Journal of Commerce and Accounting Research
12 (4) 2023, 01-09
http://publishingindia.com/jcar/

Submitted: 23 November, 2021
Revision: 11 January, 2023
Accepted: 09 February, 2023

A REVIEW OF NBFCs IN INDIA

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Abstract *Non-banking financial companies (NBFCs) play a salient role in converting scarce financial resources into capital formation. They supplement the role of traditional banks by meeting the financial needs of the organised and unorganised sectors. They fill the credit gaps where the reach of banks is minimal. The paper provides a general review of NBFCs in India. The paper throws light on how NBFCs can increase their scope in micro, small and medium enterprises and retail sectors. The NBFCs have a cutting edge over banks because of their customised product offerings. The paper discusses the role of digitalisation in NBFCs' functioning. The paper further evaluates the challenges faced by NBFCs due to the Infrastructure Leasing and Financing Services crisis and the COVID-19 pandemic. The degrading asset quality, decreasing profitability and evasion of capital due to sluggish industrial growth and increased provisioning remain current challenges. The corrective actions taken by NBFCs and the Reserve Bank of India to mitigate the risks arising from these challenges are also discussed. The study is concluded by recommending that the entire framework of NBFCs be recalibrated such that precedence is given to enhancing corporate governance and establishing resiliency.*

Keywords: *NBFCs, Digitalisation, Liquidity, RBI, MSMEs, IL&FS*

INTRODUCTION

Non-banking financial companies (NBFCs) have evolved as an important alternative channel of credit delivery in the bank-dominated financial panorama of India. Their role is cardinal in fostering inclusive growth. They are the prime financiers for the underserved and unserved people of the country. Around 70% of their branches are situated in semi-urban and rural areas. They succor the multifarious credit needs of people who are outside the purview of traditional banks, thus helping in financial penetration (Awasthi & Shukla, 2022). The NBFCs are also responsible for the growth of the country's infrastructure sector by providing long-term loans to various large infrastructure projects (Sherpa, 2013). All NBFCs are regulated by the Reserve Bank of India (RBI). They are classified in three ways. Firstly, on the basis of activities financed. Under this classification, there are a total of 11 categories. Among them are infrastructure loans, credit to financially disadvantaged people, mortgage guarantee businesses and investment in equity shares, retail lending, housing finance, etc. Secondly, on the basis of the asset-liability structure according to which the NBFCs are divided into two categories, namely NBFC-D, which are public deposit-taking, and NBFC-ND, which are non-deposit taking. The non-deposit-taking NBFCs depend on markets and banks for funding. Thirdly, on the basis of systemic importance, the non-deposit-taking NBFCs with asset sizes equal to or greater than 500 crore INR are considered systemically important (RBI 2020b, p.114). These systemically important non-deposit-taking NBFCs (NBFCs-ND-SI) hold 85.7% of the total assets of the entire NBFC sector (RBI 2020b, p.116). There are total 9601 NBFCs registered with RBI as of 31st March 2020. Of these, 66 are deposit-taking, and 278 are systemically important non-deposit-taking NBFCs (RBI 2020a, p.38).

In recent years, the NBFCs have forged ahead of banks in the Indian financial system. Their balance sheet in terms of total assets expanded at a compounded annual growth rate (CAGR) of 18.6% from 2009 to 2019, whereas that of scheduled commercial banks grew at a CAGR of 10.7% (RBI 2010; RBI 2019c). This growth spurt is attributed to their ability to create innovative products and service delivery mechanisms, diversify their products offerings, have a profound understanding of asset or customer being financed, have accurate credit assessment skills, greater underwriting capacity, have low cost of operations and vigorous collection capacity (Sengupta et al., 2021). The regulatory reforms also supported their exponential growth. The NBFCs enjoy greater financial flexibility in terms of regulations than the banks. The RBI has a feather-touch approach to governance towards NBFCs. They enjoy relaxed supervisory norms. They are exempt from sector concentration norms and benchmarks related to credit standards and acceptable collateral. All those business activities that banks neglected due to norms relating to sector concentration and constraints on credit exposure became golden opportunities for lending for NBFCs (Gosh et al., 2012).

