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**Recent Economics Policies and Its Impact on
Indian Economy**

October 2019

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| | | |
|-----|---|-----|
| | Economy | |
| | Dr. Kawale Pushpalata G. | |
| 17. | Role of SEZ in Export Promotion | 76 |
| | Dr. Pradeep Dnyanoba Shelke | |
| 18. | "Disinvestment of Central Public Sector Enterprises" | 79 |
| | Miss. R. M. Shaikh | |
| 19. | Role of Special Economic Zones in Export Promotion | 82 |
| | Miss. Samreen Nizam Bagwan | |
| 20. | Status Of 'Stand Up India Scheme' For Scheduled Caste / Scheduled Tribes And Women Entrepreneurs | 86 |
| | Mr. Sumedh B. Kamble, Dr. Brijmohan Dayma | |
| 21. | Role of Special Economic Zone in Export Promotion | 89 |
| | Miss: Joshi Shraddha Rajesh | |
| 22. | A Study of Major Transitions in Indian Economy | 94 |
| | Miss S. B. Dongapure | |
| 23. | Role of Special Economics Zones (SEZs) in Export Promotion in India | 98 |
| | Miss. Shaikh Aliyabi Jabarsab | |
| 24. | Impact Of Economic Reforms On Human Development Index Of Maharashtra | 101 |
| | Jadhav Sudhir Babruvan , Dr. Manojkumar Somwashi | |
| 25. | Skill India Mission and its Impact on Employability | 109 |
| | Mr. Ashish Prabhakar Dake | |
| 26. | Goods and Services Tax: A battle against corruption & amp; its impact on industries | 114 |
| | Someshwar. R. Panchakshari, Krishna Nagnath Lohar | |
| 27. | Study on India's Economic Growth Since 1951 | 117 |
| | Miss. Shaikh Juveriya Mahmood | |
| 28. | Disinvestment Of Central Public Enterprises Walasange Krishnkant Bhujang | 121 |
| 29. | Role Of NBFCs In Indian Economy | 123 |
| | Miss. Battewar Pratiksha Chandrakant | |
| 30. | Implementation of GST and Its Impact on Indian Economy | 126 |
| | Miss. Pooja M. Dane | |
| 31. | EXIM Policy (2015-2020) Objective and Features | 129 |
| | Dr. Dhalgade A. B. | |
| 32. | Demonetization: Impact on various sectors of Indian Economy | 131 |
| | Dr. Palmante Madhav Pandurang | |
| 33. | Disinvestment of Public Sector Enterprises | 134 |

ROLE OF NBFCs IN INDIAN ECONOMY**Miss. Battewar Pratiksha Chandrakant**

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ABSTRACT:-

The various types of NBFCs are act as financial intermediary. It have very significant role in the Indian economy. NBFCs are take lead role in providing advanced financial services to Micro, Small and Medium Enterprises (MSMEs) most suitable according to the business requirements. The NBFCs sector always played a critical role in encouraging growth of the Indian Economy and hence needs to be nurtured appropriately. NBFCs have helped to reach those corners of the country which are not properly served by Banks. It also sets strength, opportunities, challenges and problems faces by this sector.

KEY WORDS:-

Non-Banking Financial Companies, Bank, Micro, Small and Medium Enterprises.

INTRODUCTION:-

Non-Banking Financial Companies (NBFCs) are registered under the companies Act, 1956/2013 which conduct the activities similar to the banks. The NBFCs operate different market segments with relevant marketing strength such as leasing of assets like automobiles, factoring, hire purchasing, acquisition of marketable securities merchant banking, mutual funds home financing, transport financing and insurance business.

NBFCs also plays role to provide innovative financial services to Micro, Small and Medium Enterprises (MSMEs) most suitable to their business requirements. It also plays an important role in Indian economy by providing fillip to wealth creation, employment generation, transportation and support to financially weaker sections.

DEFINITION OF NBFCs:-

NBFC is defined under sec. 45-I (f) of the Act, as under "non-banking financial company" means,

- A non banking institution which is company and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner or lending in any manner.
- Such other banking institution or class of such institutions, as the bank may, with previous approval of the Central Government and by Official Gazette.
- Non-Banking Financial Company is a company which is registered under the Companies Act, 1956.

REVIEW OF LITERATURE:-

Dr. Amardeep (2013) analysed that "The role of NBFCs in creation of productive national assets can hardly be undermined. This is more than evident from the fact that most of the developed economies in the world have relied heavily on lease finance route in their development process."

