit	1.3	1.7
2. Net profit	0.9	0.8
3. Income	7.5	7.4
4. Interest income	7.3	7.1
5. Other income	0.1	0.3
6. Expenditure	5.7	5.7
7. Interest expenditure	5.3	5.2
8. Other operating expenses	0.4	0.5
9. Wage bill	0.3	0.4
10. Provisions	0.5	0.4

*:- As percentage of total average assets.
Source: Respective financial institutions.

Net profit per employee declined across AIFIs in 2016-17 except for NABARD where it remained unchanged. The SIDBI registered the highest net profit per employee while the EXIM Bank reported the lowest.

Barring the NHB, the ratio of operating profits to average working funds of AIFIs declined, indicating loss of efficiency in the use of working capital. As a result, AIFIs reported lower RoA during 2016-17; it was the highest for SIDBI and the lowest for EXIM Bank (Chart VII.16).



The total amount of AIFIs' net NPAs increased during 2016-17 on account of the EXIM Bank's reduction in the provisioning coverage ratio (PCR) even as the other AIFIs' net NPAs declined during the year. The share of AIFIs' standard assets declined in 2016-17 again on account of the EXIM Bank (Table VII.29).

Table VII.29: AIFIs' Assets Classification

(Per cent)

Category	2015-16	2016-17
1	2	3
Standard	98.9	98.0
Sub-standard	0.4	0.8
Doubtful	0.7	1.2
Loss	0.0	0.0
Total	**100.0**	**100.0**

Note: Data relate to end-March for EXIM Bank, NABARD and SIDBI and end-June for NHB.
Source: Respective financial institutions.

AIFIs reported a marginal improvement in CRAR at the aggregate level even as they exceeded the stipulated minimum of 9 per cent. Institution- wise, CRARs of EXIM Bank and NABARD improved over the year while they declined marginally for the others.

1.19 PRIMARY DEALERS

As on March 31, 2017, there were 21 primary dealers (PDs) – 14 runs by banks and 7 standalone PDs registered as NBFCs under Section 45 IA of the RBI Act, 1934.

PDs have mandatory obligations to participate in underwriting and auctions of government dated securities. They are also mandated to achieve a minimum success ratio (bids accepted to the bidding commitment) of 40 per cent in primary auctions of T-bills and Cash Management Bills (CMBs), assessed on a half- yearly basis.

During 2016-17, the government auctioned dated securities of `5,820 billion, marginally lower than `5,850 billion during the previous year.

PDs' share of subscriptions in the primary issuance of dated securities declined during 2016-17. Partial devolvement took place on four instances for `53 billion during 2016-17 as against seven instances for `110 billion in 2015-16. The underwriting commission paid to PDs during 2016-17 was lower at `356.6 million as compared to `470.9 million in the previous year. Reflecting the lower devolvement during the year, the average rate of underwriting commission in 2016-17 declined on a year-on-year basis (Chart VII.18).

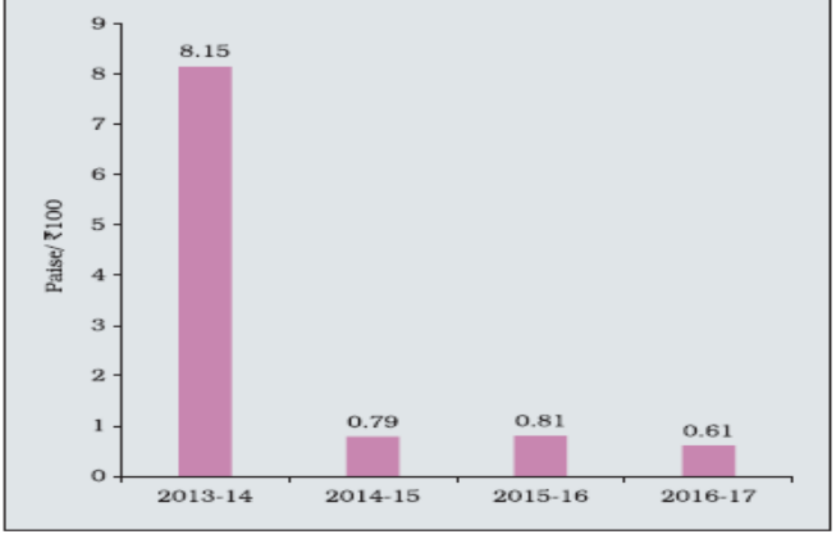


Chart VII.18: Average Rate of Underwriting Commission of PDs

With respect to auctions of T-bills and CMBs, all PDs achieved the stipulated minimum success ratio. PDs placed higher bids (in relation to their bidding commitments) in 2016-17; their share in subscription of T-Bills / CMBs issued during the year, however, declined marginally to 74 per cent from 75 per cent in the previous year (Table VII.30).

Table VII.30: Performance of PDs in the Primary Market

(Amount in ₹ billion)

Items	2013-14	2014-15	2015-16	2016-17
1	2	3	4	5
Treasury bills and CMBs				
(a) Bidding commitment	8,299	8,671	8,833	8,340
(b) Actual bids submitted	17,994	19,512	25,020	32,365
(c) Bid to cover ratio	2.6	2.7	3.5	3.9
(d) Bids accepted	4,990	5,657	5,460	4,946
(e) Success ratio (d) / (a) (in Per cent)	60.1	65.2	61.8	59.3
Central government dated securities				
(a) Notified amount	5,570	5,920	5,850	5,820
(b) Actual bids submitted	8,861	10,830	12,151	12,573
(c) Bid to cover ratio	1.6	1.8	2.1	2.2
(d) Bids of PDs accepted	2,576	3,012	3,148	2,763
(e) Share of PDs (d) / (a) (Per cent)	46.3	50.9	53.8	47.5

Source: Returns filed by PDs.

In the secondary market, all the 21 PDs individually achieved the required minimum annual total turnover (outright and repo transactions) ratio of 5 times in G-secs and 10 times in T-bills during 2016-17 and also the minimum annual outright turnover ratio of 3 times in G-secs and 6 times in T-bills.

1.20 ACCOUNT AGGREGATOR

The Reserve Bank of India had issued the Non-Banking Financial Company – Account Aggregator (Reserve Bank) Directions, 2016 ("the Directions") on September 2, 2016.

Who may be an account aggregator?

A non-banking financial company ("NBFC") may undertake the "business of an account aggregator." (Section 3(1)(i))

What is account aggregation/ "the business of an account aggregator"?

(a) Retrieving/collecting a customer's financial information

(b) presenting this to the customer in a collated/consolidated format. (Section 3(1)(iv))

Who can carry out the business of an account aggregator?

The Directions stipulate, "No entity other than a company shall undertake the business of an account aggregator. Further, no company shall commence or carry on the business of an account aggregator without obtaining a certificate of registration from the Bank" (Sections 4(1)(a) & 4(1)(b))

Who are the institutions involved in the entire account aggregation process?

(Sections 3(1)(i), 3(1)(ii) &3(1)(ix))

1 **Financial Information Providers**: Including but not limited to mutual fund units, money exchanges and insurance agents

2 **Banks**: Financial institutions that let individuals deposit and borrow money

3 **Account Aggregators**: Non-banking financial institutions tasked with aggregating a user's data between the Financial Information Providers and the Banks

What rules govern the data flow between the three parties?

Although this has not been explicitly stated in the Directions, we infer from Sections 6.3, 6.5, 7.4 that the three main principles which guide data interaction are:

a strictly-defined process to access the data needed,

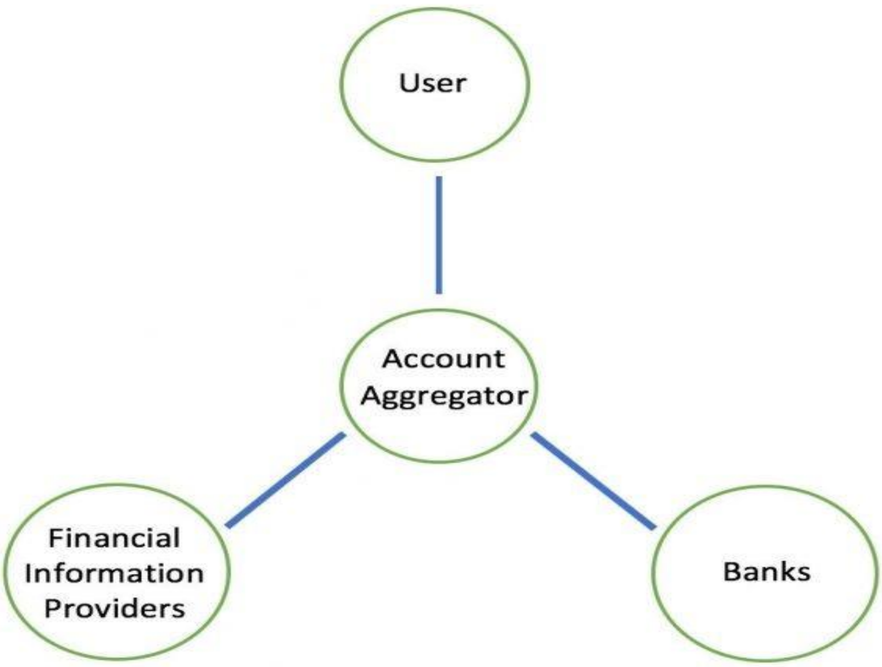
a strictly-defined time period for when the data needs to be accessed, and

a strictly-defined purpose for use of the data during that time period

Does the account aggregator own the user's financial information?

No. The Directions explicitly state that the user's financial information is not "the property of the account aggregators." (Section 3(1)(iv))

As seen in the illustration below, the account aggregator sits right in between a user and the financial information providers & banks. The data shown by the account aggregator to the user is a mere reflection of the data accessible by the financial information providers & banks, authorized by the explicit consent of the user. (Section 5(a))



How is user consent given and stored?

The user gives their consent to the account aggregator when either the financial information provider or the bank wishes to access a data set. The data received from the user and the financial information providers & banks shall be stored by the aggregator in a 'consent artefact'. (Section 6.3)

Account aggregators shall ensure user privacy by enabling users to authorize the use of their financial data by building in a consent layer between the interactions users may have with financial information providers and banks. (Sections 6.5 and 6.6)

What is a consent artefact and what shall it include?

A consent artefact is a standardized digital document. A consent artefact essentially records the user's explicit consent to the NBFC-AA for account aggregation.

This consent artefact shall include the Identity of the user, the nature of the financial information requested, purpose of collecting financial information, identity of the recipients of the financial information, consent creation date, consent expiry date and a digital signature of the account aggregator. (Section 6.3)

What are the precautions that are needed to be taken before implementation?

<u>Verification</u>

It is very essential that a thorough verification of cross-registered records be conducted before they are fed into account aggregators.

As per the Directions, there have been companies undertaking the role of account aggregators before the official release of the Directions. Also, financial information providers and banks have a wealth of user information including personal details, financial records and holdings.

Aggregations have a high tendency to be inefficient when presented with duplicity of records. Moreover, especially since the data being dealt is highly secure in nature, all caution must be exercised before we look to integrate the data flows.

<u>Recent Developments</u>

This section discusses developments in the NBFI sector during April-September 2017.4 in view of the limited availability of data for this period, the discussion is focused on select variables.

