Infomerics Valuation And Rating Pvt. Ltd.

SEBI REGISTERED / RBI ACCREDITED / NSIC EMPANELLED
CREDIT RATING AGENCY

Mr. Vipin Malik,
(Chairman, Infomerics Ratings)

Dr. Manoranjan Sharma
(Chief Economist)

Mr. Sankhanath Bandyopadhyay
(Economist)

INDUSTRY OUTLOOK

NBFCs: REBOUNDING WITH REGULATORY SUPPORT, ALBEIT MANY CHALLENGES

11 March 2022

Introduction

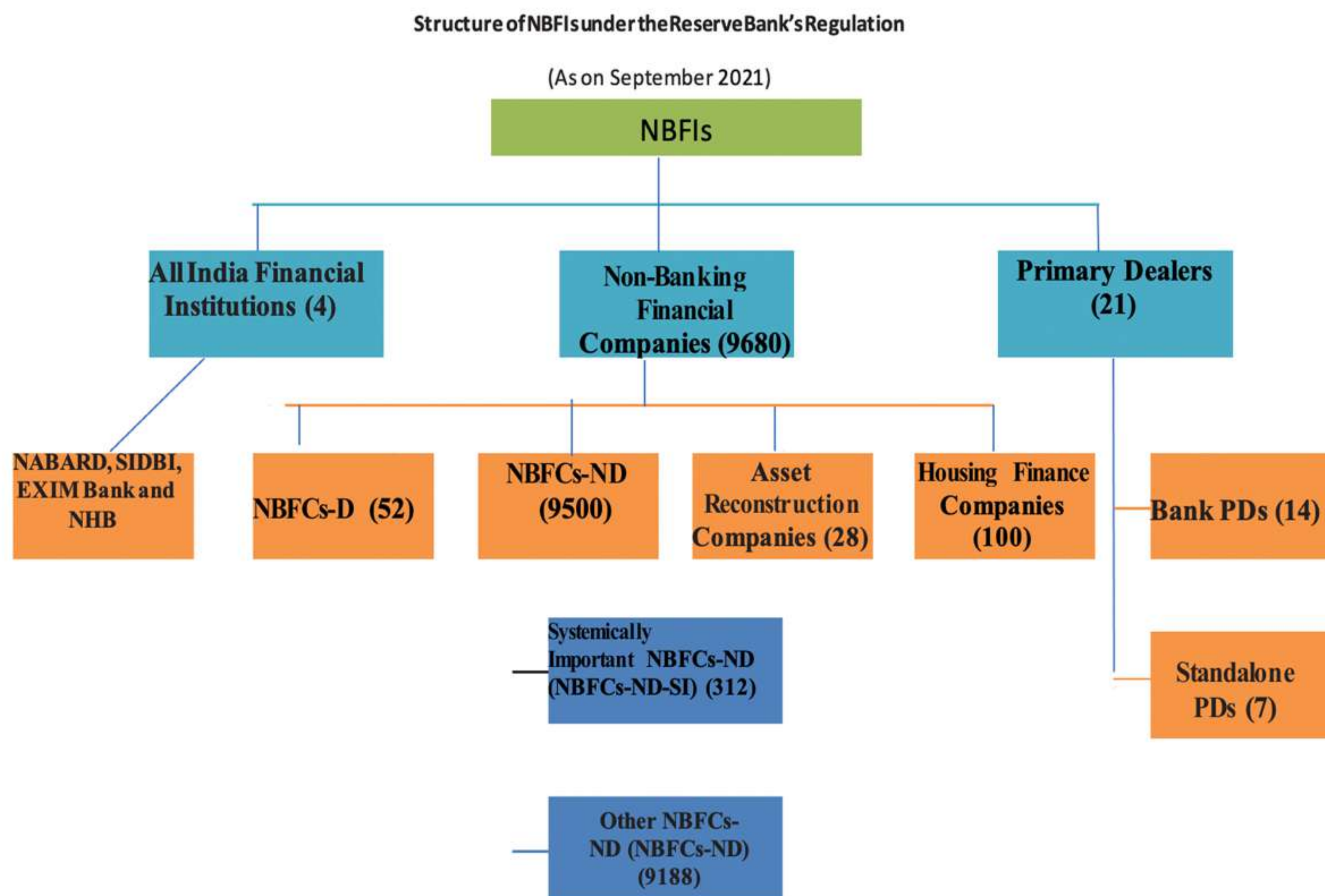
Non-banking finance companies (NBFCs) form an integral segment of the Indian financial system. NBFCs, which have emerged as the driving force behind India's rapid economic growth in areas ranging from customer satisfaction to social engagement, play a catalytic role in nation building and financial inclusion by complementing the banking sector in reaching out credit to the unbanked segments of society, especially to the micro, small and medium enterprises (MSMEs), which form the cradle of entrepreneurship and innovation. Further, NBFCs provide an important avenue for the investors to park their funds at more attractive returns in comparison to the bank deposits.

