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**PERFORMANCE & EVALUATION OF NON BANKING COMPANIES**

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**ABSTRACT**

*NBFCs are playing an important role of complementary to the banking system by increasing the accessibility of financial services, improving competition and also diversifying the whole system. NBFCs take a lead role in promoting inclusive growth in the country. NBFCs catered the need of those borrowers who were not considered suitable by the banks. Banks play their role in semi urban and rural area only for the purpose of accepting deposits of fulfilling the norms of RBI. But the NBFCs are filling the gap in semi urban and rural area which are left by banks. NBFCs have turned out to be engines of growth and are integral part of the Indian financial system, enhancing competition and diversification in the financial sector, spreading risks specifically at times of financial distress and have been increasingly recognized as complementary of banking system at competitive prices. The research on the NBFCs is going in different parts of the world to review the policies and functions of the NBFCs in the world. To look into the changes and developments in the structure, functions, regulations, progress, etc, many of the studies were already made and a few latest studies are reviewed as under.*

**KEYWORDS**

leveraged, non banking financial companies NBFCs, niche products, tows model.

**1. INTRODUCTION**

Finance is an important component for ordinary people to maintain their standard of living. Non Banking financial companies (NBFCs) help the people to get rid of their financial difficulties in this context. NBFC come to rescue customers. NBFCs are essential social organizations rendering variety of services to the socio economic objective of the society. Both commercial banks & NBFCs have come to shape the economy of the country.

**2. REVIEW OF LITERATURE**

K. Martina Rani (2008) in her paper entitled "Impact of Financial Sector Reforms on Non-Banking Financial Companies" published in AIMS International Journal of Management, the number of reporting NBFCs and the growth rate of deposits continued to rise till the year 1997, but declined after 1998 as the regulatory framework 1998 which came as a source of excessive control to the real and genuine players in the market. The main source of NBFCs has always been the fixed deposits. The gross NPAs to the total advances were 11.4 per cent in March 1998 and it declined to 9.7 percent in September 2002. Thilakam and Saravanan (2014) writes on "CAMEL Analysis of NBFCs in Tamil Nadu" in International Journal of Business and Administration Research Review. Financial intermediation is a crucial function of Banks, Non-Banking financial companies (NBFCs) and Development Financial Institutions (DFIs) the post reform period in India is characterized by phenomenal growth of NBFCs complementing the role of banks in mobilizing funds and making it available for investment purposes. To evaluate the soundness of NBFCs in Tamil Nadu over a decade, the authors made an attempt of CAMEL criteria for analysis of selected Companies. Based on findings the suggestions were offered to overcome the difficulties face by selected NBFCs in their development. Shailendra Bhushan Sharma and Lokesh Goel (2012) write on "Functioning and Reforms in Non-Banking Financial Companies in India". This paper provides an exhaustive account of the functioning of and recent reforms pertaining to NBFCs in India. Taxmann's (2013) published "Statutory Guide for Non-Banking Financial Companies" is published by Taxmann'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. Amit Kumar and Anshika Agarwal (2014) published a paper entitled Latest Trends in Non-banking Financial Institutions in *Academicia: An International Multidisciplinary Research Journal*. In Indian Economy, there are two major Financial Institutions, one is banking and other is Non-Banking. The Non-Banking Financial Institutions plays an important role in our economy as they provide financial services on wide range, they also work to offer enhanced equity and risk-based products, along with this they also provide short to long term finance to different sectors of the economy, and many other functions. This paper examines the latest trends in Non-Banking Financial Institutions. This paper analyzes the growth and enhanced prosperity of financial institutions in India.

**3. GROWTH OF NBFCs IN INDIA**

The non banking financial sector in India has recorded marked growth in recent years, in terms of the number of Non Banking Financial Companies (NBFCs) their deposit and so on. Keeping in view the growing importance of NBFCs the banking law (miscellaneous provision) act 1963 was introduced to regulate them. NBFC play major role in the direction of saving and investment in wave of rapid industrial development. NBFCs are the major intermediaries between saver and investor, it is recognized as complementary of banking system.