NBFCs Sector

NBFCs' consolidated balance sheet in the first half of 2017-18 expanded on the back of strong credit growth financed through higher borrowings (Table VII.35).

Table VII.35: Abridged Balance Sheet of NBFCs

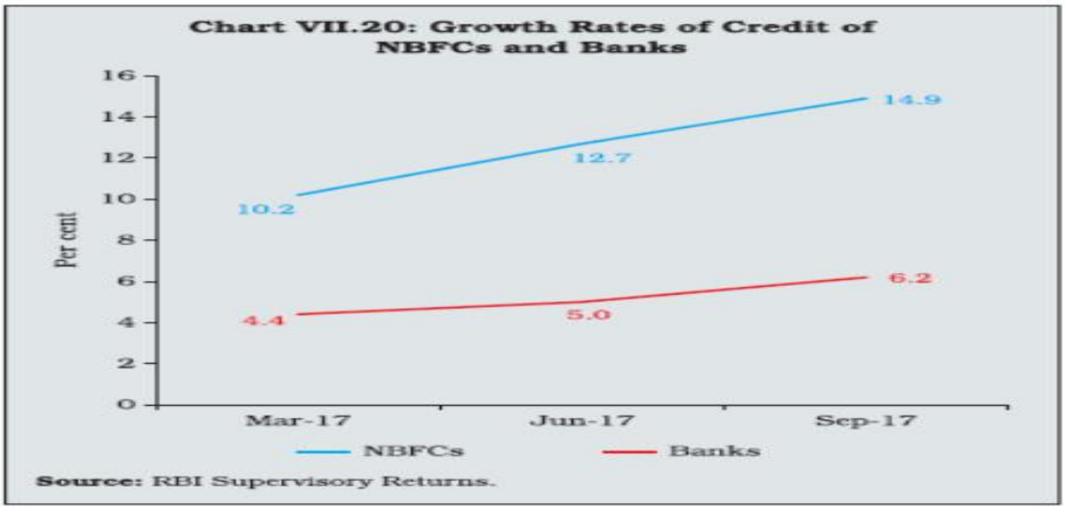
(Amount in ₹ billion)

Items	End-Sept. 2017	Y-o-Y variation (up to Sept.)		Financial year variation (Apr-Sept.)	
		2016-17	2017-18	2016-17	2017-18
1	2	3	4	5	6
1. Borrowings	14,739	5.1	4.9	12.8	4.9
2. Loans and advances	15,821	7.6	14.9	13.5	7.3
3. Total assets/ liabilities	20,631	7.8	6.5	13.9	4.6

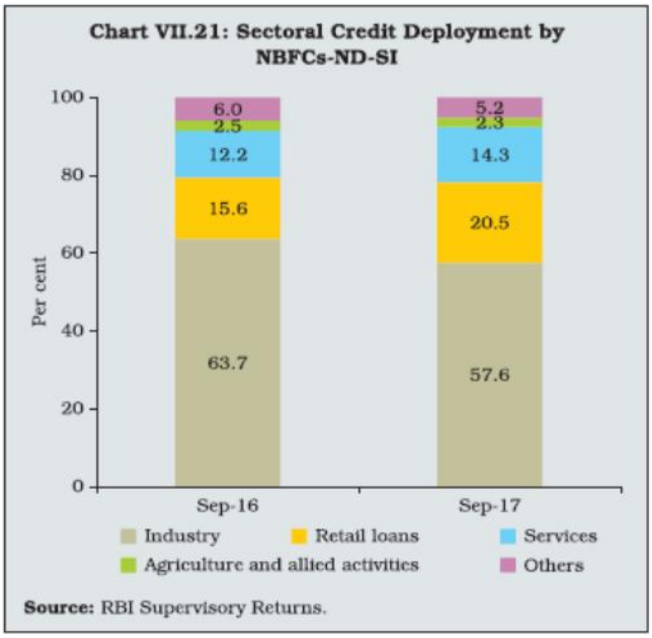
Source: RBI Supervisory Returns.

NBFCs' credit growth during April- September 2017 was about seven percentage points higher than in the previous year on the back of retail and services sectors (Chart VII.20).

Report on Trend and Progress of Banking in India 2016-17



Disaggregation of credit extended by the NBFCs-ND-SI segment indicates a sharp growth in credit provided by LCs, followed by AFCs and ICs. LCs have relatively large exposure to commercial real estate, which saw a sharp increase in credit, signifying the revival of economic activity. NBFCs-IFC credit growth, on the other hand, remained subdued during the first half of 2017-18 amidst asset quality concerns in the sector. The share of retail and services sectors improved during the first half of 2017-18 (Chart VII.21).



NPAs of NBFCs-ND-SI, which recorded some deterioration in the quarter ending-June 2017, improved at end-September 2017 partly reflecting higher write-offs (Chart VII.22).

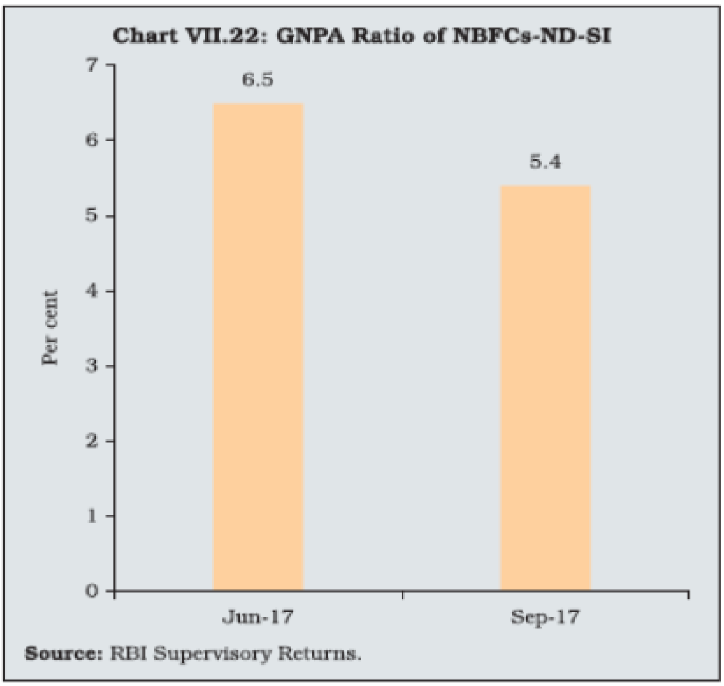


Chart VII.22: GNPA Ratio of NBFCs-ND-SI
Per cent
7
6
5
4
3
2
1
0
6.5
5.4
Jun-17
Sep-17
Source: RBI Supervisory Returns.

CHAPTER 2

RESEARCH DESIGN

2.1 RESEARCH DESIGN

What is Research Methodology?

The process used to collect information and data for the purpose of making business decisions. The methodology may include publication research, interviews, surveys and other research techniques, and could include both present and historical information.

The following questions are about the research study:

1. Objectives of the study

    - To study the growth prospects of NBFIs in India.
    - To study the problems being faced by the NBFIs
    - To suggest measures for the speedy growth of NBFI in India.

2. Scope of the study
    - The study was limited to the Financial Service market of India which included NBFC 's mainly.
    - To study the growth prospects of NBFIs in the country in general and of the select units in particular.
    - To study the problems being faced by the NBFI's in general and of the select units in particular.
3. What type of data is required?
   Research, information collected from the questionnaires and other secondary information sources like books and websites.

4. How will the data be analysed?
   Data will be analysed on the principles on Non-Banking Financial Institutions.

2.2 REVIEW OF LITERATURE

Review of literature forms basis for most of the social research areas. In this chapter, valuable and most related previous literature is taken for review. The understanding of any subject depends upon a good knowledge of related literature. Sound knowledge of the concerned literature helps out to find out the scope of the subject and establishes how the present study is different from previous studies. The knowledge of the researcher on the topic depends upon the good review of the previous studies concerned. A large number of published thesis and studies of various research scholars notably to banks and Non-Banking Finance Companies were studied. It is understood that the various research scholars have made sufficient contributions relating to Banking companies and separately such as commercial banks, scheduled banks and cooperative banks. They have analysed the performance of individual banking companies or compared the two or more banking companies with one another or how far the banking companies (Commercial, scheduled and cooperative) have helped the depositors and loan borrowers. All the studies have registered the significant role and importance banks in field of finance. As regards to NBFCs various expert committees, appointed by RBI or Central Government have submitted their reports in the interest of the public. The following are the some of the important reports and studies made by expert committees, financial experts and research scholars:

The Shah Committee observes that it has been revealed by some research studies that economic development and growth of NBFCs are positively correlated. NBFCs need a supportive environment to grow and play a useful role in the economy. This can be provided if, government regulations are purposeful and ritualistic, supportive and regulatory, pragmatic and not habit driven. At present the current state of research in evaluation of profitability of NBFCs is not satisfactory, whatever study is available in this connection is limited only to the growth pattern and functional operation, analysis of individual NBFCs in the state.

S.M.Sundaram, in his study titled, "Performance of Non-Banking Financial Companies - A Study with reference to Karaikudi based companies", has analysed their growth, profitability and Financial Performance. He suggested that the RBI must exercise full control over the NBFCs like that of its control over commercial banks.

S.G. Bubujee, in his study entitled, "A study on the growth of Public Deposits in Non-Banking and Non-Financial Companies in Madurai District" assessed the growth of public deposits and reasons for the growing prominence of public deposits in companies selected for the study.

M.S. Ananthi, in her study titled, "Placing Deposits in Companies - A study with special reference to Depositors in Karaikudi Town" has analysed the legal provisions relating to public deposits, the procedures for placing ' The Hindu, Survey of Indian

Industry, 1996. 37 deposits in Non-banking and non-financial companies, the problems faced by the depositors in Karaikudi town and offered concrete suggestions to tackle the problems.

Shailendra Bhushan Sharma and Lokesh Goel (2012) write on “Functioning and Reforms in Non-Banking Financial Companies in India”.

Non-Banking Financial Companies do offer all sorts of banking services, such as loans and credit facilities, retirement planning, money markets, underwriting and merger activities. These companies play an important role in providing credit to the un-organized sector and to the small borrowers at the local level. Hire purchase finance is by far the largest activity of NBFCs. The rapid growth of NBFCs has led to a gradual blurring of dividing lines between banks and NBFCs, with the exception of the exclusive privilege that commercial banks exercise in the issuance of cheques. This paper provides an exhaustive account of the functioning of and re-cent reforms pertaining to NBFCs in India.

Subina Syaland Menka Goswami (2012) writes on “Financial Evaluation of Non-Banking Financial Institutions: An Insight “in ‘Indian Journal of Applied Research’.