The NBFC sector in India has undergone a significant transformation over the past few years. It has come to be recognised as one of the systemically important components of the financial system and has shown consistent year-on-year growth. NBFCs play a critical role in the core development of infrastructure, transport, employment generation, wealth creation opportunities, and financial support for economically weaker sections.

While Non-Bank Finance Companies (NBFCs) perform a crucial role in credit extension in addition to the formal banking system, in the recent past the regulation aspect has assumed immense significance given its diversity, as well as certain instances like the collapse of the IL&FS, among others. Given that the sector is indispensible but with many issues, it can be termed as "necessary evil"[1] and can play an important part in the pursuit of the avowed objectives of maximising net social good and reducing incidental individual loss. These and other issues of cross-cutting strategic significance brought to the fore delayed recognition of the red flags, procrastinated response and raise the cost of the crisis to taxpayers.[2]

It is interesting to note from Fig-1 and Fig-2 that certain changes occurred from July'20 and Sept'21 in the Non-Banking Financial institutions (NBFIs) sector. In recent times, during Sept'21, the number of NBFCs rose from 9618 in July'2020 to 9680 in Sept'21. A disaggregated examination reveals that while the number of deposit-taking NBFCs declined, the number of non-deposit taking NBFCs increased.

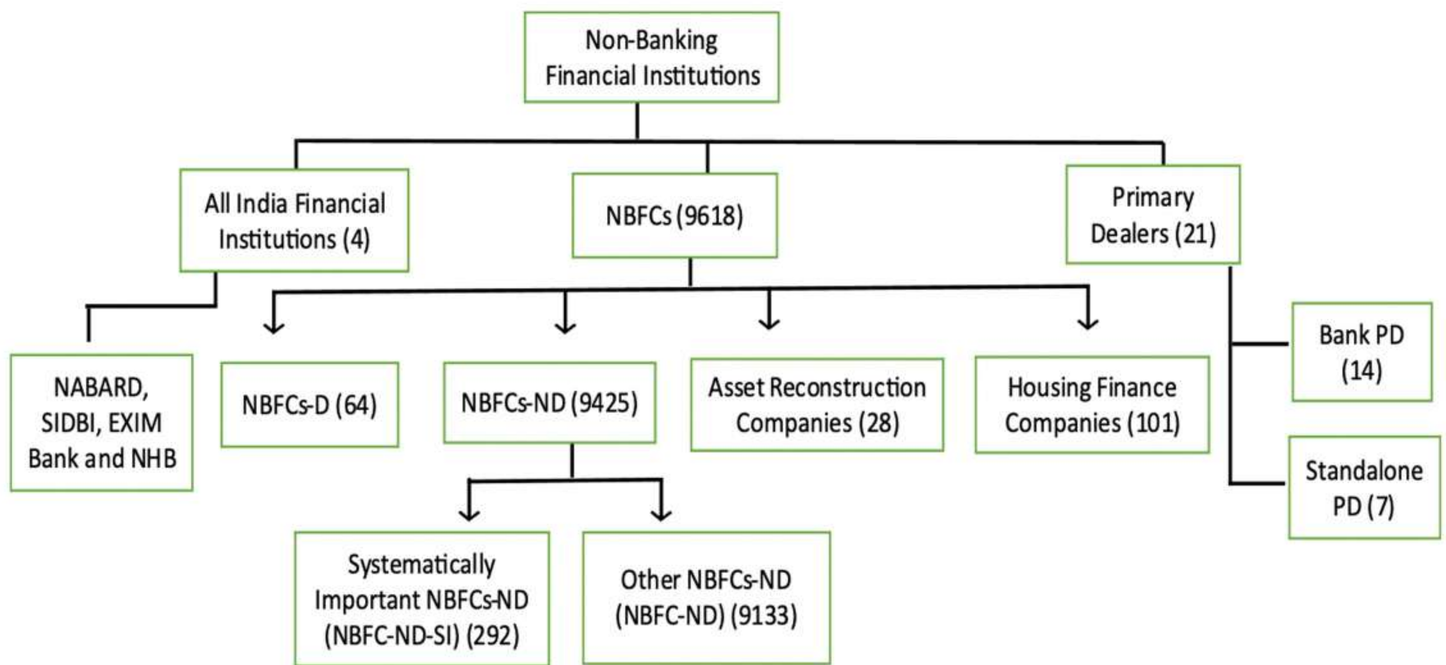
Fig 1: Structure of NBFIs under the Reserve Bank's Regulation (As on September 30, 2021)



Source: RBI "Report on Trend and Progress of Banking in India 2020-21."

Infomerics Ratings

Figure 2: Structure of NBFIs under the Reserve Bank's Regulation (16th July 2020)



Source: Report on Trend and Progress of Banking in India 2019-20.
Note – Other NBFCs-ND include 64 Core Investment Companies (CICs).