There is universal agreement that a properly functioning of financial system is required for a thriving modern economy (Kroszner, 2010). In all advanced economic growth and prosperity (World Bank, 2003). vReferring to the NBFIs Greenspan (1999) had stated "enhance the resilience of financial system to economic shocks by providing it with an effective 'spare tyre' in times of need". Moreover, while short term loans needed by the industry and agriculture are offered by the banking system, the other forms of services needed by industry as well as other segments of economy are offered by NBFCs and other similar financial institutions, like factoring, venture finance and so on. R.M. Srivastava & Divya Nigam in their book of Management of Indian Financial Institution background material for economic growth and financial institution, types of financial institution, recent trend Indian financial market. He put enfaces on the fact that the money market has passed through a phase of substantial adjustment and advancement in recent year. L.M. Bhole in his book define the NBFCs perform a diversified range of function and other various financial services to individual, corporate and institutional client. It also play

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positive role in accessing certain depositor segment and clearing credit requirement of borrowers. It also discussing the major financial market in India. Along with the related financial instrument and services i.e. call money, call loan, other short term interest rate instrument and the recent development in money market.

Gupta et.al. in his book define money market is an opportunity for balancing the short term surplus fund of the investor with the short term requirement to borrowers. Another feature of money market is that they are liquid with varying degree. It also define NBFCs play an important role in financial intermediaries because they can take quick decision making assume greater risk and design their product to the need of consumer.

OBJECTIVES OF STUDY:

1. To study the concept of NBFC
2. To study the growth of NBFCs in India.
3. To study the credit share in India.
4. To study the problems faced by NBFC in India.
5. To give suggestions for the growth of NBFCs in India.

RESEARCH METHODOLOGY:-

This study is based on secondary data collected from Magazines, Journals, Newspapers and Internet.

GROWTH OF NBFC IN INDIA:-

Non-Banking Financial Institutions carry out financing activities but their resources are not directly obtained from the savers to debt. Instead of such institutions mobilise the public savings for rendering other financial services including investments.

In order an economy to grow it is required that all the sections of society grow simultaneously. Growth if any economy is always reflected in the quality of life of individual living. NBFCs are playing its part by meeting the diverse financial needs of the economy. It has channelized the saving and investment of the customers and had helped in the capital formation. By focusing in the Small and Medium Enterprises (SME) sector and stimulating microfinance, NBFCs are playing a significance role.

FOCUS ON MSMEs

MSME is very important sector in Indian economy. They accounts for around 45% of the manufacturing output. NBFCs have extended finance to SMEs by providing range of products according to their needs. NBFCs not have only provided loan against assets & property but also various other innovative products were introduced for SMS. Services like three-wheeler financing, second hand vehicles financing, construction equipment financing have enhanced the position of NBFCs in SME world.

MICRO FINANCE

Microfinance Institutions are registered with RBI as NBFC-MFI. These institution covers the gap left by the commercial banks and private money lenders. By providing capital to the rural poor population helped in the generation of self-employment, which in turn have promoted nation growth.

HOUSING FINANCE

NBFCs targeted the low income customers whose monthly income varies from Rs. 6000-12000. These people find it difficult to borrow from the commercial banks. There is relaxation in KYC norms and less documentation is required in the growth of NBFCs. India is being the growing economy faces a big challenge of serving the needs if small, savers, investors and the rural population of the country but over the years NBFCs have also maintained their space in the financial sector along with the commercial banks. NBFCs maintain a close contact with their customer and always provide simple ways of catering the needs if their customer's.

SIGNIFICANCE OF NBFCs:-

- NBFCs cater to a wide variety if customers- both in urban and rural areas.
- NBFCs are more profitable than Banks because of lower costs.

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- NBFC plays major role in the direction of saving and investment in wave of rapid Industrial Development.
- NBFCs are the Intermediary between Savers & Investors.
- NBFCs contribute to the economy by lending to infrastructure projects, which are important to a developing country like India.

PROBLEMS FACED BY NBFCs IN INDIA:-

- There are complications for obtaining Licence of NBFCs.
- Funding issues due to the absence of refinancing option.
- Absence of flexibility in the classification of loan NPAs.
- There is lack of statutory recovery tool.
- There is minimum mandatory credit rating for deposit-taking NBFCs.
- Removal of Priority sector status to Bank lending to NBFCs.
- NBFCs generally have no access to low cost funds.

CONCLUSION:-

NBFCs have been playing a very important role from the point of view of macroeconomic outlook and in the structure of Indian Financial System. NBFCs are the best alternatives for the Traditional Banks for fulfilling the requirements of business activities. They offer the various types of services without going through the complex formalities. However in order to survive and to continuously grow, NBFCs have to focus on their strengths and weaknesses. They need to search for new products and services in order to carry on in this competitive financial market.

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