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Despite higher exposure to informal segments and a higher cost of funds, NBFCs generate higher risk-adjusted returns as compared to banks. The net interest margins of NBFCs for years 2018, 2019 and 2020 are 5.7%, 5.3% and 5.1%, respectively while that of banks for years 2018, 2019 and 2020 are 2.5%, 2.7% and 2.9%, respectively (RBI 2020a, p.22; RBI 2020b, p.131). Banks had returns on assets of -0.2%, -0.1% and 0.2% for years 2018, 2019 and 2020 respectively while NBFCs generated positive return of assets of 1.6%, 1.5% and 1.3% for years 2018, 2019 and 2020 respectively (RBI, 2020a, p.22; RBI 2020b, p.131). The asset quality of NBFCs is also better than that of banks. The gross NPA of banks for year 2019 and 2020 is 9.3% and 8.5%, respectively, while that of NBFCs is 6.1% and 6.4% for 2019 and 2020, respectively (RBI, 2020a, p.22; p.38). The NBFCs cover the sector-specific financing needs of agriculture and allied activities, micro, small and medium enterprises (MSMEs), large industries, infrastructure, the real estate sector, retail loans like housing finance, consumer loans and vehicle loans (both commercial and passenger segments). Apart from loans and advances, the NBFCs also focus on the acquisition of shares, marketable securities like stocks, bonds, debentures, lease and hire-purchase agreements and insurance business (Das & Palai, 2019).

The objective of this article is to comprehend how NBFCs can increase their scope in the MSME and retail sectors. The article also evaluates how NBFCs can use digital technology to enhance customer experiences and improve their reach. The article further analyses the challenges faced by NBFCs due to the IL&FS crisis and the COVID-19 pandemic. The corrective actions taken by RBI to mitigate the risks arising from these challenges are also discussed. The study also provides suggestions on how the entire framework of NBFCs can be strengthened.

The article bears significance in various ways. The formal credit channels, comprising banks and NBFCs, provide only 49% of the total credit requirement of MSMEs. As of September 2020, the formal credit exposure to the MSME sector is around 19.09 lakh crore INR (SIDBI 2021, p.7). In this exposure, the NBFCs contribute 12.54% (2.3 lakh crore INR), and banks contribute 87.46% (16 lakh crore INR). However, the total credit requirement of the entire MSME sector is 37 lakh crore INR (RBI 2019a, p.72). Thus, there is a credit gap of 18.7 lakh crore INR, which can become a huge growth opportunity for the NBFCs. Keeping these facts in mind, it is imperative to study how NBFCs can increase their role in the MSME space. The retail segment incorporates housing loans, vehicle loans and consumer durables loans. Housing forms the foundation of a sound economic status for people. It is a necessary precondition for the achievement of health and education. NBFCs play a significant role in providing financial assistance to a lower-middle and poor strata of society for the purchase of a home. India will require 8–10 crore housing units for lower-income and economically weaker sections by the end of 2022 (RBI 2019b, p.1). Thus, it is necessary to comprehend how NBFCs can expand their ambit in the housing loan space. The NBFCs play a very crucial role in vehicle finance. The vehicle finance market in India is growing at 11% per annum and is estimated to be around 5.6 lakh crore INR as of September 2020 (FICCI and EY 2020, p.26). Currently, NBFCs enjoy a 40% share of this market despite huge competition from banks. The article focuses on how their market share can be augmented further. NBFCs also provide easy access to credit in the consumer durables finance segment. They decrease customers' reliance on informal sources while making them purchase goods of daily use (Ray, Miglani & Paul 2018). India's consumer credit to gross domestic product (GDP) ratio is approximately 13% which is at the lower side compared to that of China and the USA, which are at 40% and 80%, respectively, which denotes that NBFCs have a broader scope for expanding their footprint in consumer durables finance (Srinivasa & Jain, 2019).