Classification of NBFCs:

NBFCs can be classified on the basis of the following aspects:

a) Asset/liability structures;

b) Systemic importance;

c) Activities they undertake.

In terms of liability structures, NBFCs are subdivided into deposit-taking NBFCs (NBFCs-D) (which accept and hold public deposits) and non-deposit taking NBFCs (NBFCs-ND) (which source their funding from markets and banks). Among non-deposit taking NBFCs, those with asset size of ₹500 crore or more are classified as non-deposit taking systemically important NBFCs (NBFCs- ND-SI).

Since NBFCs cater to niche areas, they are also categorised on the basis of activities they undertake. Till February 21, 2019, NBFCs were divided into 12 categories. Thereafter, these categories were harmonised in order to provide NBFCs with greater operational flexibility. As a result, asset finance companies (AFCs), loan companies (LCs) and investment companies (ICs) were merged into a new category called Investment and Credit Company (NBFC-ICC). At present, there are 11 categories of NBFCs in the activity- based classification.

Although the NBFC sector expanded from ₹26.2 lakh crore in 2017-18 to ₹30.9 lakh crore in 2018-19, the pace of expansion was lower than in 2017-18 mainly due to rating downgrades and liquidity stress in a few large NBFCs in the aftermath of the IL&FS event. This slowdown was witnessed mainly in the NBFCs-ND-SI category, whereas NBFCs-D broadly maintained their pace of growth. However, in 2019-20 (up to September) growth in balance-sheet size of NBFCs-ND-SI as well as NBFCs-D moderated due to a sharp deceleration in credit growth.

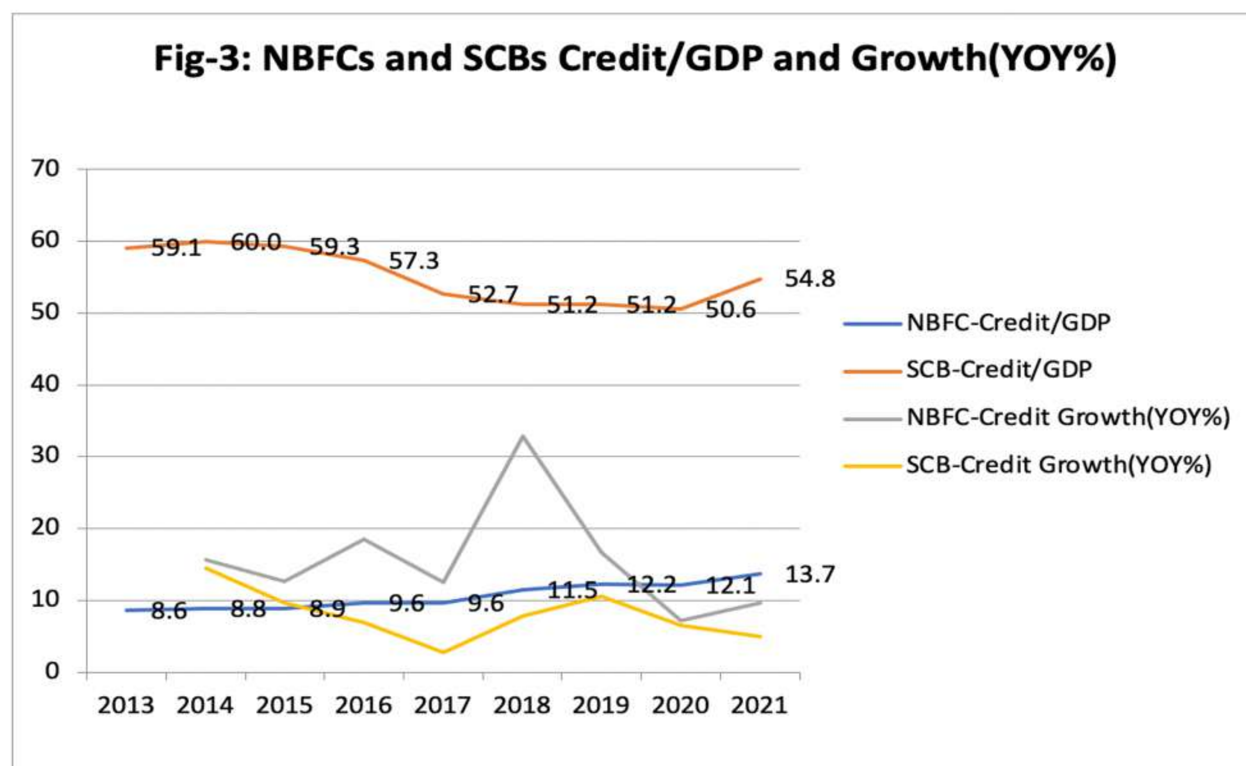
Table 1: Classification of NBFCs by Activity

