

The financial profile of non-banking finance companies (NBFCs), expanding business activity at a fast clip as a lending group, showed improvement in 2017-18 in capital adequacy, profitability, and asset quality. According to the Reserve Bank's Financial Stability Report (FSR), their gross non-performing assets (GNPAs) as a percentage of gross advances declined to 5.8 per cent in FY18, from 6.1 per cent in FY17. Return on assets rose to 1.9 per cent, from 1.6 per cent the previous year. The capital adequacy ratio (tiers I and II) improved to 22.9 per cent, from 22 per cent.

NBFCs have to maintain a minimum in tiers-I and II capital of not less than 15 per cent of aggregate risk-weighted assets.

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The report said there was a deceleration in the share capital growth of NBFCs, whereas borrowing grew 19.1 per cent, implying rising leverage. Loans and advances of the sector increased 21.2 per cent and investments by 13.4 per cent. The aggregate balance sheet size at end-March was Rs 22.1 trillion.

As of end-March, there were 11,402 of these companies registered with the Reserve Bank, of which 156 were deposit accepting (NBFCs-D). There were 249 deemed as systemically important non-deposit accepting NBFCs. All finance companies are subjected to prudential regulations such as capital adequacy requirements and provisioning norms, along with reporting requirements.