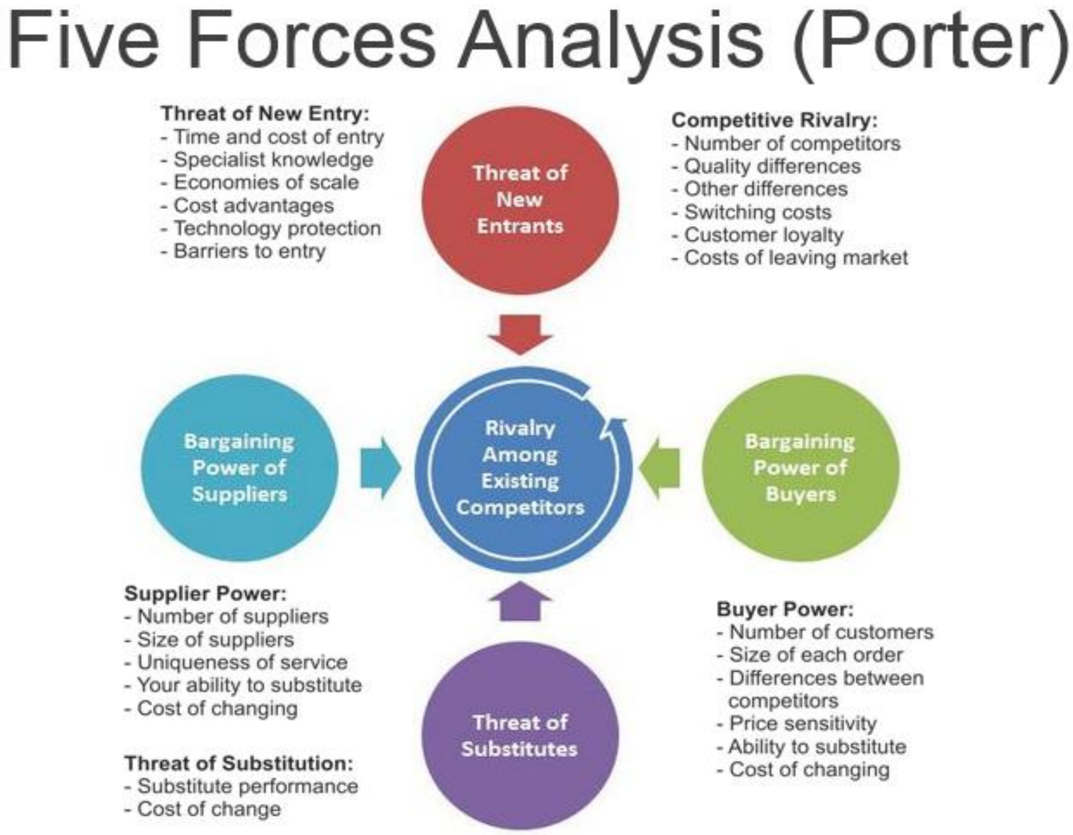
The Indian financial system consists of the various financial institutions, financial instruments and the financial markets that facilitate and ensure effective channelization of payment and credit of funds from the potential investors of the economy. Non-banking financial institutions in India are one of the major stakeholders of financial system and cater to the diversified needs by providing specialized financial services like investment advisory, leasing, asset management, etc. Non-banking financial sector in India has been a considerable growth in the recent years..

Sangamesh And Maria Navis Sori 17(2013) B “A Fundamental Analysis of NBFCs in India “in ‘Outreach’. The study was made to analyse the performance of five NBFCs in India. The annual reports of these companies are evaluated so as to ascertain investments, loans disbursed, growth, return, risk, etc. To sum up, the study is concluded that the NBFCs are earning good margins on all the loans and their financial efficiency is good.

Taxmann’s (2013) published “Statutory Guide for Non-Banking Financial Companies” is published by Taxman's Publications, New Delhi. The book listed the laws relating to Non-Banking Financial Companies. The rules and laws governing the kinds of businesses undertaken by different types of NBFCs are also discussed.

2.3 PORTER FIVE FORCES ANALYSIS

Porter's Five Forces Framework is a tool for analyzing competition of a business. It draws from industrial organization (IO) economics to derive five forces that determine the competitive intensity and, therefore, the attractiveness (or lack of it) of an industry in terms of its profitability. An "unattractive" industry is one in which the effect of these five forces reduces overall profitability. The most unattractive industry would be one approaching "pure competition", in which available profits for all firms are driven to normal profit levels. The five-forces perspective is associated with its originator, Michael E. Porter of Harvard University. This framework was first published in Harvard Business Review in 1979.



Porter refers to these forces as the microenvironment, to contrast it with the more general term macroenvironment. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally requires a business unit to re-assess the marketplace given the overall change in industry information. The overall industry attractiveness does not imply that every firm in the industry will return the same profitability. Firms can apply their core competencies, business model or network to achieve a profit above the industry average. A clear example of this is the airline industry. As an industry, profitability is low because the industry's underlying structure of high fixed costs and low variable costs afford enormous latitude in the price of airline travel. Airlines tend to compete on cost, and that drives down the profitability of individual carriers as well as the industry itself because it simplifies the decision by a customer to buy or not buy a ticket. A few carriers--Richard Branson's Virgin Atlantic is one--have tried, with limited success, to use sources of differentiation to increase profitability.

Porter's five forces include

- threat of new entrants
- the threat of substitute products or services-
- the bargaining power of suppliers
- the bargaining power of customers.
- the threat of Industry rivalry

Porter developed his five forces framework in reaction to the then-popular SWOT analysis, which he found both lacking in rigor and ad hoc. Porter's five-forces framework is based on the structure–conduct–performance paradigm in industrial organizational economics. It has been applied to try to address a diverse range of problems, from helping businesses become more profitable to helping governments stabilize industries. Other Porter strategy tools include the value chain and generic competitive strategies.

2.4 THREAT OF NEW ENTRANTS

Profitable industries that yield high returns will attract new firms. New entrants eventually will decrease profitability for other firms in the industry. Unless the entry of new firms can be made more difficult by incumbents, abnormal profitability will fall towards zero (perfect competition), which is the minimum level of profitability required to keep an industry in business.

The following factors can have an effect on how much of a threat new entrant may pose:

(A) The existence of barriers to entry (patents, rights, etc.). The most attractive segment is one in which entry barriers are high and exit barriers are low. It's worth noting, however, that high barriers to entry almost always make exit more difficult.
(B) Government policy
(C) Capital requirements
(D) Absolute cost
(E) Cost disadvantages independent of size
(F) Economies of scale
(G) Product differentiation
(H) Brand equity
(I) Switching costs
(J) Expected retaliation
(K) Access to distribution channels
(L) Customer loyalty to established brands

2.5 THREAT OF SUBSTITUTES

A substitute product uses a different technology to try to solve the same economic need. Examples of substitutes are meat, poultry, and fish; landlines and cellular telephones; airlines, automobiles, trains, and ships; beer and wine; and so on. For example, sprite is a substitute for Coke, but Pepsi is a product that uses the same technology (different ingredients) to compete head-to-head with Coke, so it is not a substitute. Increased marketing for drinking sprite might "shrink the pie" for both Coke and Pepsi, whereas increased Pepsi advertising would likely "grow the pie" (increase consumption of all soft drinks), while giving Pepsi a larger market share at Coke's expense.

<u>Potential factors:</u>

- Buyer propensity to substitute
- Relative price performance of substitute
- Buyer's switching costs

- Perceived level of product differentiation
- Number of substitute products available in the market
- Ease of substitution
- Availability of close substitute

Bargaining power of suppliers

The bargaining power of suppliers is also described as the market of inputs. Suppliers of raw materials, components, labor, and services (such as expertise) to the firm can be a source of power over the firm when there are few substitutes. If you are making biscuits and there is only one person who sells flour, you have no alternative but to buy it from them. Suppliers may refuse to work with the firm or charge excessively high prices for unique resources.

Potential factors are:

(d) Supplier switching costs relative to firm switching costs
(e) Degree of differentiation of inputs
(f) Impact of inputs on cost and differentiation
(g) Presence of substitute inputs
(h) Strength of distribution channel
(i) Supplier concentration to firm concentration ratio
(j) Employee solidarity (e.g. labor unions)
(k) Supplier competition: the ability to forward vertically integrate and cut out the buyer.

Bargaining power of customers

The bargaining power of customers is also described as the market of outputs: the ability of customers to put the firm under pressure, which also affects the customer's sensitivity to price changes. Firms can take measures to reduce buyer power, such as implementing a loyalty program. Buyers' power is high if buyers have many alternatives. It is low if they have few choices.

Potential factors:

- Buyer concentration to firm concentration ratio
- Degree of dependency upon existing channels of distribution
- Bargaining leverage, particularly in industries with high fixed costs
- Buyer switching costs

- Buyer information availability
- Availability of existing substitute products
- Buyer price sensitivity
- Differential advantage (uniqueness) of industry products
- RFM (customer value) Analysis

2.6 INDUSTRY RIVALRY

For most industries the intensity of competitive rivalry is the major determinant of the competitiveness of the industry. Having an understanding of industry rivals is vital to successfully market a product. Positioning pertains to how the public perceives a product and distinguishes it from competitors. A business must be aware of its competitors marketing strategy and pricing and also be reactive to any changes made.

Potential factors:

- Sustainable competitive advantage through innovation
- Competition between online and offline companies
- Level of advertising expense
- Powerful competitive strategy
- Firm concentration ratio
- Degree of transparency

2.7 INDIA'S TOP 50 NBFCS RANKING 2017

For the first time, The Banking and Finance Post, Asia and Middle East's premier magazine has come up with the ranking of India's top 50 Non-Banking Financial Companies (NBFCs). The "India's Top 50 NBFCs Ranking 2017" has been introduced with an aim to provide useful insights into this important segment of the economy, which is being streamlined to fund the unfunded.

Ranking Methodology:

"India's Top 50 NBFCs Ranking 2017" was carried out on the basis of three parameters: Annual turnover, social media engagement and customer satisfaction. As is evident by the name, under the annual turnover parameter, NBFCs were ranked based on their yearly turnover. Under the other two parameters – social engagement and customer satisfaction – the NBFCs were ranked on the basis of the result of a survey and the perception score.

Top 50 NBFCs ranking is a unique benchmark. Based on the scores secured by the NBFCs under the parameters, the cumulative score of all the institutions was calculated. The NBFC with highest cumulative score was ranked first, while the institution with lowest score was ranked last.

2.8 RANKING PARAMETER

Annual Turnover

Non-Banking Financial Companies (NBFCs) are fast emerging as an alternative to mainstream banking. They are playing an integral part in the Indian Financial System and have immense potential to take forward the Central Government's agenda of financial inclusion.

Their contribution to the economy has grown exponentially over the years. As a matter of fact, the growth of NBFCs is not just driven by traditional products like commercial vehicle financing, but also financial products like personal and housing loans, etc.

The growth of the sector is accredited to cost efficiency, bad debt control, customized products and better customer services. In terms of annual turnover for financial year 2016-17, NBFCs have scripted a great success story. The financial assets of NBFCs have recorded a compound annual growth rate (CAGR) of 19 per cent over the past few years, comprising 13 per cent of the total credit which is expected to reach nearly 18 per cent by 2018-19.