The article is organised into eight sections. In Section 1, the article provides a general introduction to NBFCs. Section 2 contains a literature review. In Section 3, the article focuses on how NBFCs can increase their scope in the MSME and retail sectors. In Section 4, the article discusses the role of digitalisation in NBFCs' functioning. In Section 5, the article evaluates the challenges faced by NBFCs due to the IL&FS crisis and COVID-19. Section 6 presents the corrective actions taken by NBFCs and RBI to mitigate the risks arising from these challenges. Section 7 comprises suggestions, followed by concluding remarks in Section 8.

LITERATURE REVIEW

The NBFCs are on the frontlines of providing inclusive growth. The basis of financial inclusion is holistically delivering financial services to the most deprived economic sections (Narang, 2021). The NBFCs deepen formal credit access to small businesses, retail segments, rural households and other underserved sections. Due to the limited availability of tangible assets, inadequate accounting records and meagre market power, these segments are considered risky propositions by banks (Sulthana et al., 2022). The MSMEs seek credit for working capital, expansion and diversification of their businesses. Retail loans comprise housing loans, vehicle loans, consumer finance, etc. NBFCs can compete with traditional banks due to low transaction expenses and the feasibility of reaching villages (Kumar & Divya, 2022). Easy documentation and tactful communication skills can make NBFCs a final tranche for the retail and MSME sectors (Zaman et al., 2021). Further, the commercial banks have a high cost-to-income model due to their greater dependency on brick and mortar network, whereas the NBFCs are dashing on a digital rail, reshaping the entire financial system. This transformation will benefit the customers by inducing competition and innovation (Satapathy, 2022). The ILFS default created turmoil in the Indian credit market in 2018. The funding of long-term projects with short-term funds triggered some burning questions regarding the business model of NBFCs and their regulations. The credit risk premium was hiked for all debt market instruments (ETBFSI, 2022a). In consequence, the government included NBFCs (with assets larger than INR 500 crore) in the insolvency and bankruptcy code. The RBI also took measures to augment liquidity and established an appropriate risk reduction framework. However, the sector continued to show reverse trends due to rise of COVID-19 pandemic. The sector faced a concoction of factors like the sudden closure of a few mutual fund schemes, risk aversion among investors and massive sell-offs (Sharma and Batrani 2021). Khatri and Modi (2022) studied the impact of the COVID-19 pandemic on performance of NBFCs in India. They pointed out that the profit declined by 14.44% during the COVID period as compared to the pre-COVID period. The cost-to-income ratio increased by 5.7%, resulting in a further cut in profitability. Nonetheless, the NBFCs recovered due to growth in retail loans, gold loans and steps taken by the RBI and government of India for loan restructuring. As the economy revives, NBFCs are again aiming to expand. But they must be cautious about the rising cost of funds and rely on robust risk management paradigms. They must work up their technological potential to take advantage of digital channels (RBI, 2022, p.16).

HOW NBFCs CAN INCREASE THEIR SCOPE IN MSME AND RETAIL SEGMENT

Micro, Small and Medium Enterprises

The MSMEs form the backbone of the Indian economy. There are approximately 63.38 million MSMEs in India, which employ 110 million people. They contribute 28% to the GDP, 45% to manufacturing output and 40% to total exports. Around 51% of MSMEs are based in rural areas, which aid in equitable distribution of resources and wealth (RBI 2019a, p.14; MSME 2021, p.29). Despite their notable significance in the economy, 51% of the total credit requirement of MSMEs either remains unmet or is financed by informal lenders at a significantly higher rate (Mondal et al., 2021). The NBFCs can place themselves more firmly in the MSME lending space by virtue of their superior underwriting capacity, reduced processing time, strong network at ground level and high touch-based collection system (ETBFSI, 2022b). In spite of the economic slowdown and hurdles in retrieving funds, the micro- and small-business segment recorded an increase of 80.7% in credit growth from 41,985 crore INR in 2018–19 to 75,849 crore INR in 2019–20. This growth is attributed to various policy measures, like interest subvention schemes for all goods and services tax-registered MSMEs and credit-linked subsidy schemes in which the government guarantees collateral-free loans to MSMEs (RBI 2020b, p.120). By shifting from collateral-based lending to cash flow-based lending, NBFCs can get direct access to the largely untapped and unbanked echelon of self-employed small businesses (Dethe, 2020).