Sl No.	Type of NBFC	Activity
1	Investment and Credit Company (ICC)	Lending and investment.
2	NBFC-Infrastructure Finance Company (NBFC-IFC)	Provision of infrastructure loans.
3	NBFC-Systemically Important Core Investment Company (CIC-ND-SI)	Investment in equity shares, preference shares, debt or loans of group companies.
4	Infrastructure Debt Fund-NBFC (IDF-NBFC)	Facilitation of flow of long-term debt into infrastructure projects.
5	NBFC-Micro Finance Institution (NBFC-MFI)	Credit to economically disadvantaged groups.
6	NBFC-Factor	Acquisition of receivables of an assignor or extending loans against the security interest of the receivables at a discount.
7	NBFC-Non-Operative Financial Holding Company (NOFHC)	Facilitation of promoters/ promoter groups in setting up new banks.
8	Mortgage Guarantee Company (MGC)	Undertaking of mortgage guarantee business.
9	NBFC-Account Aggregator (NBFC-AA)	Collecting and providing information about a customer's financial assets in a consolidated, organised and retrievable manner to the customer or others as specified by the customer.
10	NBFC–Peer to Peer Lending Platform (NBFC-P2P)	Providing an online platform to bring lenders and borrowers together to help mobilise funds.
11	Housing Finance Companies (HFC)	Financing for housing.

Source: RBI

Credit Expansion:

NBFCs' credit intensity measured by the credit/GDP ratio has been rising consistently, reaching a high in 2021. It can be observed that while NBFC credit growth reached a peak during 2017-2018, post-2018 possibly due to IL&FS episode, and subsequent regulatory affairs, NBFC credit growth took a hit, whereas in recent years, it shows an uptick.



Source: RBI "Report on Trend and Progress of Banking in India 2020-21."

Infomerics Ratings

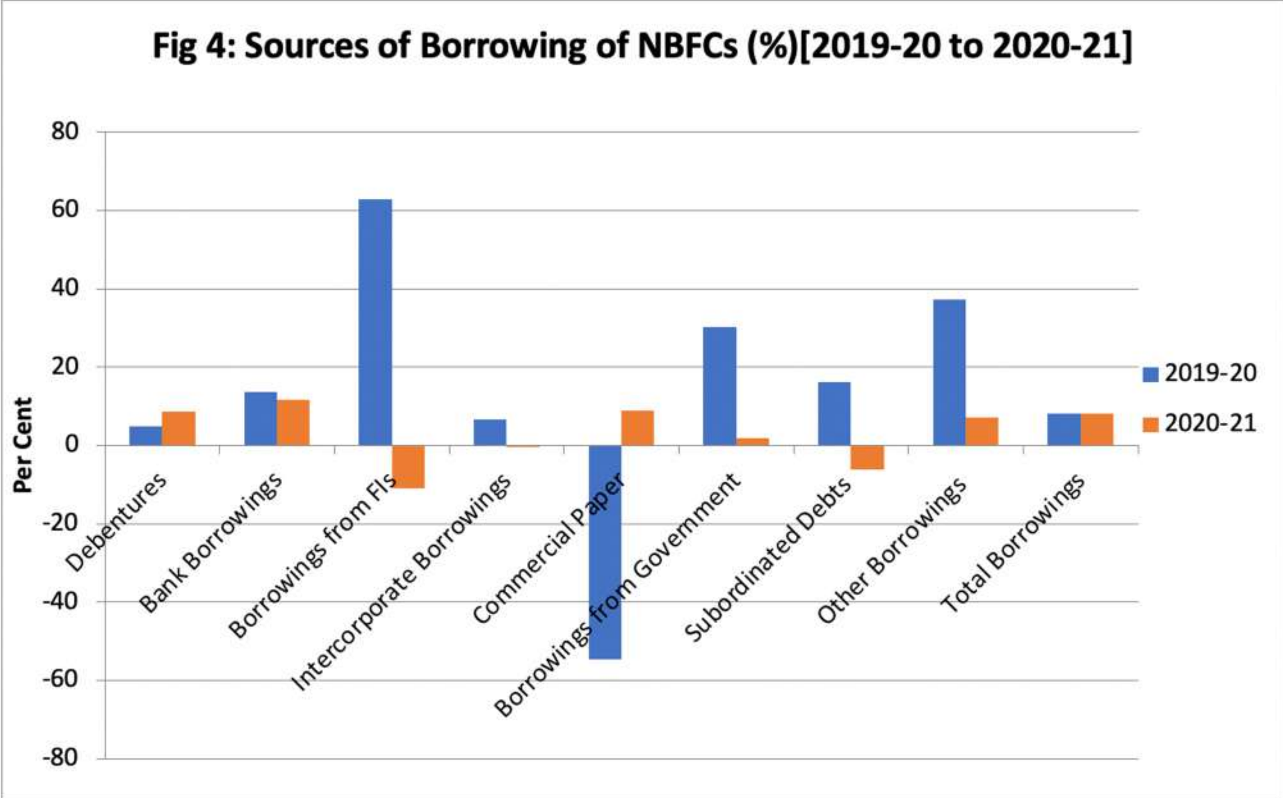
Industry remained the largest recipient of credit extended by the NBFC sector, followed by retail loans and services. In 2020-21, the recovery in sectoral lending of NBFCs has been uneven. Credit to agriculture and services declined, while retail and industrial sectors expanded. Growth in retail loans was primarily driven by housing loans, vehicle loans, microfinance and loans against the collateral of gold. Renewed focus on encouraging green energy and introduction of policy measures to boost renewable projects has enabled greater funding of renewable energy projects by NBFCs. NBFCs' credit to MSMEs grew at 17.8 per cent during 2020-21. ICCs, together with NBFCs- MFI, are the main sources of MSME credit. Eleven per cent of the NBFCs- MFI' loan book comprises micro and small loans. Around one-fourth of NBFCs' credit to the services sector goes to commercial real estate.

