



A Study on the Non-Banking Financial Companies (NBFCs) in India

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1. Introduction

The working and operations of NBFCs are regulated by the Reserve Bank of India (RBI) within the framework of the Reserve Bank of India Act, 1934 (Chapter III-B) and the directions issued by it. The term non-bank likely started as non-deposit taking banking institution. An NBFC incorporated under Companies Act, 2013[1] willing to commence a business of non-banking finance should comply with some RBI guidelines. Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 of India, engaged in the business of loans and advances, acquisition of shares, stock, bonds, hire-purchase insurance business or chit-fund business, but does not include any institution whose principle business is that of agriculture, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. There are different types NBFC's in India. Various functions, advantages and disadvantages explained in the research paper. Registration fees and documents required to form a NBFC. The research on L&T Finance Ltd. Products & Services, Interest Rates, Charges. Operations of non-bank financial institutions are not covered under a country's banking regulations. Role of Non-banking financial companies are accept deposits in various forms, provide investment advice, promoters utilization of savings. Definition for Non-Banking Financial Company, it carries functions like bank but it is not actual bank. As per the new norms, NBFCs cannot outsource core management functions like internal audit, management of investment portfolio, strategic and compliance functions for know your customer (KYC) norms and sanction of loans. Staff of service providers should have access to customer information only up to an extent which is required to perform the outsourced function. Boards of NBFCs should approve a code of conduct for direct sales and recovery agents. For debt collection, NBFCs and their outsourced agents should not resort to intimidation or harassment of any kind. All NBFCs' have been directed to set up a grievance redressal machinery, which will also deal with the issues relating to services provided by the outsourced agency. A non-banking financial institution which is company and which has its principal business the receiving of deposits, under any scheme or arrangement or in any order manner, or in lending in any manner. The term non-bank likely started as non-deposit taking banking institution. However, due to financial regulations adopted from English speaking countries, non-English speaking countries took "non-bank" as a single word. This is probably [vague] because in English speaking countries the term 'bank' is generally accepted as equivalent to 'financial institution' but outside English speaking countries, especially developing countries, see the term bank as deposit taking institutions only, and every other financial service providers as something that must not be termed a bank. This is possibly due to language differences.

2. Top NBFC's in India:

2.1 Muthoot Finance Limited

2.2 Mahindra Finance

2.3 Piramal Finance

2.4 Bajaj Finance Limited:

2.5 Reliance Capital Limited

2.6 L&T Finance Ltd:

3. Company Profile – L&T Finance Ltd.

Larsen & Toubro Ltd, commonly known as L&T, is an Indian multinational conglomerate company, with business interests in engineering, construction, manufacturing, technology, information technology and financial services, headquartered in Mumbai. Larsen & Toubro originated from a company founded in 1946 in Bombay by two Danish engineers, Henning Holck-Larsen and Søren Kristian Toubro. L&T Finance Holdings Limited (LTFH)

(<https://www.ltfs.com>), a leading Non-Banking Financial Company (NBFC), offers a range of financial products and services through its subsidiary L&T Finance Ltd. (LTF) under the L&T Finance brand. Headquartered in Mumbai, the company has been rated AAA — the highest credit rating for NBFCs — by four leading rating agencies. It has also received leadership scores and ratings by global and national Environmental, Social and Governance (ESG) rating providers for its sustainability performance. The company has also won many prestigious awards for its flagship CSR project – “Digital Sakhi” which is focused on women empowerment and digital and financial inclusion. Under Right to Win, being in the ‘right businesses’ has helped the company become one of the leading financiers in key retail products. Larsen & Toubro financial services is a subsidiary which was incorporated as a non-banking financial company in November 1994. The subsidiary has financial products and services for corporate, construction equipments. This became a division in 2011 after the company declared its restructuring. A partnership between L&T Finance and Sonalika Group farm equipment maker International Tractors Ltd in April 2014 provided credit and financing to customers of Sonalika Group in India. Through its entity L&T Finance Ltd. it offers Consumer loans, Two-Wheeler loans, Home loans, Micro loans, Farm Loans, WRF & SME Loans. It’s headquartered in Mumbai, L&T Finance Holding. L&T Finance Holding is one of the leading Non-Banking Financial Companies (NBFCs) in India with a strong presence across the lending business catering to the diverse financing needs of the served and underserved customers. L&T Finance has a defined risk management process that includes a review of financial, strategic, operational and damage-related risks. Key risk management at L&T aims to identify significant risk factors, prepare for them and manage them in an optimal way so that the company’s strategic and financial objectives are achieved. Comprehensive risk management endeavours to manage the Group’s risk as a whole and not just individual risk factors. February 16, 2023, Mumbai: PLANET (Personalised Lending & Assisted NETWORKS) application by L&T Financial Services (LTFS), a retail-focused non-banking financial company, has achieved the milestone of 2 million downloads. The exponential growth in the number of downloads is attributed to a deeper penetration of loan products in rural India through digitisation and expansion of loan products in urban India. The PLANET app, which is one of the highest-rated finance apps on Google Play Store and Apple App Store with a score of 4.5 and 4.3 respectively, has generated close to Rs. 1,500 crore business, collections of over Rs. 130 crore and has serviced more than 21 lakh customers as on January 31, 2023. More than 2 lakh rural customers of L&T Financial Services have downloaded this application to access the various benefits like the convenience of checking loan details, and ease of access to loan-related documents along with specialised services like timely credit scores and daily mandi prices. In fact, the app also offers Equated Monthly Installment (EMI) reminders and is available in 10 regional languages, besides English and Hindi.