Top 50 NBFCs' Ranking Based on Annual Turnover*		
NBFCs List	"Total Income (Rs Mn)"	Rank
Power Finance Corporation Limited	270185.70	1
Rural Electrification Corporation Limited	240953.50	2
Shriram Transport Finance Company Limited	108306.10	3
Bajaj Finance Limited	100033.10	4
Indian Railway Finance Corporation Limited	90476.60	5
Mahindra & Mahindra Financial Services Limited	62375.40	6
Muthoot Finance Limited	57467.00	7
HDB Financial Services Limited	57145.40	8
Cholamandalam Investment and Finance Company Limited	46603.50	9
Shriram City Union Finance Limited	44345.30	10
Tata Capital Financial Services Limited	41924.00	11
Family Credit Limited	41449.70	12
IFCI Limited	40066.40	13
India Infrastructure Finance Company Limited	39026.40	14

Aditya Birla Finance Limited	34260.00	15
Manappuram Finance Limited	30084.30	16
Kotak Mahindra Prime Limited	29221.48	17
Capital First Limited	27268.50	18
L&T Infrastructure Finance Company Limited	26784.71	19
Religare Finvest Limited	25694.26	20
Sundaram Finance Limited	24582.90	21
IL&FS Financial Services Limited	23464.60	22
SREI Infrastructure Finance Limited	22996.20	23
India Infoline Finance Limited	22642.20	24
Reliance Capital Limited	20710.00	25
Magma Fincorp Limited	20220.50	26
Tata Motors Finance Limited	19006.15	27
ICICI Securities Primary Dealership Limited	16271.40	28
Hinduja Leyland Finance Limited	14863.10	29
Indian Renewable Energy Development Agency Limited	14816.71	30
Ujjivan Financial Services Limited	13976.00	31
PTC India Financial Services Limited	13518.80	32

Bajaj Holdings & Investment Limited	8884.30	33
JM Financial Credit Solutions Limited	7883.60	34
Satin Credit Care Network Limited	7766.70	35
Kotak Mahindra Investments Limited	7617.00	36
IndoStar Capital Finance Limited	7199.17	37
STCI Primary Dealer Limited	6026.60	38
SBI DFHI Limited	6025.54	39
Axis Finance Limited	5756.00	40
PNB Gilts Limited	5005.40	41
Edelweiss Finance & Investments Limited	4504.70	42
Tata Motors Finance Solutions Limited	4340.83	43
STCI Finance Limited	4219.60	44
India bulls Commercial Credit Limited	4085.98	45
Credila Financial Services Private Limited	3918.10	46
L&T Infra Debt Fund Limited	3462.35	47
Muthoot Capital Services Limited	2842.00	48
Tata Investment Corporation Limited	2713.70	49
Vistaar Financial Services Private Limited	2711.70	50

2.9 SOCIAL MEDIA ENGAGEMENT

In this digital era and consumption of information on the move, social media is playing a key role in social engagement not only in terms of communication with clients but also in building a brand value in the targeted domain. Today, people and organisations remain connected and updated through various social media networks like Facebook, Twitter, LinkedIn and others. The perception-based ranking under this parameter helped us determine how well NBFCs are socially engaged with their customers. Digital assets across web, mobility and social media is also assisting nonbanking institutions to build customer advocacy and customer-centricity approach. Being an integral player in the financial segment, NBFCs, like their banking counterparts, are making optimum utilisation of social media in reaching out to their customers.

Connectivity: Social engagements through different social media channels help NBFCs enhance their connectivity with customers. As the target customers of NBFCs mainly are Micro, Small and Medium Enterprises (MSMEs), social media proves to be an excellent platform for them to connect with these enterprises. Moreover, various social media channels can also be used constantly by NBFCs for communicating with their clients by promoting and sharing relevant information.

Community Building: Social engagement is a great way to reach out to potential customers and enterprises. The community thus formed helps NBFCs to showcase their products and services even in remote locations of the country.

Stimulate Knowledge: Social media networks have wide reach and NBFCs are using these networks to keep their target audience updated. NBFCs also use social media as an opportunity to effectively fill knowledge gaps by sharing relevant information. Having an online presence helps strengthen connectivity without any limitations on proximity.

Social Engagement and Reach	
NBFCs List	**Rank**
India Infoline Finance Limited	1
Edelweiss Retail Finance Limited	2
Reliance Capital Limited	3
Capital First Limited	4
Motilal Oswal Financial Services Limited	5
Tata Investment Corporation Limited	6
Tata Capital Financial Services Limited	7
Religare Enterprises Limited	8
Fullerton India Credit Company Limited	9
HDB Financial Services Limited	10
L&T Infrastructure Finance Company Limited	11
Magma Fincorp Limited	12
Shriram Transport Finance Company Limited	13
Muthoot Fincorp Limited	14
SREI Infrastructure Finance Limited	15

2.10 CUSTOMER SATISFACTION

Banking operations are increasingly becoming customer dictated. As far as Indian finance sector is concerned, financial institutions offering one-stop integrated financial services are on the rise. There is an intense competition in the market to gain customers. Therefore, the leaders in Indian banking domain are not only competing with each on the price factor, but also how their customers feel about their services.

Realising the customer satisfaction as the most important factor to become a business leader, all NBFCs are focusing more on better services, improved financial plans for customers and more engagement with their clients. Perception based ranking under this parameter helped us determine how satisfied the customers are with NBFCs' services

2.11 CUSTOMER VALUE IMPROVED SERVICE QUALITY:

In the current economic scenario, NBFCs are rendering efficient services to gain competitive advantage and, thereby, enhancing their customer relationship. The NBFCs are emphasising more on creating loyal customers by customising their services to serve their customers better as per their needs. This in turn is expected to pave the way for achieving greater customer satisfaction to a larger extent.

In the era of ICT (Information, Communication and Technology), the mode of direct pay, online financial services have gained value which leads to flexible hours of operation as per customers' needs. Increased market competition is resulting into higher defection rates of customers.
Thus, research on service quality and satisfaction of customers in finance sector is considered important.

2.13 HANDLING CUSTOMER EXPECTATIONS:

Meeting customer expectations plays a central role resulting into higher satisfaction ratings for any service provided by NBFCs. However, the NBFCs also have to handle negative perception about their services and have to constantly make improvements to keep their customers satisfied. At the same time, it is also true that the nonbanking institutions can improve their ratings where customers have positive preconceptions and high expectations for the services.

Customer Satisfaction ☆☆☆☆☆

NBFCs List	Rank
Bajaj Finance Limited	1
Tata Capital Financial Services Limited	2
Kotak Mahindra Investments Limited	3
Cholamandalam Investment and Finance Company Limited	4
JM Financial Limited	5
JM Financial Credit Solutions Limited	6
Manappuram Finance Limited	7
Capital First Limited	8
Ujjivan Financial Services Limited	9
India bulls Commercial Credit Limited	10
Reliance Capital Limited	11
The National Small Industries Corporation Limited	12
Religare Enterprises Limited	13
LKP Finance Limited	14
HDB Financial Services Limited	15
Indian Renewable Energy Development Agency Limited	16

2.14 INTEREPRETATION

Non-banking financial Institutions sector is to grow in a prudential manner while not stopping altogether on financial innovations. The key lies in having in place adequate risk management systems and procedures before entering risky areas. As for the regulator, it is the constant endeavour of Reserve Bank to enable prudential growth of the sector, keeping in view the multiple objectives of financial stability, consumer and depositor protection, and need for more players in the financial market, addressing regulatory arbitrage concerns while not forgetting the uniqueness of NBFC sector.

2.15 CLASSIFICATION OF RATIOS:

Users of financial statements that is short term creditors, long-term creditors. Shareholders etc. are interested in knowing the liquidity, solvency, activity and profitability of the enterprise. On the basis ratios may be classified into four categories as follows:

Liquidity Ratios: “Liquidity” refers to the ability of the firm to meet its current liabilities. The liquidity ratios, therefore are called ‘Short-term Solvency Ratios’ These ratios are used to assess the short-term financial position of the concern. They indicate the firm’s ability to meet its current obligations out of the current resources.

Liquidity ratios include two ratios:

- Current Ratio or Working Capital Ratio
- Quick Ratio or Acid Test Ratio or Liquid Ratio

Current Ratio or Working Capital Ratios: This ratio explains the relationship between the current assets and current liabilities of a business.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

Significance: This ratio is used to assess the firm's ability to meet its short-term liabilities on time. According to accounting principles, a current ratio of 2:1 is supposed to be an ideal ratio. It means the current assets of a business should, at least, be twice of its current liabilities. If the current ratio is less than 2:1, it indicates lack of liquidity and shortage of working capital. But a much higher ratio, even though it is beneficial to the short-term creditors, is not necessarily good for the company. A much higher ratio than 2:1 may indicate the poor investment policies of the management.

Solvency Ratios

(1) **Debt Equity Ratio**: This ratio expresses the relationship between long-term debts and shareholder's funds. It indicates the proportion of funds which is acquired by long-term borrowings in comparison to shareholder's funds. This ratio is calculated to ascertain the soundness of the long-term financial policies of the firm.

Debt Equity Ratio =

[illegible]
/
[illegible]

Significance: This ratio is calculated to assess the ability of the firm to meet its long-term liabilities. Generally, debt-equity of 2:1 is considered safe.

2.16 WORKING CAPITAL TURNOVER RATIO:

$$\textbf{Working Capital Turnover Ratio} = \frac{\textbf{Net Revenue from operations}}{\textbf{Working Capital}}$$

Working Capital = Current Assets – Current Liabilities

Significance: This ratio is of particular importance in non-manufacturing concerns where current assets play a major role in generating sales. This ratio reveals how efficiently working capital has been utilised in making sales. In other words, it shows the number of times working capital has been rotated in producing sales. A high working capital turnover ratio shows efficient use of working capital and quick turnover of current assets like inventory and Trade Receivables. A low working capital turnover ratio indicates under-utilisation of working capital.

2.17 PROFITABILITY RATIOS OR INCOME RATIO

i) Gross Profit Ratio: This ratio establishes a relationship between gross profit and Revenue from Operations that is Net Sales. This ratio is computed and presented in percentage. The formula for computing this ratio is:

$$\textbf{Gross Profit Ratio} = \frac{\textbf{Gross Profit}}{\textbf{Revenue from Operations (Net Sales)}} \times 100$$

Significance: This ratio measures the margin profit available on Revenue from Operations. The higher the gross profit ratio, the better it is.

No ideal standard is fixed for this ratio, but the gross profit should be adequate enough not only to cover the operating expenses but also to provide for depreciation, interest on loans, dividends and creation of reserves.

Gross profit is very important for any business. It should be sufficient to cover all expenses and provide for profit. The ratio can be used to test the business condition by comparing it with past years' ratio and with the ratio of other companies in the industry.

ii**) Operating Ratio**: This Ratio measures the proportion of an enterprise's cost of revenue from operations and operating expenses in comparison to its revenue from operations.

$$\text{Operating Ratio} = \frac{\text{Cost of Revenue – Operating Expenses – Operating Income}}{\text{Revenue from Operations}}$$

Significance: Operating Ratio is a measurement of the efficiency and profitability of the business enterprise. The ratio indicates the extent of Revenue from Operations that is absorbed by the cost of Revenue from Operations and operating expenses. Lower the operating ratio, the better it is, because it will leave higher margin of profit on Revenue from Operations.

iii) Net Profit Ratio: This ratio shows the relationship between the net profit and revenue from operations. It may be calculated as follows:

For the purpose of this ratio, net profit is equal to gross profit minus operating expenses and income tax. All non-operating revenues and expenses are not taken into account because the purpose of this ratio is to evaluate the profitability of the business from its primary operations.