**4. PROBLEM FACED BY NBFCs**

NBFCs generally have no access to low cost funds. Banks can easily raise financial resource at low cost through deposits, saving and current account. But being NBFC cannot raise capital through deposit it usually lack the availability of low cost funds. A major problem that the NBFCs are facing today is the negative perception of public. Even fundamentally sound NBFCs are finding it difficult to raise funds and are passing through a tough times.

**5. OBJECTIVES OF THE STUDY**

1. To study the role of NBFCs in India.
2. To study the problem faced by the NBFCs.
3. To suggest the measures for improving the growth of NBFCs.

**6. PRESENT SCENARIO**

During the last decades, NBFCs have undergone wide change as at industry and have been witnessing considerable business over the last decades because of market dynamic public sentiment and regularly environment. Most NBFCs liabilities are short term fund and these funds are largely locked up assets with maturity of two years and more. Recovery of advances is very slow and inefficient. The rate at which the regulating bodies are targeting NBFCs and role played by rating agencies have harmed the industry by bringing down its number, so it is essential to take the stock of NBFCs by SWOT Analysis Method.

## 7. RESEARCH HYPOTHESIS

It is hypothesized that NBFCs are working under the strict control and vigilance of RBI. There have been frauds in the recent years and instances of failure of NBFCs in India. NBFC face severe competition from banking sector.

## 8. RESEARCH METHODOLOGY

For research purpose, I adopted the secondary data as my research methodology requires gathering relevant data through journals, newspaper, books, magazines and internet. Also self-interpretation is made with the help of collected material. Bulletin from RBI have gathered to access the problems related to NBFC and also adopted SWOT Analysis Method to know about weakness.

## 9. RESULT & DISCUSSION

The SWOT analysis helps to identify strategies and techniques that need to be adopted for increasing strengths and reducing weakness and to counter threats and turn them into opportunities. Internal factors are classified as strengths (S) or weaknesses (W) and external factors are classified as opportunities (O) or threats (T). Such an analysis of the strategic environment is referred to as a SWOT analysis. In order to develop strategies for NBFCs that take into account the SWOT profile a matrix of these factors can be constructed. The SWOT matrix (also Known as TOWS Matrix) comprises:

1. Strength and Opportunities Strategy (SO) wherein strength is used to take advantage of opportunities.
2. Weakness and Opportunities Strategy (WO) wherein weakness is overcome to take advantage of opportunities.
3. Strength and Threat Strategy (ST) wherein strength is used to take care of the threats.
4. Weakness and Threat Strategy (WT) wherein attempt is made to liquidate weakness and threat.

NBFCs are essential to a country's financial system. NBFCs provide services not well suited for banks. While recovering their weakness NBFCs have to focus on their use strengths. NBFC should constantly try to search for new products and services in order to compete financial market. NBFC have to gain trust of people for the rapid growth and survival and also to compete commercial banks. From the SWOT Analysis, it is clear that NBFCs can themselves take steps to minimize their weakness and face all threats by making better use of their strengths and opportunities, identified by them. From the Swot Analysis, we can say that NBFCs can themselves take steps to minimize their weakness and also face all threats by making better use of their strengths and opportunities identified by them.

## 10. FINDINGS

Four questions are raised under the TOWS model:

1. To Take Advantage of Opportunities can NBFCs Use Strength? : The strengths of NBFCs can be leveraged to take advantage of opportunities (as listed in Appendix Table 1) available to them. For example, the Strength of consolidation and focused growth as indicated in the above matrix (Table 2) can be leveraged for orderly growth.
2. In order to take advantage of Opportunities how to overcome Weakness? : The Opportunities as listed (Appendix Table 1) offer great vista of avenues to correct some of the weaknesses of the NBFCs as listed in Appendix Table 2. For example, the weakness of high cost structure can be countered by taking advantage of the opportunity, viz. access to better and cheaper resources available in the market.
3. By using strengths threats can be handled? : As indicated in Appendix Table 1 can be eliminated/minimized by using the strength.
4. How weakness and threats can be liquidate? : Based on the strengths and potential of the opportunities listed in Appendix Table 1 the NBFCs can handle treats and weaknesses.

## 11. CONCLUSIONS

To conclude, the NBFCs are playing significant role in meeting financial requirements of the medium sized and small sized industries and development of Indian economy indirectly. The review made above shows that the research in NBFCs is not so accelerating towards development as many of the published research papers shows only basics of the NBFCs and still it is essential to study how to strengthen NBFCs in India.