4. Financial Products of L&T Finance:

4.1 Housing Finance

4.2 Consumer Finance

4.3 Two-Wheeler Finance

4.4 Farm Equipment Finance

4.5 SME Finance

4.6 Micro Finance

5. Objectives Of The Study:

- To study the role played by the NBFC sector in Indian financial markets.
- To study and understand the Non-Banking Financial Company’s structure and management, Products, Services and Operations.
- To know about various NBFCs in India that provide non-banking financial services.
- To find out the various business segments, products and services covered under the NBFC’s.
- To understand the dependability of these NBFCs on the economy, industrial development and well-being of the nation.
- To know about the difference between rural and urban finance in L&T finance.
- To understand the risk management process, policies and strategies of L&T finance that includes a review of financial, strategic, operational and damage-related risks.
- To study the products and services offered by the L&T finance to their customers.
- To understand the various schemes and policy introduced for the progress of the nation.
- To study and analyse the annual financial reports and financial statements.
- To study the Planet mobile application offered by L&T Finance which provides a cash loan platform that allows users to apply for loans.
- To know about the achievements and awards that L&T Finance has achieved for its business operations.

6. Scope Of The Study:

- Growth and performance of the NBFC sector in financial market.
- The present study focuses on the risk assessment and policies of the non-banking financial company i.e. L&T Finance.
- The study focuses on the financial products and services of the company.
- The study also states the various types of NBFCs.
- The present study states the principle business of NBFCs includes financial activities related to investments, giving loans and advances, hire purchase, insurance business.
- The study shows the financial growth increasing in the rural areas through rural finance.
- The project has been carried out to have an overview of loans and advances offered by the L&T Finance.
- This study will help to know the preference of customers to apply loans to NBFCs instead of banks.

7. Limitations Of The Study:

- The study is based on secondary data.
- The present study restricted to financial products and services of the company.
- The study may not be cover all the areas of NBFC.
- The accuracy of the data is correct as it is collected from the official site of the company.
- The present study is limited to lending sector of the company.
- The current study shows the company's data and results till March 2023, there is subject to change in the future.
- Secondary data collected from the internet is limited.

8. Research Methodology:

Analytical Research Method: In this research study, the analytical research method used. After analysing the facts the researcher may provide suggestions and conclusion about the study. It is a particular kind of research that calls for using critical thinking abilities and assessing data and information pertinent to the project at hand. The analytical research method used in this study to evaluate and analyse the collecting facts about the L&T Finance (NBFC). The financial reports and financial data of the NBFC analysed and evaluate in this research. Analytical research method is done, when secondary data used for the research.

9. Data Collection Method:

Secondary data in this research has been collected from the various sources Wikipedia, financial reports, annual report, financial statements, balance sheet, financial journals, reports on NBFCs, company website, L&T finance portal, books, advertisements. The secondary data collected from the secondary sources is accurate and right, because it is collected from the official secondary sources. In this research, the most of the data is collected from the internet. Hence, the chances of making mistakes are less.