In the total lending to commercial real estate by SCBs and NBFCs, the share of NBFCs was a sizable 25.5 per cent in March 2021.[3] Credit flows to this segment have been severely affected as both banks and NBFCs reduced their exposures in view of the pandemic. Credit flows from NBFCs were in the negative zone in 2020-21 while banks' lending to the segment increased only marginally. Lending through NBFC-P2P accounts for a minuscule share of aggregate NBFC lending (₹2,093 crore as on September 30, 2021). There was, however, significant traction in activity during the pandemic period, with threefold growth in both credit intermediated and number of lenders, owing to investors' search for higher yields in a low interest rate environment. Vehicle financing is a niche area for NBFCs in which they still account for a predominant share.

Component-wise, sales growth of commercial vehicles continued to be in the negative zone in 2020-21 while passenger vehicle sales picked up marginally aided by the opening up of the economy and a growing preference for personal vehicles. Tractor sales grew at a robust pace in 2020-21 as agriculture and rural areas were relatively insulated from the first wave and normal monsoon whetted activity.

NBFCs: Sources of Financing

NBFCs' borrowings from banks continued to grow on top of a y-o-y growth rate of 13.8 per cent in the previous year. Borrowings through debentures and via commercial paper (CPs) also increased. Among Scheduled Commercial Banks (SCBs), public sector banks (PSBs) remained dominant lenders to NBFCs, although private sector banks (PVBs) expanded lending to NBFCs in 2020-21.



Source: RBI "Report on Trend and Progress of Banking in India 2020-21."

Rating-wise, AAA-rated non-convertible debentures (NCDs) of NBFCs have a preponderant share in overall NCD private placements of NBFCs. In Q1:2020-21, debenture issuances have increased, mostly by AAA and AA-rated entities. In Q2: 2020-21, A-rated NCDs raised higher funds, supported by Special Liquidity Scheme and Partial Credit Guarantee Scheme 2.0.

Borrowings via Commercial Paper (CP): During the second wave, NBFCs did not borrow much via CPs due to adequate liquidity on their books. Nevertheless, NBFCs were quickly back in this space in July 2021 when their share jumped to 65 per cent of total issuances and many NBFCs utilized the funds so raised to provide funding to individuals for subscribing to Initial Public Offerings. Certain large NBFCs-D have explicitly increased their reliance on retail deposits relative to corporate deposits during the year.

Institutional Initiatives

In the wake of the devastating Covid -19 pandemic, the RBI supported the sector by various measures, e.g., TLTRO to deliver targeted liquidity to sectors and entities experiencing liquidity constraints and restricted market access. The funds received by banks were to be invested in investment grade corporate debt. the "co-lending model" introduced in November 2020, which allows banks to co-lend with NBFCs (including HFCs) in respect of priority sector loans.

The RBI's regulatory forbearance and support in recent times as well, which is reflected in providing more time to NBFCs to adhere to the new norms regarding NPAs, which will help particularly those NBFCs having exposure towards vehicle, MSME and unsecured lending. Earlier, on 12th November 2021, the RBI came out with a notification "Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications"[4] which directed lenders including NBFCs to upgrade their NPA accounts to Standard accounts only of the entire arrears of interest and principal are paid by the borrower. In a relief provided to the NBFC sector, in a 15th February 2022 notification,[5] RBI has extended the time until 30th September 2022. However, many NBFCs have started factoring it already; the notification would help to balance their balance sheet in medium-term. In view of the pandemic, NBFCs also built liquidity buffers, with their cash and bank balances growing at a robust pace, except for NBFCs-ND-SI. In 2021-22 (up to September), balance sheet growth of NBFCs remained buoyant due to pick up in investments by NBFCs-ND-SI.