## 12. SCOPE FOR FURTHER RESEARCH

The scope of NBFCs is fast growing with multiplication of financial services. Some of NBFCs are also engaged in underwriting through subsidiary unit and by offering allied financial services including stock broking, investment banking, assets management and portfolio management.

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APPENDIX

TABLE 1: THE SWOT MATRIX

POSITIVE STRENGTHS	NEGATIVE WEAKNESS
<b>Internal to the Industry</b>	
Capabilities & resources that can be used as a basis for developing a competitive advantage	Absence of certain strength is a weakness
Examples are given below:	Examples are given below:
<ul style="list-style-type: none"> <li>Efficient processing,</li> <li>Simple Sanction Procedure</li> <li>Effective risk management</li> <li>Corporate Governance</li> <li>Continually Profit</li> <li>Structural weakness</li> <li>Know your customer approach</li> <li>Specialization in the task of recovery</li> <li>Expertise and experience in financing for transport sector</li> </ul>	<ul style="list-style-type: none"> <li>Negative public perception</li> <li>Spreads are getting squeezed</li> <li>Recovery receivable is so worried</li> <li>Mismatch of asset liability</li> <li>More muscular competitors</li> <li>Lack of market capitalization</li> <li>Accounting norms requiring provisioning against non-performing assets</li> <li>Absence of clear vision and focus</li> </ul>
OPPORTUNITIES	THREATS
External environmental analysis may reveal certain new opportunities for profit and growth.	Changes in the external environmental also may present threats to the industry.
Examples are given below:	Examples are given below:
<ul style="list-style-type: none"> <li>Infrastructure segment and road transport segment have good growth opportunities</li> <li>Consolidation in the NBFC industry</li> <li>Constraints faced by banks in penetrating the specialized vehicle finance segment leads to the scope for branch expansion</li> <li>Diversified into various fee based activities</li> <li>IT related industries is another thrust area</li> <li>Acting as retailer to the banks</li> </ul>	<ul style="list-style-type: none"> <li>Slow Industrial growth</li> <li>To be in the dependent sector</li> <li>Competition from banks and financial institutions</li> <li>Globalization of Indian market</li> <li>Hesitation on the part of banks to continue to finance HP and Leasing ventures</li> <li>Introduction of rigorous regulatory and supervision system</li> <li>Major shakeout in the NBFC sector</li> </ul>

TABLE 2: THE TOWS MATRIX

STRENGTHS (INTERNAL)	WEAKNESS (INTERNAL)
<b>OPPORTUNITIES (EXTERNAL)</b>	
S-O Strategies pursue opportunities that are a good fit to the industry's strengths.	W-O Strategies overcome weaknesses to pursue opportunities.
Examples are given below:	Examples are given below:
<ul style="list-style-type: none"> <li>Consolidation and focused growth instead of dispersed activities</li> <li>Asset based funding which is safe and productive</li> <li>Fee based services to augment its revenue streams</li> <li>Specialized and customized products by understanding the needs of customers.</li> <li>Adopting the regulations and quicker</li> </ul>	<ul style="list-style-type: none"> <li>To Overcome the loss of public confidence due to scan by complying with regulations and being transparent</li> <li>Replacing high cast resources with varied resources available in the open market</li> <li>Overcome the mismatch between asset and liability with recourse to long term stable resources</li> <li>Adopting the regulations and quicker compliance improves the ability to continuously renew itself to meet new challenges</li> </ul>
S-T STRATEGIES	W-T STRATEGIES
<b>THREATS (EXTERNAL)</b>	
Identifies ways to use its strengths to reduce its vulnerability to external threats	Establish a defensive plan to prevent the firm's weaknesses from making it highly susceptible to external threats.
Examples are given below:	Examples are given below:
<ul style="list-style-type: none"> <li>Price and service based competition to ward off the encroachment by banks</li> <li>Emphasis on niche products. For instance joint venture that focuses on finance and tie ups for distribution of financial services to keep the threat at bay</li> <li>Transforming into one-stop financial service shops with umbrella products</li> </ul>	<ul style="list-style-type: none"> <li>Overcome poor public image by creating transparency</li> <li>Creating strong Industry associations and management</li> </ul>

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