The relationship between net profit and net sales may also be expressed in percentage form. When it is shown in percentage form, it is known as net profit margin.

$$\textbf{Net Profit Ratio} = \frac{\textbf{Net Profit after Tax}}{\textbf{Revenue from Operations}} \times \textbf{100}$$

Net profit ratio is a useful tool to measure the overall profitability of the business. A high ratio indicates the efficient management of the affairs of business.

iv) Operating Profit Ratio:

$$\textbf{Operating Profit Ratio} = \frac{\textbf{Operating Profit}}{\textbf{Revenue from Operations}} \times \textbf{100}$$

Significance: This ratio measures the rate of net profit earned on Revenue from Operations. It helps in determining the overall efficiency of the business operations. An increase in the ratio over the previous year shows improvement in the overall efficiency and profitability of the business.

v) **Earning per Share (E.P.S):** Overall profitability of a company can also be judged by calculating 'earning per share'. In this context, earnings refer to profit available for equity shareholders. This ratio is calculated with the help of the following formula:

Earnings Per Share (E.P.S) =

$$\frac{\textbf{Net Profit (after interest, tax and Dividend on Preference Shares)}}{\textbf{Number of Equity Shares}}$$

vi) **Price- Earning (P.E) Ratio**: It is computed by dividing the market price of an equity share by the E.P.S. That is:

P.E Ratio = **<u>Market price of the equity</u> share**
E.P.S

This ratio shows how much is to be invested in the market in this company's shares to get ₹ of earning on its shares. The ratio is used to measure whether the market price of a share is high or low.

2.18 IMPORTANCE OF EARNINGS PER SHARE - EPS

Earnings per share (EPS) are generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings (P/E) valuation ratio, where the 'E' in P/E refers to EPS. By dividing a company's share price by its earnings per share, an investor can understand the fair market value of a stock in terms of what the market is willing to pay based on a company's current earnings.

vii) Return on investment or R.O.I: This ratio reflects the overall profitability of the business. It is calculated by comparing the profit earned and the capital employed to earn it. This ratio is usually in percentage and is also known 'Rate of Return' or 'Return on Capital Employed' or 'Yield on Capital'.

The term 'Investment' here reflects to long-term funds deployed in the enterprise. As defined earlier long-term funds are also known as capital employed which means total of shareholders' funds and long-term loans.

This ratio is computed as under:

$$\textbf{Return on investment} = \frac{\textbf{Net Profit before Interest, Tax and Dividends}}{\textbf{Capital Employed}} \times 100$$

Significance: Since profit is the overall objective of a business enterprise, this ratio is a barometer of the overall performance of the enterprise. It measures how efficiently the capital employed in the business is being used. In other words, it is also a measure of the earning power of the net assets of the business.

Return on investment is a very popular metric because of its versatility and simplicity. Essentially, return on investment can be used as a rudimentary gauge of an investment's profitability.

CHAPTER 3

COMPANY PROFILE

3.1 INTRODUCTION

SUNNESS CAPITAL INDIA PRIVATE LIMITED(SCIPL), was incorporated in 2009, is an active capital firm that specializes in investments. SCIPL is headquartered in Bangalore with branch office in Mangalore. SCIPL is an investment management firm that maximizes return on investment, offering stake holders a unique conduit of risk-controlled high return on investment. Our approach to equities continues to be through value-oriented, fundamental research and disciplined portfolio management. This commitment to deep, fundamental research across the product spectrum underpins a long-term investment philosophy which is a hallmark of our culture. We are committed to our goal of providing solid, consistent returns through all market cycles.

We believe our success is not only a result of our firm's vision, but of the prudent investment philosophy that guides the way we balance risk with reward. It's an approach that has stood the toughest test of all the Time. SCIPL's unique approach to investing maximizes return on capital, offering investors a unique conduit into risk-controlled high return investments

Type	Investment Banking
Industry	Non-Banking Financial Company

Founded	India, 2009
Headquarters	Bangalore
Key people	Ranjan S: Business Associate
Website	www.sunness.in

3.2 VISION AND MISSION

Vision Statement

"To provide world-class Wealth Management Services by arranging all conceivable financial services under one-roof at affordable costs through cost effective delivery systems, and to achieve organic growth in business by adding newer lines of business, with the help of self-motivated and aggressive team of young professionals"

Mission Statement

Providing long term value addition to clients, while maintaining the highest standards of excellence, ethics and professionalism. We believe our success is related to belief in our guiding principles.

3.3 BOARD OF DIRECTORS

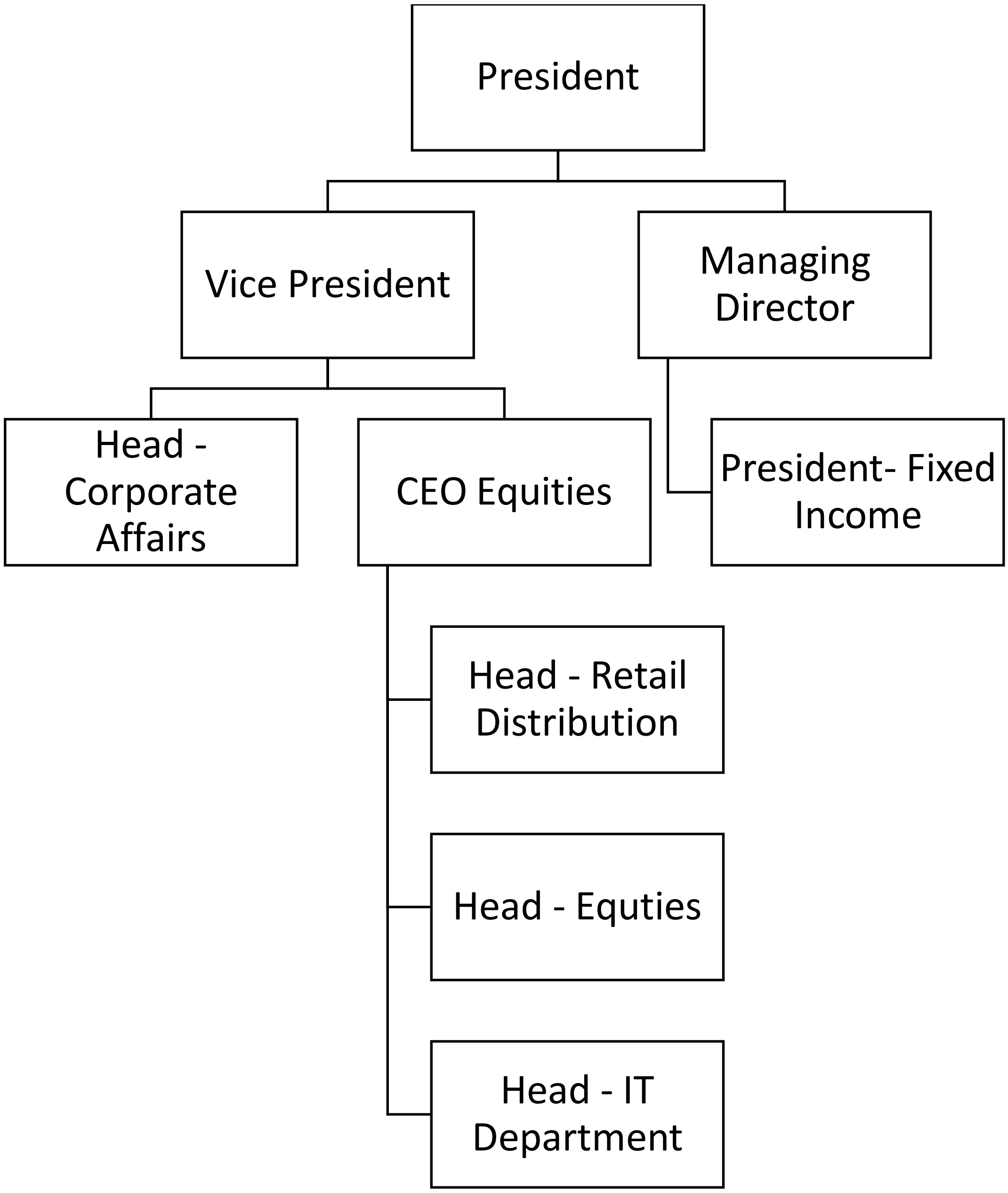
SASITOTA PRABHAKARA SHREESHA

26 March 2010

PADMAJYOTHI SREESHA

26 March 2010

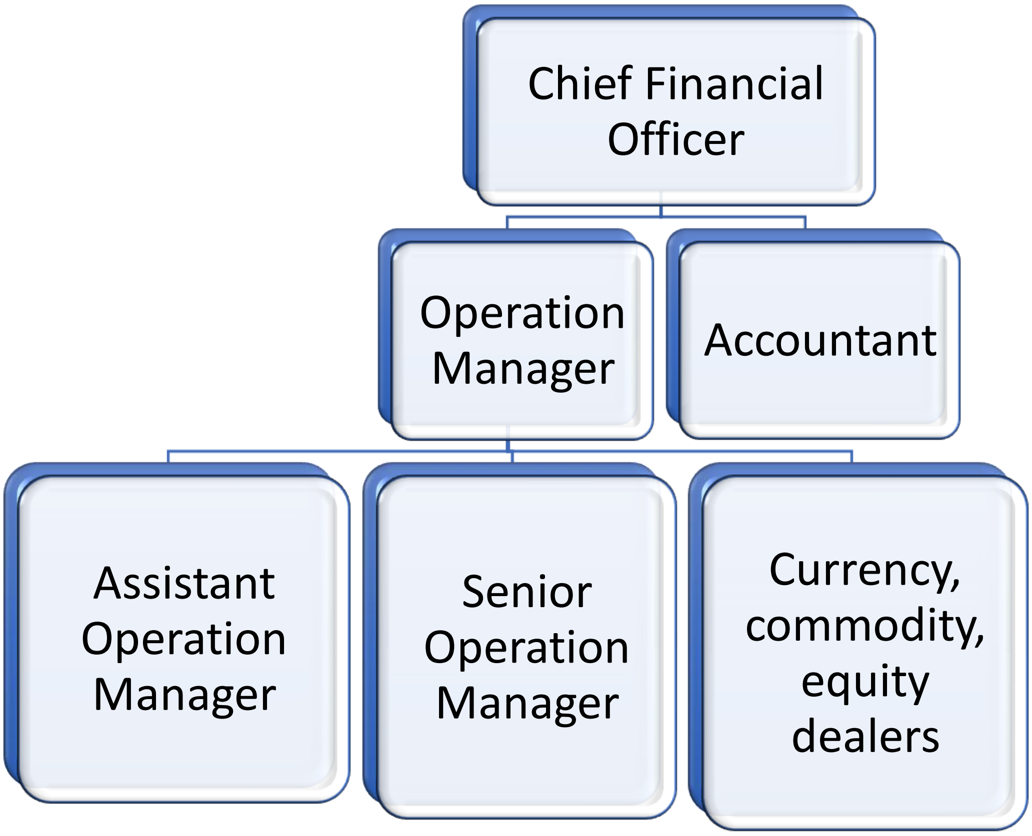
3.4 ORGANISATION STRUCTURE



3.5 FINANCE DEPARTMENT

At SUNNESS CAPITAL INDIA PVT LTD the department deals with all the matters related to finances in the state which includes the framing of rules and regulation in keeping with the changing times to bring about efficient finance administration.