Some major NBFCs are exploring selling off their bad assets to clean up their balance sheets and enhancing liquidity. Given the increased risk perception, the NBFCs are facing increased regulatory oversight through several measures, even the RBI came out with a four structure scale-based bank like regulatory framework for NBFCs. There is concern for potential slippages from the ECLGS supported as well as restructured loans. Further concerns have been raised regarding asset quality and to include in Prompt Corrective Action (PCA) norm.

A notable initiative by the RBI, which will be beneficial for NBFCs, is the exploration by the RBI to onboard all NBFCs on the Trade Receivables Discounting System (TReDS) platform.[6] It can be noted that, earlier in September 2020, it was made mandatory by the Ministry of MSME in 2018, for all CPSEs and corporate entities with more than ₹500 crore turnover to on-board on the TReDS platforms. However, many corporates are yet to join it or transact thereon. It is observed that MSMEs are struggling with huge credit gap, lack of formalization, many are coping with outdated technology. A pitfall is that many P2P platforms have been saddled with excessive charge, and not-to-Code procedure norms for recovery, for which such entities will be clubbed with NBFCs and banks. Further, banks and NBFCs can set up their digital units with collaboration with fintech.

After the IL&FS defaulted on payments, the government stepped into help the sector with the problem of liquidity crunch. The government provided a partial credit guarantee for six months to the public sector banks to buy high rated pooled assets from NBFCs, in order to help the NBFCs to liquidate their assets and meet their liabilities.[7] The first scheme is a ₹30,000 crore special liquidity facility for NBFCs and HFCs, under which a Special Purpose Vehicle (SPV) would acquire investment grade debt of short duration (residual maturity of upto 3 months) of eligible NBFCs / HFCs. Through another scheme, which is an extension of already existing Partial Credit Guarantee Scheme (PCGS), Government would guarantee up to 20 percent of first loss for purchase by public sector banks of bonds or CPs with a rating of AA and below (including unrated paper with original/ initial maturity of up to one year) issued, among others, by NBFCs.

In March 2020, RBI announced that loans given by banks to NBFCs for on-lending to agriculture, micro and small enterprises, and housing to be classified as priority sector lending (PSL). Further, the on-lending by banks to NBFCs and HFCs (other than MFIs) will be allowed up to an overall limit of 5 per cent of individual bank's total priority sector lending.[8] In August 2019 to boost credit among small and needy borrowers, RBI had decided that the bank credit to registered NBFCs for on-lending will be considered as priority sector lending. The loans can be disbursed to Agriculture, MSME & Housing sector. Under the Atmanirbhar Package-I (13 May 2020) announced by the government, a special liquidity scheme of ₹30,000 crore was announced, where investment would be made in primary and secondary market transactions in investment grade debt papers fully backed by the GoI. Further, ₹45000 crore liquidity infusion to NBFCs by way of partial credit guarantee scheme was announced, which was extension of the existing scheme wherein the first 20% of loss to be borne by GoI and AA rated and below including unrated papers to be included.

The Reserve Bank of India (RBI) on 1st July 2020 stated that SBICAP, the capital markets wing of State Bank of India (SBI), will set up a special purpose vehicle (SPV) to purchase the short-term papers, maturing within three months and rated as investment grade, from non-banking financial companies (NBFCs). "The facility will not be available for any paper issued after September 30, 2020 and the SPV would cease to make fresh purchases after September 30, 2020, and would recover all dues by December 31, 2020; or as may be modified subsequently under the scheme."[9]

The RBI said to be eligible under the scheme, NBFCs and housing finance companies (HFC) must have a minimum capital adequacy ratio of 15 per cent and 12 per cent respectively, as on March 31, 2019. The net non-performing assets should not be more than 6 per cent as on March 31, 2019. Also, the entities must have made net profit in at least one of the last two preceding financial years (i.e. 2017-18 and 2018-19). The entities availing this facility should not have been reported under Special Mention Account (SMA)-1 or SMA-2 category by any bank for their borrowings during last one year prior to August 01, 2018. The NBFCs must be rated investment grade by a rating agency.

TLTRO 2.0 (Targeted Long Term Repo Operation)

TLTRO was introduced by the RBI to help the NBFC's fight the liquidity crunch they are facing due to added disruptions due to COVID-19. RBI had announced TLTRO operations in order to ease liquidity conditions in the financial systems. The funds availed under TLTRO 2.0 conditioned to be deployed in investment grade bonds, commercial paper (CPs) and non-convertible debentures (NCDs) of Non-Banking Financial Companies (NBFCs).