Retail Segment

Housing Finance

The key facets of housing finance growth in India are attributed to urbanisation, growing affordability, increasing penetration in semi-urban areas, a shortage of houses, drop-in household size, etc. The NBFCs cater to the home loan segment through housing finance companies (HFCs), which are their specialised category constituted only for providing housing loans. There are 101 housing finance companies as of July 2020 (RBI, 2020b, p.114). The market share of NBFCs in the home loan market has increased from 33 to 43% over the period 2011–2019 (RBI 2019b, p.14). The credit deployment by NBFCs in the home loan segment continued to increase by 37.1% from 15,663 crore INR in 2018–19 to 21,468 crore INR in 2019–20, which is because of the implementation of affordable housing schemes like Pradhan Mantri Awas Yojana (Urban and Gramin) and the furtherance of the real estate regulations and development act, 2016 (RBI 2020b p.120). The NBFCs can augment their foothold in the housing loan market because of their functioning based on limited collateral documentation and ability to deviate from legal and technical assessment. Their expertise in acquiring new customers in rural and semi-urban markets can increase their realm in the housing finance market (Pratibha & Krishnan, 2018).

Vehicle Loans

The vehicle loan market in India includes loans for consumer vehicles, passenger vehicles, farm equipment, vehicles for construction activity and second-hand vehicles. The NBFCs offer competitive interest rates to customers compared to other financiers, grabbing 40% market share in the vehicle loan market. The credit deployment by NBFCs in the vehicle loan segment increased by 18.22% from 2,02,136, crore INR in 2018–19 to 2,38,970 crore INR in 2019–20 (RBI 2020b, p.120). They have further scope for growth in this segment due to various reasons. Firstly, there is an emergence of first-time entrepreneurs in the country, which causes a surge in the demand for consumer vehicles. Around 33,000 first-time entrepreneurs have set up small businesses in the last five years (FE Online 2020). Secondly, there is a growing awareness among farmers about agricultural mechanisation and new cultivation techniques, leading to increased use of farm vehicles. The tractor penetration has increased from one per 150 hectares to one per 30 hectares. Only 40–45% of farming is mechanised in India, in contrast to 95% in the USA, which illustrates the immense scope of mechanisation (NABARD 2018; FICCI 2019). Most first-time entrepreneurs and farmers have limited income proofs, making them unable to meet the stringent loan criteria of traditional banks. The NBFCs can harness this opportunity because of their liberal credit policy, higher underwriting capacity and strong collection practices (Chakraborty, 2015).

Consumer Durables Loans

India is an untapped market for consumer durables, with a significantly lower penetration of consumer durables in households. The value of the consumer durables market was 16.9 billion USD in 2017 and is expected to reach 36 billion USD by 2023 (BCG & Google 2019, p.8). This boom is ascribed to urbanisation, a rise in the average annual income of the population, e-commerce growth, expanding financial services for diversified products and convenient access to credit. The ability of NBFCs to innovate and customise products according to customers needs can make them a preferred choice of lender in consumer durables finance (Kayastha, 2022). Their ‘no one size fits all’ philosophy gives them a cutting edge over traditional lenders. They can simultaneously provide a gamut of financial services to customers, like small quantum loans, short-tenure loans, Flexi EMIs and multi-objective financial schemes (Steephan & John, 2015). Despite the economic slowdown, the consumer durables loan segment of NBFCs accounted for only a slight negative credit growth of -0.4% in credit deployment from March 2019 to March 2020 (RBI 2020b, p.120). Growing digitalisation is also creating new elbow room for NBFCs. The digital platform enables them to offer unsecured loans ranging from INR 25,000 to 5.00 lakh with minimum paperwork and less time. The app-based outreach has transformed the credit delivery mechanism. India has a user base of 370 million customers in the smartphone market, with 37% internet penetration growing at a CAGR of 31%. NBFCs can take advantage of the rising smartphone market, cheaper internet and collaboration with e-commerce companies to capitalise the growing shift of consumers to online shopping (PwC 2018, p.8).