STRUCTURE



Objectives

- Strategic Budgeting
- Cost Containment
- Cash Flow management
- Debt Service
- Tax Planning

3.6 ROLES AND RESPONSIBILITIES

- These firms primarily deal with originating or facilitating financial transactions.
- The transactions include creation, liquidation, transfer of ownership, and servicing or management of financial assets.

- It involves raising funds by taking deposits or issuing securities, making loans, keeping assets in custody or trust, or managing them to generate return, pooling of risk by underwriting insurance and annuities, or providing specialized services to facilitate this transaction.

3.7 CONTRIBUTION TOWARDS THE ORGANIZATION

1. To prepare the Budget

It is the duty of the finance department of the company to make the budget before actual providing money to any department. It will be helpful to fulfill each department with minimum cost. Finance department can take the past records from respective department. It will be useful for making better budget as they follow their last year operational cost as a reference in order to finalize the budget required for the coming financial year.

2. Financial Management:

In this function, finance department gets money from capital market at very low risk and cost. Finance department analyzes all the resources of funds and create a good financial structure of the company. In this structure, finance department analyze whether it will decrease the overall cost of capital on average basis or not, the ratio of debt or equity should be managed as per the requirement.

3. Management of Investments of the company:

After making financial structure, finance department invests debenture holders and shareholders money in best projects for getting highest return on investment. For this finance department has to take investment decision. These investment decisions can be taken with the help of capital budgeting and investment analysis techniques. As most of the financial organizations go for reinvestment so it required more attention as per the allocation of funds are concern.

4. Management of taxes:

Management of taxes is also the function of finance or finance department. Taxes may be direct or indirect. Finance department continue watches the amendments and updates in tax laws and also create good corporate relation with government by paying return of corporate tax on the time.

5. Management of financial risks:

Finance department takes many measures for managing the financial risks of company. For reducing loss of fund due to happening liquidity, solvency or financial disaster, finance department makes a good plan and also takes the help of debt collectors, insurance companies and other rating agencies for reducing financial risk.

6. Merger or acquisition decisions:

For creating good brand in the market, financial department works with marketing department and both takes the steps of merger and acquisition action. Main aim of merger or acquisition is to reduce competition and spread on brand in the market. Finance department provides the money for takeover of any other firm for estimating its long run return.

3.8 COMPETITORS

Competitors Information

Sharekhan

Sharekhan is one of the main retail breakage of Citi Venture which is running effectively from 1922 in the nation. Sharekhan renders its clients an extensive variety of value related administrations including exchange execution on BSE, NSE, Derivatives, store administrations, web exchanging, venture guidance and so forth.

Angel Broking Limited

Angel Broking, Ltd. provides retail personal financial services in India. The company offers e-broking, portfolio management, mutual fund, private client group, commodities broking, investment advisory, wealth management, IPO, and depository services. The company was founded in 1987 and headquarters in Mumbai, India.

Karvy Stock Broking Limited

Karvy Stock Broking Limited gives stock broking and research admonitory administrations in India. The organization offers portfolio investigation, safe member, and money related arranging and administration administrations for people and institutional customers. Extra to that, a month to month magazine, Fin polis, which gives up-dated business sector data on business sector patterns, speculation alternatives, and suppositions. The organization was established in 1990 and is situated in Hyderabad, India. Karvy Stock Broking Ltd. works as an auxiliary of Karvy Consultants Limited.

MotilalOswal Securities Ltd

MotilalOswalSecurities is a leading research and counselling based on stock broking house of India, with predominant situation in both institutional and retail broking. MotilalOswal Securities Provide guidance-based broking both with values and subsidiaries, portfolio management services(PMS), e-broking, store administrations, items exchanging, IPO and mutual fund speculation consultative administrations, has seen fast natural growth. FY05 and FY06 saw the organization become inorganically through procurement of three critical local broking firms from Andhra Pradesh, Karnataka and Kerala.

VLS Finance Ltd.

VLS Group is a multi-faceted multi-divisional incorporated monetary administrations bunch with significant vicinity in every aspect of money related administrations, for example, Asset Management, Strategic Private Equity Investments, Arbitrage and all the more especially in Stock broking and Corporate Consulting and Advisory Services. The current business sector capitalization remains at Rs 177.07 crore. The organization has reported a standalone offer of Rs 896.82 crore and a Net Profit of Rs 1.76 crore for the quarter finished September 2014.

BNK Securities Private Ltd.

BNK Securities Pvt. Ltd. (ISO 9001:2008 Certified) is the individual from National Stock Exchange, Bombay Stock Exchange, DP with CDSL and the organization is additionally the individual from MCX-SX and Calcutta Stock Exchange (CSE). It gives broking and vault administrations to a great deal of high total assets speculators, corporate and business houses, money related establishments, banks and common assets. It is likewise included in circulation of money related items. The present business sector capitalization remains at Rs 48.85 crore. The organization has reported a standalone offer of Rs 0.74 crore and a Net Profit of Rs 2.71 crore for the quarter finished September 2014.

3.9 PRODUCTS & SERVICES

Equity

Investing in shares or stock market is inarguably the best route to long-term wealth accumulation. However, it can also be a very risky proposition due to high risk-return trade-off prevalent in the stock market. Hence, it is more appropriate to take help of an experienced and trustworthy expert who will guide you as to when, where and how to invest.

Sunness Capital India Pvt. Ltd provides guidance in the exciting world of stock market with suitable trading solutions and value-added tools and services to enhance your trading experience

OUR SERVICES

Online Trading

- Excellent online products tailored for traders & investors
- Customized single screen Market Watch for multiple exchanges, MCX & NCDEX with BSE NSE
- Loans
- Streaming quotes
- Real-time rates
- Flash news & intra-day Research reports
- Intra-day & historical charts with technical tools
- Online research

Quality Research

- Wide range of daily, weekly and special Research reports
- Expert Sector Analysts with professional industry experience

Advisory

- Real-time market information with News updates
- Investment Advisory services
- Dedicated Relationship Managers

The Derivative

The derivative segment is a highly lucrative market that gives investors an opportunity to earn superlative profits (or losses) by paying a nominal amount of margin. Over past few years, Future & Options segment has emerged as a popular medium for trading in financial markets. Future contracts are available on Equities, Indices, Currency and Commodities.

Sunness with its membership as Trading and Clearing Member of NSE F&O Segment and BSE Derivatives Segment, provides you a gateway to the exciting world of derivative market.

Commodities Derivative market has emerged as a new avenue for investors to create wealth. Today, Commodities have evolved as the next best option after stocks and bonds for diversifying the portfolio. Based on the fundamentals of demand and supply, Commodities form a separate asset class offering investors, arbitrageurs and speculators immense potential to earn returns.

Sunness aims to harness the immense potential of the Commodities market by providing you a simple yet effective interface, research and knowledge.

3.10 FUTURE GROWTH AND PROSPECTS

In an always advancing business sector, they continually look for worth for their customers and they mean to add more administrations to their current Investment Banking bunch and be the favored decision for customers for their raising support and counseling needs. Some of their arrangements include:

• Value-based proactive Portfolio Management Services (PMS) to Resident and Nonresident Indians.

• Significant piece of the overall industry in Commodities Futures Trading Segment in India.

• Value based Global Portfolio and Asset Allocation access to Resident Indians.

• Clearing, execution and caretaker administrations for Non-Resident Indians, Foreign Institutional Investors and Overseas Corporate Bodies.

• Debt market exchanging both Retail and Whole-deal portion for inhabitant financial specialists and also abroad bodies.

CHAPTER 4

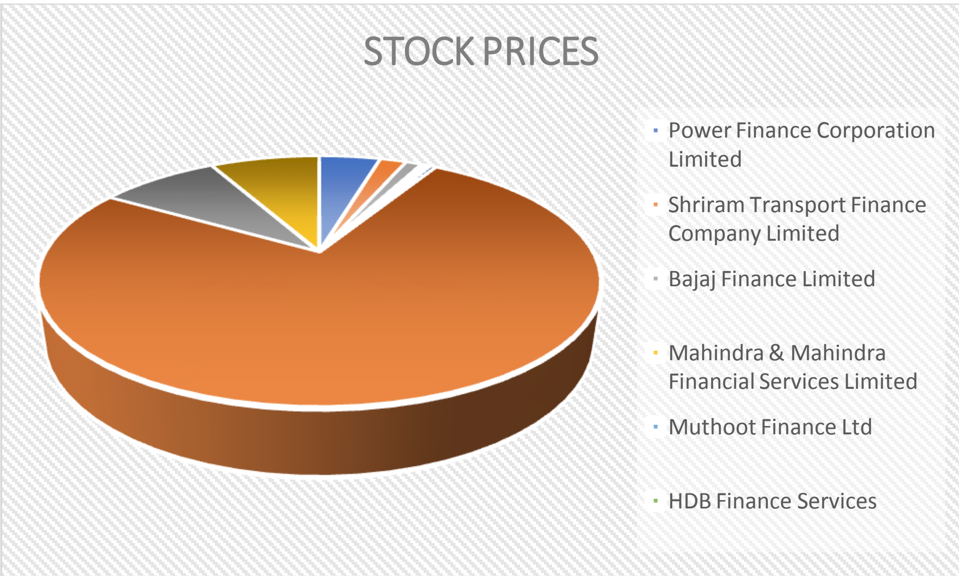
DATA ANALYSIS AND INTERPRETATION

4.1 DATA ANAYSIS AND INTERPRETATION

The following is the list of the top competitors of NBFC's and their stock prices in the present market as of 6th April 2018.

NAME OF THE NBFC	STOCK PRICES
Power Finance Corporation Limited	88.3
Shriram Transport Finance Company Limited	37.75
Bajaj Finance Limited	23.15
Mahindra & Mahindra Financial Services Limited	5.15
Muthoot Finance Ltd	6.8
HDB Finance Services	1.48
Cholamandalam	8.65
Tata Capital Financial Services Ltd	1505
L & T Finance Limited	171.1
Aditya Birla Finance Ltd.	157.75

The following is the graphical representation of the data mentioned above.