Sl No.	Item	Auction Date	Tenor (Days)	Maturity Date	Amount (INR Crore)
1	Long-term Repo Operations	24/02/2020	365	23/02/2021	25,021
		17/02/2020	1095	16/02/2023	25,035
		02/03/2020	1094	01/03/2023	25,028
		09/03/2020	1093	07/03/2023	25,021
		18/03/2020	1094	17/03/2023	25,012
2	Targeted Long-Term Repo Operations*	27/03/2020	1092	24/03/2023	25,009
		03/04/2020	1095	03/04/2023	25,016
		09/04/2020	1093	07/04/2023	25,016
		17/04/2020	1091	13/04/2023	25,009
	Targeted Long Term repo Operations 2.0	23/04/2020	1093	21/04/2023	12,850

Source: RBI

*TLTRO stands for Targeted Long Term Repo Operations. It is same as LTRO with a difference that the money borrowed by the banks under this scheme has to be deployed in investment-grade corporate bonds, commercial paper, and non-convertible debentures.

LTRO and TLTRO

The Reserve Bank of India (RBI) on 27th March 2020 introduced the Targeted Long Term Repo Operations (TLTROs) as a tool to enhance liquidity in the system, particularly the corporate bond market, in the wake of the COVID-19 crisis.

LTRO is a tool that lets banks borrow one to three-year funds from the central bank at the repo rate, by providing government securities with similar or higher tenure as collateral.

In 'Targeted' LTRO' or TLTRO, the central bank wants banks opting for funds under this option to be specifically invested in investment-grade corporate debt.

This helps banks get funds for a **longer duration** as compared to the short-term (up to 28 days) liquidity provided by the RBI through other tools such as liquidity adjustment facility (LAF) and marginal standing facility (MSF).

Is the Reserve Bank of India the first central bank to use LTROs?
No. LTRO was first introduced by the European Central Bank during its sovereign debt crisis that began in 2008. LTRO was an acronym coined by the ECB that stood for "long-term refinancing operations".

Source: Moneycontrol (17 April 2020).

However, TLTRO 2.0 saw limited success due to few takers. For instance, in the first tranche of Targeted Long Term Repo Operation (TLTRO) 2.0 for an amount of ₹ 25,000 crores with a 3-year tenor barely saw 50 per cent subscription from banks received a total of 14 bids amounting to ₹ R 12,850 crore against the ₹ 25,000 crore offered, implying a bid to cover ratio (i.e., the amount of bids received relative to the notified amount) of 0.5. While some banks said there was a lack of creditworthy small-sized NBFCs and MFIs where they could safely invest, others said they were already full upon their NBFC sector exposure limit. Risk aversion was the key reason for banks staying away from further exposure to weaker NBFCs.[10]

Corporates (including banks) were the major category of issuers, followed by NBFCs and HFCs during March and April 2020. However, like in previous months, most issuances in March-April 2020 were by AAA rated entities and public sector undertakings, indicating that the bulk of the benefit of TLTROs accrued to higher rated entities.

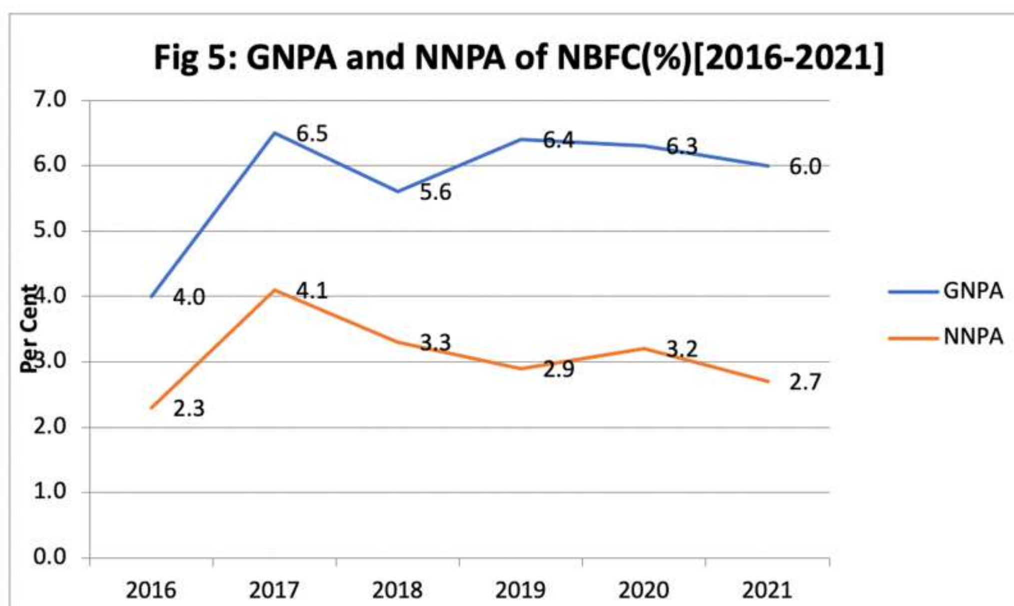
Industry Risk

The NBFCs in India, particularly in the last decade, have been lurching from one crisis to the other, e.g., the global financial crisis (2007-09), the IL&FS collapse and now the COVID-19 pandemic. All these events and developments in quick succession have brought into focus not just the frailty and the infirmity of the NBFCs in India but also the larger systemic issue because of the financial inter-connectedness between NBFCs (both deposit taking and non-deposit taking) with the banking system. It has been demonstrated that both NBFCs-D and NBFCs-ND-SI are highly dependent on the banking system for their funding, though there are regulatory limits for the individual bank's lending to the NBFCs. The regulatory limits for the NBFCs have been changing over the years in conformity with changing needs and requirements.[11]