ROLE OF DIGITALISATION IN NBFCs

The NBFCs have become spearheads in adopting digital technology and ingenious fintech services and products. Digital technology has been a key in all aspects of financing, be it lending, payments, or back-office work (Subrahmanyam et al., 2021). The share of digital lending in the Indian loan market was 23% in 2018 and is expected to reach 48% by 2023 (PwC and FICCI 2019, p.16). The digital technology enables NBFCs to create an e-infrastructure for setting up meetings with clients on a virtual platform and verifying video KYC. The use of online calculators, knowledge centers, live chats and live application tracking systems enhances customer satisfaction in retail spaces and saves costs for lenders. Digital platforms can be multi-lingual, due to which the NBFCs are able to furnish all details of their products in a more understandable manner to clients. This particularly helps small business customers, as they can have one-on-one interactions with the lender in the local language without going to the branch (Agarwal, 2020). Digital technology enables the ingress of customer data across all demographic profiles. Using data-based real-time insights, NBFCs can augment their retail loan segment. Digital technology is also creating innovative and non-standard business models. NBFCs can utilise such models for micro-business segments that cannot fulfill the traditional balance sheet analysis requirements obligated by banks (Das 2021).

CHALLENGES FACED BY NBFCs DUE TO IL&FS CRISIS AND COVID-19

The NBFCs play a significant role in channelliing funds through the Indian financial system. The main source of funding for NBFCs is through direct lending from banks and also through commercial papers and non-convertible debentures, which are primarily purchased by mutual funds, insurance companies and scheduled commercial banks. The NBFCs routinely issue short-term commercial papers to maintain liquidity and roll over their previous borrowings. In the first half of 2018, the interest rates on short-term commercial papers ranged from 4.75 to 6.75%, while those on long-term borrowings were higher by approximately 3% (FICCI & EY 2020, p.30). Utilising this arbitrage, the NBFCs deliberately relied on low-cost commercial papers for funds. Many of them invested these short-term funds in long-term projects. In September 2018, the credit rating of an infrastructure NBFC known as Infrastructure Leasing and Financing Services (IL&FS) was downgraded from AAA to default. The fallout from IL&FS resulted in a credibility gap in the entire NBFC sector, even though the business activities of NBFCs remained unchanged during that time.

Consequently, the flow from the capital market retrenched owing to a fear of systemic risks. The liquidity crunch weakened the repayment ability of NBFCs, whereas the redemption pressure from institutional investors remained intact. This incidence called attention to a structural problem in non-banking lending where short-term funds are used to finance long-term assets. The NBFCs started facing difficulties in raising new debt and rolling over existing debt. The dominos effect created by IL&FS's collapse made smaller and weaker NBFCs bite the dust as banks, and mutual funds started differentiating them on the basis of the asset portfolio and promoter group. The NBFCs with a strong promoter group, a solid rating and superior corporate governance standards were able to fetch funds. Those with poor asset quality and a large asset-liability mismatch were denied access to markets (Manda and Rani 2019). There was a significant decline in borrowing through commercial papers. The total borrowing of NBFCs in the form of non-convertible debentures from banks decreased from 49.1% in March 2017 to 40.8% in December 2019. Also, the NBFCs found it difficult to liquidate long-term loans (Kumar & Ayeswarya, 2019).