10. Review Of Literature:

Taxmann's (2013) in their study "Statutory Guide for Non-Banking Financial Companies" listed the set of laws and statutory guidelines relating to Non-Banking Financial Companies. The rules and laws governing the types of activities undertaken by different categories of NBFCs were also discussed.

Basu, (1961), in his paper "Non-Banking Financial Intermediaries and Monetary Policy" explains that in India, the NBFC comprises a variety of institutions, which are defined under section 45 I (a) of the Reserve Bank of India Act, 1934. The author has discussed about the nature of activities of the NBFCs. The paper also describes the types, monetary policies and regulatory measures of NBFC.

Kaur and Tanghi (2013) investigated on the topic "Non-Banking Financial Companies, Role & Future Prospects" with a focus to analyze the role and significance of NBFCs in India. The paper concluded that NBFCs had to spotlight more on their core strengths and must have constantly attempted to search for new financial products and services in order to survive and grow regularly.

11. Findings Of The Study:

- NBFCs have to follow too many government rules and regulations.
- Non-Banking Finance Companies covers many financial segments, financial area, financial services and financial interest which may be difficult to cover by the Banks.
- There are a lot of NBFCs in India, so there is a lot of competition among all the NBFCs.
- The initial investment for setting up an NBFC is so high that it is almost impossible to enter and exit the NBFC sector.
- According to the study, we can see that L&T Finance is more profitable in FY22 as compared to FY21.
- Digital Sakhi is a CSR activity organized by L&T Finance to equip rural women with the skills and knowledge to confidently impart DFL training to families in their communities and nurture an ecosystem of digital financial transactions.
- According to the study all NBFCs have to register with RBI, so RBI controls and regulates all NBFCs in India.
- As per study it is found that L&T Finance is a multi-purpose lending company, because it provides almost all types of loan like Two-wheeler loan, Farm Equipment Finance, Home Loan, Consumer Loan, SME Finance, Micro Finance.
- Recently L&T Finance offers Warehouse Receipt Financing (WRF) that facilitates the use of commodities as collateral to secure loans; commodities are stored in professionally managed warehouses.
- According to the study, HSBC Mutual Fund will be managing the assets of L&T Mutual Fund with effective from 26 November, and as a result of the acquisition the merged L&T Mutual Fund schemes will no longer exist, and all schemes will be renamed to HSBC.

12. Suggestions Of The Study:

- The NBFC should follow all the rules and regulations of government.
- NBFCs have to work more on risk management to avoid fraudulent activities.
- As we know that customer is the king, NBFCs should be customer oriented.
- L&T Finance is a leading non-banking financial company, so they must provide the best services to their customers to survive in the market.
- As we know that NBFCs are registered with RBI, so they must meet and comply with all policies and requirements of RBI.
- Non-banking financial companies should participate more in CSR activities that contribute to the development and growth of society.
- NBFCs should supervise and control all business operations of the company to prevent losses.
- NBFCs should constantly check whether they operate in accordance with the guidelines.

13. Conclusion Of The Study:

The study concludes that NBFCs play a major role in India's financial markets. NBFCs meet to various financial needs of consumers and businesses. NBFCs collect public funds and provide loan able funds. With the sound financial position and good financial performance NBFCs can and are contributing in the economic growth of country. The NBFCs are gaining momentum in last few decades with wide variety of products and services. The NBFCs are helps in the development of financial system of our country. To sum up, the financial performance of NBFCs is quiet satisfactory. The strong NBFCs have successfully emerged as 'Financial Institution' in the short span of time and are in the process of converting themselves into 'Financial Super Market'.

The study concludes that L&T Finance is growing rapidly in last 2 to 3 years. In India, the Non-banking Financial Companies acquire a new meaning and shown robust growth in recent years. The NBFCs is such companies which are not banks, and yet carry lending activities almost at par with banks. The customers find it very reliable and flexible as L&T Finance provides quick and efficient services without making any complex banking formalities, because of digital process. L&T Finance have provides wide range of loans to their customers like Farm loan, TW loan, Home Loan, Consumer loan, Micro loan. L&T Finance is winning the trust of customers by enhancing financial services. The study also concluded that L&T Finance is one of the leading NBFCs in India.

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