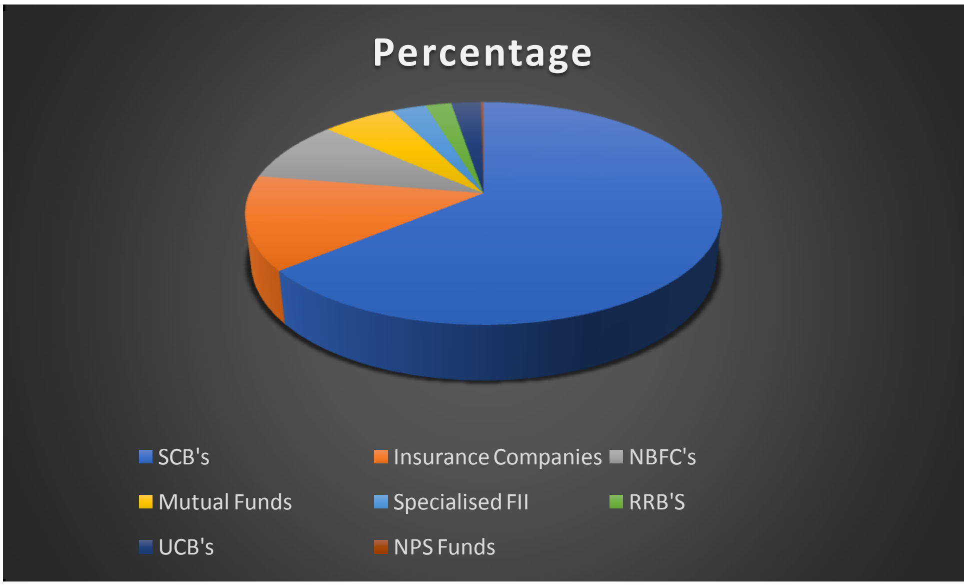
4.2 CONCLUSION – Power Finance Corporation Limited has the highest stock prices amongst the other top NBFC's. In 2016 -Power Finance Corporation acquires 23% stake in SMHPCL -Power Finance Corporation Ltd. has been conferred with Governance NowPSU

Award 2016 -PFC received the prestigious 'Rajbhasha Kirti Pratham Puruskar' (in the category of region 'A') for the year 2015-16

4.3 SHARES OF DIFFERENT ASSETS OF THE INDIAN FINANCIAL SYSTEM

Name of the Financial system	Percentage
SCB's	64%
Insurance Companies	13.60%
NBFC's	9%
Mutual Funds	5.90%
Specialised FII	2.80%
RRB'S	2.10%
UCB's	2.40%
NPS Funds	0.20%

Graphical representation of the data mentioned above



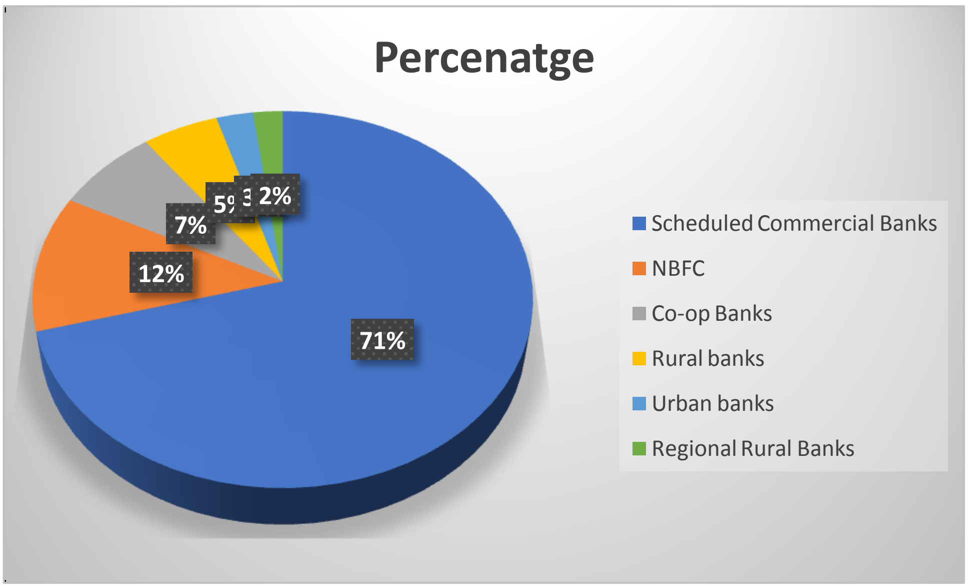
4.4 CONCLUSION

SCB'S lead the assets in the Indian Financial System by 64%. Whereas NBFC's only have 9%. The total number of NBFCs as on March 31, 2014 are 12,029 of which deposit taking NBFCs are 241 and non-deposit taking NBFCs with asset size of Rs. 100 crores and above are 465, non-deposit taking NBFCs with asset size between Rs. 50 crores and Rs.100 crore is 314 and those with asset size less than Rs. 50 crores are 11009. As on March 31, 2014, the average leverage ratio (outside liabilities to owned fund) of the NBFCs-ND-SI stood at 2.94, return on assets (net profit as a percentage of total assets) stood at 2.3%, Return on equity (net profit as a percentage of equity) stood at 9.22 % and the gross NPA as a percentage of total credit exposure (aggregate level) stood at 2.8%.

4.5 SHARE OF OUTSTANDING FORMAL CREDIT OF VARIOUS ENTITIES

Name of the company	**Percentage**
Scheduled Commercial Banks	70.7
NBFC	11.7
Co-op Banks	7.4
Rural banks	5.4
Urban banks	2.6
Regional Rural Banks	2.1

Graphical representation of following data



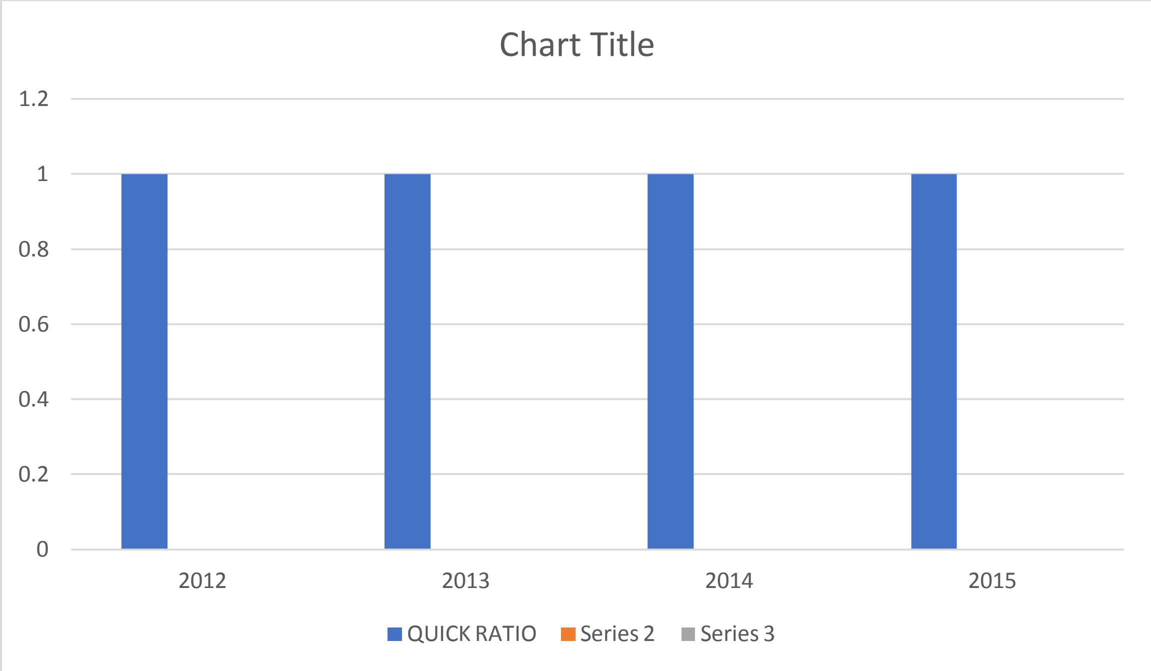
4.6 CONCLUSION Here we can conclude that that SCB's has 70.7% and NBFC's 12% stands second in the share of outstanding formal credit of various entities.

4.7 RATIO ANALYSIS OF SUNNESS CAPITAL INDIA PVT. LTD

Quick Ratio or Acid Test Ratio or liquid Ratio: Quick ratio indicates whether the firm is in a position to pay its current liabilities within a month or immediately. As such, the quick ratio is calculated by dividing liquid assets (Quick Assets) by current liabilities:

$$\text{Quick Ratio or Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

S.no	Current Liabilities	Quick Assets	Quick Ratio
2012	**274,27,70,704**	**2742770704**	**1:1**
2013	**322,34,72,970**	**3223472970**	**1:1**
2014	**245,12,86,117**	**2451286117**	**1:1**
2015	**2,785,388,217**	**2785388217**	**1:1**



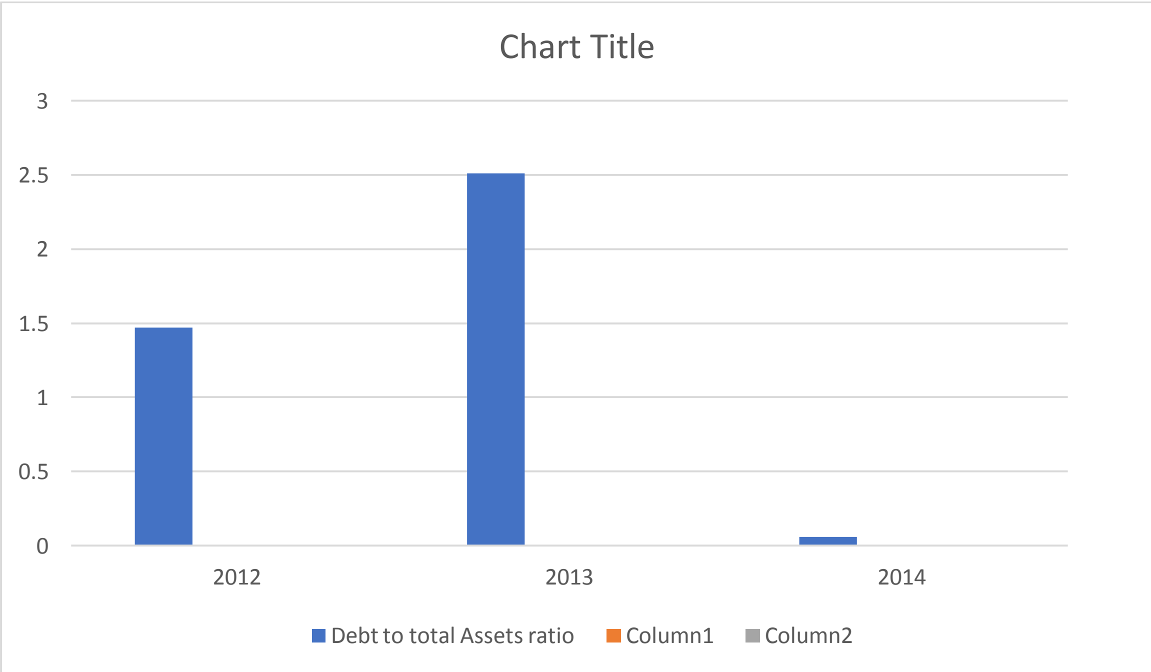
Significance: An ideal ratio is said to be 1:1. If it is more, it is considered to be better. The idea is that for every rupee of current liabilities, there should at least be one rupee of liquid assets. This ratio is a better test of short-term financial position of the company than the current ratio, as it considers only those assets which can be easily and readily converted into cash.