After the IL&FS crisis, the NFBCs were somehow picking up the pace due to corrective measures taken by RBI, and then an outburst of COVID-19 happened. All business activities were halted due to COVID-19 imposed lockdown, which will last until March 2020. COVID-19 disarrayed the Indian economy strikingly, and volatility was induced in financial markets. The impact of this unexpected incident was greater on NBFCs than on banks because the former serve MSMEs, non-salaried individuals, self-employed, and people with poor credit ratings who were badly hit by COVID-19. The credit demand impinged and NBFCs faced reductions both existing loan disbursements and the acquisition of new customers. There was a sequential decrease in loan repayments, which further mounted stress on their balance sheets. Perceiving huge credit risks, banks and other market players became risk-averse. Investors chose to invest in NBFCs with lower leverage levels and a differentiated portfolio of assets. The cost of funds also increased due to market uncertainty (Roy, 2019).

Post COVID-19, NBFCs face challenges both on the liabilities (funding) and assets (loans and advances) sides. They are heavily dependent on banks and mutual funds for maintaining liquidity through commercial papers but are not being provided an easy rollover to meet debt obligations from maturing commercial papers. One of the critical tools through which NBFCs tackled their asset-liability mismatch was securitisation. Due to the economic slowdown, the securitisation volume also fell because investors raised concerns about asset quality deterioration and the doubtful performance of NBFCs' loan portfolios (Adhikari, 2020). This caused further damage to the liquidity position of NBFCs. The asset quality of NBFCs is deteriorating sharply on account of sluggish industrial growth, low capacity utilisation by industries, disruptions by COVID-19, and the laggard impact of demonetisation. Higher provisioning on the balance sheet may further reduce profitability. Higher incidence of NPAs, lower profitability, declining capital and meagre credit growth remain the current challenges (Subramanian & Felman, 2019).

CORRECTIVE ACTIONS TAKEN BY NBFCs AND RBI TO HANDLE IL&FS AND COVID-19 CRISES

In light of the uncertainty encircling the macroeconomic environment, NBFCs are developing appropriate risk assessment tools by analysing borrowers' credit histories. They are examining the level of COVID-19 impact in each business area and segmenting borrowers accordingly. They are conserving liquidity through the elongation of maturities. This may negatively impact the net interest margins but reduce systemic risks (Adhikari, 2021).

Taking lessons from the IL&FS crisis, the RBI brought the NBFCs in infrastructure finance under the ambit of prudent regulations. It is mandatory for all NBFCs to make a mandatory appointment of a chief risk officer. The board members have to supervise implementation of Liquidity Risk Management framework formulated by the Basel Committee on banking supervision. All NBFCs have to comply with the liquidity coverage ratio devised by this committee, which can help them meet large short-term obligations even under severe liquidity constraints for a 30-day time period. This step is in accordance with the need to reduce risks associated with the asset-liability mismatch. In order to promote fintechs and app-based financial intermediaries, the account aggregator system is formed, which is a consent-based information sharing platform and does not view or store data (Rao, 2020).

The COVID-19 aftermath was handled in several ways. In March 2020, to relieve borrowers from the pressure of loan repayments, the RBI launched a COVID-19 regulatory package under which a three-month moratorium was allowed to be offered by lenders to their term loan borrowers from 1st March 2020 to 1st May 2020. This moratorium was extended for another three months, till 31st August 2020 (RBI 2020b, p.141). The moratorium period was also excluded from the NPA classification norms of 90 days.

For maintaining liquidity in the financial system, the RBI provided 1 lakh crore INR to banks under targeted long-term repo operations (TLTRO-1), of which 50% of funds were to be invested in NBFCs through investment-grade commercial papers and bonds of 1–3-year maturities (RBI 2020b, p.152). In April 2020, the RBI declared a 50,000 crore INR allocation to specific small and medium-sized NBFCs to strengthen their liquidity under TLTRO-2. Financial institutions like NABARD, NHB and SIDBI were provided with 50,000 crore INR to refinance loan assets of NBFCs. The NBFCs were allowed to restructure the loans given to the commercial real estate sector by extending the commencement of operations by one year. In order to induce credit demand in MSMEs, the government of India introduced the Atmanirbhar Bharat Package, which was a full guarantee scheme of approximately 3 lakh crore INR for banks and NBFCs under which collateral-free loans were to be provided to eligible customers (RBI 2020b, p.152). In May 2020, another special liquidity scheme worth 30,000 crore INR was launched under which public sector banks have to invest in investment-grade commercial paper and bonds of NBFCs through a special purpose vehicle. For handling temporary liquidity mismatches at NBFCs, a partial credit guarantee scheme worth INR 45,000 crore was also launched, under which the government of India will cover 20% of the initial loss of public sector banks on their investment in low-rated commercial papers of NBFCs (Kumar, 2020). On 5th May 2021, RBI instructed lending institutions to offer a loan restructuring option to all MSME borrowers with exposure up to 25 crore INR who had not availed of this scheme earlier. In a nutshell, the steps taken by RBI are intended to prevent the shocks from getting transmitted to and from the entire NBFC sector (Mishra, 2021).