Interpretation: From the above graph we conclude that the quick ratio of the company for the 4 years are in the ratio 1:1, which is an optimal ratio a company can have and it also shows that it can pay of all its current liabilities immediately or in a month

(2) Debt to Total Assets Ratio: This ratio is a variation of the debt-equity ratio and gives the same indication as the debt-equity ratio. In this ratio, long-term debts are expressed in relation to total assets. It is calculated under:

$$\textbf{Debt to Total Assets Ratio} = \frac{\textbf{Long Term Debt}}{\textbf{Total Assets}}$$

S.no	Long term Debts	Total Assets	Debt to total Assets ratio
2012	40474724	2742770704	1.47%
2013	81095893	3223472970	2.51%
2014	1572092	2451286117	0.06%



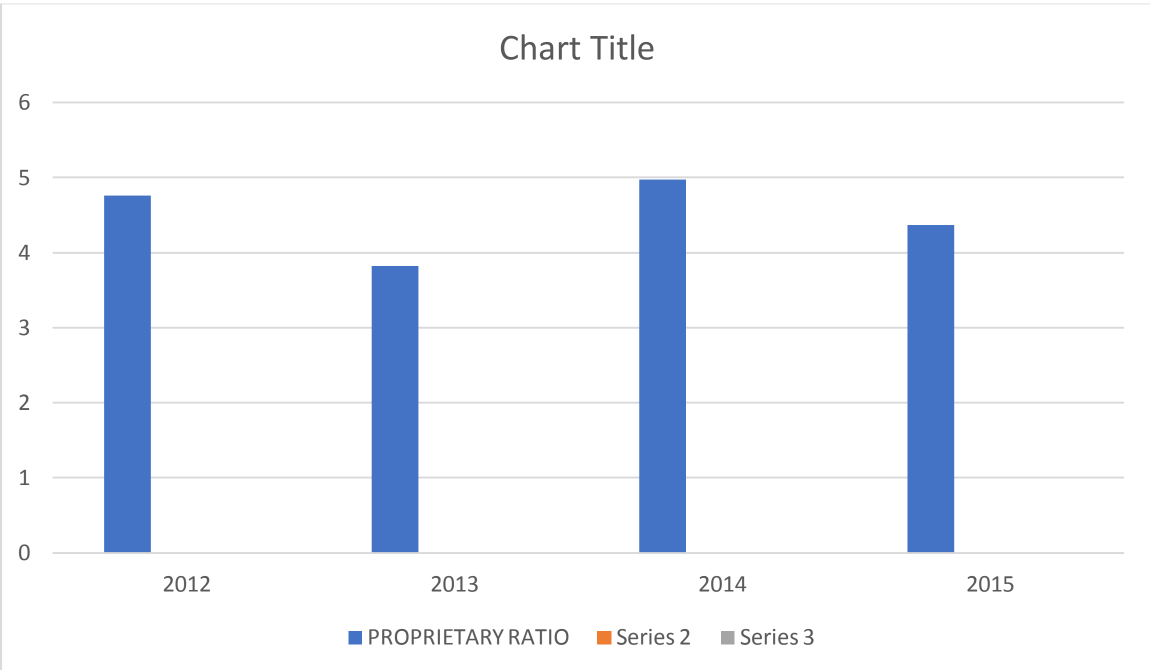
Significance: This ratio expresses the relationship between long term debts and total assets. It measures the extent to which long term loans are covered by assets which indicates the margin of safety available to providers of long term debts. A lower debt to total assets ratio implies the use of lower debts in financing assets which means a larger safety margin for lenders. On the other hand, higher ratio represents risky financial position as it implies the use of higher debts in financing the assets of the business.

Interpretation: From the above data we see that though there is a increase in the Debt to total asset ratio in the year 2013 there is also a significant drop in it which in turn provides a larger safety margin for lenders

(3) Proprietary Ratio: This ratio indicates the proportion of total assets funded by owners or shareholders. It is calculated as under:

$$\textbf{Proprietary Ratio} = \frac{\textbf{Equity}}{\textbf{Total Assets}}$$

S.no	Equity	Total Assets	Proprietary ratio
2012	13,07,74,890	**274,27,70,704**	**4.76**
2013	12,34,39,940	**322,34,72,970**	**3.82**
2014	12,19,80,230	**245,12,86,117**	**4.97**
2015	12,19,80,230	**278,53,88,217**	**4.37**



Significance: A higher proprietary ratio is generally treated an indicator of sound financial position from long-term point of view, because it means that a large proportion of total assets is provided by equity and hence the firm is less dependent on external sources of finance.

Interpretation: The above graph shows us that thou there is a fluctuation in the proprietary ratio through the years, overall it shows that there is good and sound future for the financial position of the company in the long-term point of view

CHAPTER 5

FINDINGS & RECOMMENDATIONS

FINDINGS AND RECOMMENDATIONS

5.1 FINDINGS

- Company has good growing turnover and profitability.
- The management encourages the employee's participation in decision-making.
- A company has a good reputation in financial sector.
- A company has a strong balance sheet, which shows the sound financial condition of the company.
- It has a lack of usage and insufficient telephone devices to communicate with the customers and clients.
- The company has insignificant presence in instructional segment.
- The Company has the higher retention rates.
- Management reserves the right to make the decision, which shall be final and binding.
- The punching machines in the company meant for employee attendance are not recording the right information.

5.2 SUGGESTIONS

- Response to customer schedules process has to be improved as the work procedure, were not so satisfied to the clients or customers.
- An employee has to be provided all the facilities easily and even there is a need to develop the internal infrastructure.
- Timely service needs an improvement, as the customers are quite not happy with these criteria.
- Development of new technology immediately.
- Customer complaints to be sorted within a definite period**.**
- The management has to look after the employees for making some changes about the working process or the system in the company so as to the customers get satisfied.

5.3 RECOMMENDATIONS

SWOT ANALYSIS

Strengths

1. Strong network in India
2. Satisfying the need of the clients
3. Meeting up the client requirement in time
4. Innovation & creative in advertisement segment
5. Quality in advertisement
6. Global exposure with higher rewards & appreciation
7. Efficient team work environment
8. Expertise and experienced workforce

Weaknesses

1. Market share is limited due to many competitors
2. Geographic penetration is also limited

Opportunities

1. Online advertising is a new source of revenue
2. Adapting new strategies for market research brings in more revenues
3. Decentralized decision making is helpful as local marketing needs vary from one region to another
4. Entering in global market to attract global clients

Threats

1. Increasing lawsuits due to sheer negligence in preparation of ads
2. Recession may hit the industry as cut is primarily on marketing budget of corporates
3. Cut-throat competition offered by other players in the industry
4. Challenging stiff competition from its competitors from both domestic and international levels
5. Changes in the taste and preferences of clients

CHAPTER 6

CONCLUSION

6.1 CONCLUSION

It is encouraging that the NBFC sector‘s importance is finally being acknowledged across financial services market constituents as well as the regulator. However, the importance attached to the sector is often getting converted into misplaced enthusiasm. Over simplified and unclear parameters for NBFC valuations such as strategic fit and customer base, can never substitute practical business analytics.

A rational assessment of the internal values of NBFCs factoring issues such as past performance, structural weaknesses of the sector (for instance funding disadvantages), along with an identification of real capabilities are essential to ensure that the equilibrium between price paid and value realized is reached to the extent possible.

In the absence of this, India is sure to witness the re-opening of the NBFC horror story although with a new chapter on the erosion of NBFC investment values affecting investors across categories.

Ratings of the NBFCs whose profitability and asset quality were affected due to the crisis were supported by their strong parentage. Based on the parental strength some players have raised further equity and also managed to re-align their business models while maintaining their solvency.

Overall positive outlook on the sector due to the better asset liability management (ALM) position, focus on relatively safer asset classes and the demonstrated acceptance of the sector as systemically important by the regulator.

The crisis has imposed an overall sense of caution even for the newer entrants in the market. Also going forward higher capital adequacy norms will put a conservative cap on the leverage of the sector thereby improving the credit profile of many entities in this category.

ANNEXURE

BALANCE SHEET

Particulars	2012	2013	2014	2015
I.EQUITY AND LIABILITIES				
1.Shareholder's funds				
(a) Share capital	13,07,74,890	12,34,39,940	12,19,80,230	1219,80,230
(b) Reserves and surplus	142,16,86,701	142,12,08,388	146,00,24,775	1,410,176,234
2.Non-current liabilities				
(a) Long-term borrowings	4,04,74,724	8,10,95,893	15,72,092	
(b) Long-term provisions	31,75,949	53,01,609	38,62,341	1219,80,230
(c) Deferred tax liability			1,31,822	
3.Current liabilities				
(a) Short-term borrowings	105,51,38,428	133,60,22,790	79,06,91,548	1,063,160,541
(b) Trade payables	5,54,52,366	3,19,67,280	2,97,47,330	411,18,230
(c) Other current liabilities	56,69,677	19,58,19,880	1,49,22,284	649,99,139
(d) Short-term provisions	3,03,97,969	2,86,17,190	2,83,53,695	292,73,819
TOTAL	**274,27,70,704**	**322,34,72,970**	**245,12,86,117**	**2,785,388,217**
II. ASSETS				
1.Non-current assets				
(a) Fixed assets (Tangible Assets)	45,24,494	83,08,968	76,24,150	57,85,233
(b) Non-current investments.	66,48,49,021	40,70,77,610	36,84,44,230	7064,15,152
(c) Deferred tax asset.	3,60,49,414	1,68,127		1,45,112
(d) Long-term loans and advances.	6,70,000	2,20,000	3,85,000	3,85,000
2.Current assets				
(a)Inventories(Securities)	48,29,92,120	42,94,18,522	29,32,61,883	3993,61,447
(b)Trade receivables	4,40,34,188	5,42,078	37,89,972	1154,35,189
(c) Cash and cash equivalents	28,39,75,884	25,98,61,075	23,70,19,442	3010,35,514
(d) Short-term loans and advances	122,56,75,583	211,78,76,590	154,07,61,440	1,256,825,570
TOTAL	**274,27,70,704**	**322,34,72,970**	**245,12,86,117**	**2,785,388,217**

FINANCIAL STATEMENT ANALYSIS

PARTICULARS	2012	2013	2014	2015
Revenue from operations	21,01,28,282	34,55,39,116	35,24,85,449	8347,33,642
Other income	1,19,40,331	7,72,145	32,31,142	23,07,842
Total Revenue	**22,20,68,613**	**34,63,11,261**	**35,57,16,591**	**8370,41,484**
Expenses :				
Employee benefits expense	4,15,43,868	3,52,53,883	5,06,78,423	569,26,321
Finance Costs	7,68,80,452	16,75,79,216	19,44,90,307	1735,16,569
Depreciation	4,46,304	9,82,526	15,74,568	10,82,398
Other expenses	2,55,10,346	3,72,63,364	3,82,09,040	3814,24,547
Provision for standard Assets	31,75,949	21,25,660		
Total Expenses	**14,75,56,919**	**24,32,04,650**	**28,49,52,338**	**6129,49,835**
Profit before tax	**7,45,11,694**	**10,31,06,612**	**7,07,64,252**	**2240,91,649**
Tax expense for the next year	**2,58,68,461**	**3,56,18,834**	**-40,05,191**	**467,23,068**
Profit After Tax	**4,86,43,233**	**6,74,87,778**	**7,47,69,443**	**1773,68,581**

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