SUGGESTIONS

Following the COVID-19 pandemic, the NBFCs will remain exposed to stress related to asset quality, with higher exposure in informal businesses and among self-employed people. So they are required to make large provisions for stressed accounts, arrange liquidity to meet redemptions, search for options to increase capital, improve collection and recovery methods. They need to curb the operational expenses and build a capital buffer to make up for deferred recoveries and higher provisioning. They need to reduce their dependence on bank borrowings and take a higher recourse to market-based instruments to mobilise resources (EY, 2020). The NBFCs should be given access to the CRILC (Central Repository of Information on Large Credits) database, which contains information on borrowers with exposure of 5 crore INR or more, to do a better credit risk assessment and monitoring of large borrowers. On the regulatory front, the RBI should relax provisioning norms and extend liquidity schemes for a longer duration to fortify the entire NBFC sector. A direct credit facility from the RBI can be established for the short term to tackle liquidity issues. At present, all NBFCs are viewed and regulated through the same lens, irrespective of their size and area of lending. The RBI regulations should be up-to-date on size and activities financed (FICCI & EY 2020). The conscientiousness of promoters is paramount to ensuring good corporate governance. Rigorous scrutiny should be done to check the genuineness and competency of promoters. The entire framework of the NBFC sector should be recalibrated such that precedence should be given to enhancing corporate governance and establishing resiliency. Reinforcing the NBFC sector will give momentum to the country's credit growth (Shaji, 2020).

CONCLUSION

The NBFC sector has undergone a noteworthy transformation over the past few years. The sector is now being recognised as a key interconnecting link in the Indian financial system. Its role in bringing systemic stability cannot be missed. The NBFCs are prime purveyors of credit to micro, small and medium enterprises and weaker sections of society. They play a critical role in developing infrastructure, transport, and wealth creation in the economy (Oncu, 2013). Given the present scenario, NBFCs are required to reorient their operations and business model to grab prospective growth opportunities. Exploring new sources of finance and building a capital reserve are prerequisites for attaining growth. The adoption of digital technology is indispensable for the coherent dissemination of credit (NITI Aayog 2022, p.57) in the past two years, the NBFCs have faced a severe liquidity crisis and an unprecedented disruption due to the COVID-19 pandemic. The liquidity crisis revealed inherent setbacks in the NBFC model and provided an opportunity for correction. The sector withstood the pandemic despite a fierce decrease in advances and repayments. It is crucial to instill resiliency in NBFCs so that they can bear such extensive shocks. A steady flow of funds should be ensured to the entire NBFC sector. The regulatory binding for NBFCs is lesser than that for banks, which is the major reason for their advantageous credit delivery position. However, this arbitrage can create systemic risks for the whole financial system. It is imperative to redress the regulatory framework such that the NBFCs possess operating flexibility without compromising financial stability. The regulations should be geared towards risk mitigation and safeguarding the solvency of the Indian financial system (Rao, 2020).

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Abbreviations

NBFCs- Non-Banking Financial Companies

RBI- Reserve Bank of India

CAGR- Compounded Annual Growth Rate

MSMEs- Micro, Small and Medium Enterprises

INR- Indian National Rupees

NABARD- National Bank for Agriculture and Rural Development

NHB- National Housing Bank

SIDBI- Small Industries Development Bank of India