As explained in a previous Section of the report ("credit expansion") disbursements of both NBFCs and HFCs have increased substantially, however, asset quality remains a concern areas. There is a further possibility that asset quality might be deteriorated going forward, given the push to collaborate with P2P platforms, unless prudent recovery is followed with stricter norm, which might be difficult in all times. Furthermore, large NBFCs are likely perform better than others due to certain advantages (low cost funds, better technology, better balance sheets, prudent loan exposure and assets under management, brand values etc.).

Asset quality/ NPA issue:

In 2021-22 (up to September), asset quality of the sector deteriorated to some extent. GNPA ratio increased from 6.0 per cent to 6.8 per cent and NNPA ratio increased from 2.7 per cent to 3.0 per cent. In March 2021, NBFCs-MFI and IFCs had the highest Provision Coverage Ratios (PCRs).



Source: Report on Trend and Progress of Banking in India 2020-21.

Infomerics Ratings

Standard, Sub-Standard, Doubtful and Loss Assets

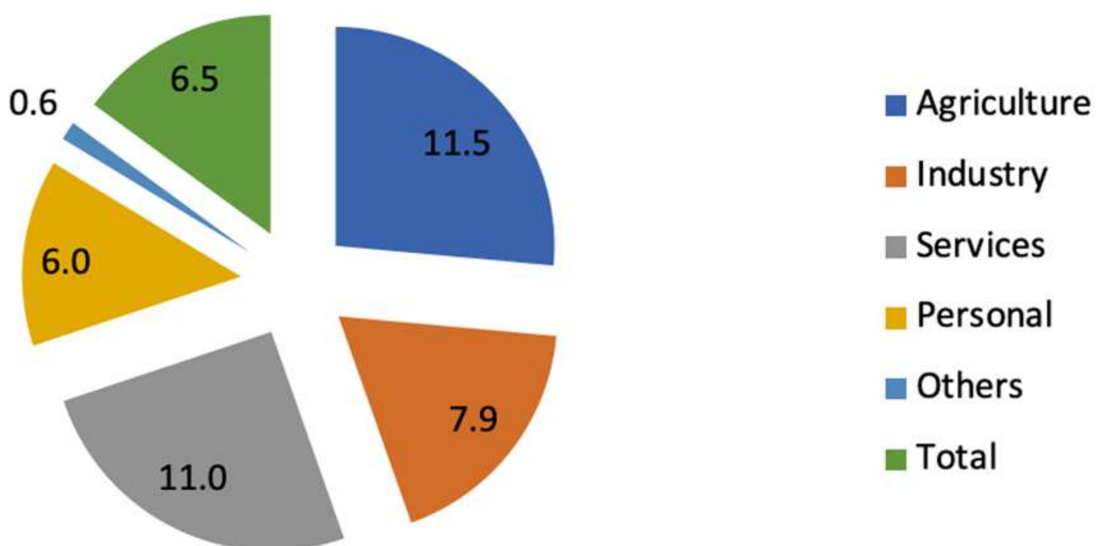
NPAs can be categorised into sub-standard, doubtful and loss assets. In 2020-21, a part of the sub-standard assets of a large NBFC returned to being standard, which led to a marginal improvement in asset quality. According to the RBI Report on Trends & Progress 2020-21 , 87.6 per cent of loans were standard and rest were overdue but not NPAs in March 2021. Loans overdue in the first bucket viz., less than 30 days were the largest, but the position improved in 2021. The share of loans overdue for more than 60 days but less than 90 days doubled.

Categories	Mar-19	Mar-20	Mar-21	Sep-21
Standard Assets	94.1	93.7	94.0	93.4
Sub-Standard Assets	3.4	3.2	2.8	3.4
Doubtful Assets	2.0	2.7	2.8	2.8
Loss Assets	0.5	0.4	0.5	0.5

Source: Report on Trend and Progress of Banking in India 2020-21.

Sector wise Stressed Assets

Lending wise, industry is the largest recipient of NBFC loans, and also tops in ranking in terms of stressed assets. Agriculture shows much resilience, and has exhibited lowest bad loans from NBFCs. In the post moratorium period, the asset quality of NBFCs-ND-SI worsened in the retail loans category. By end-September 2021, stressed assets in the retail sector increased substantially while those in industry sector reduced. The second category of the Special Mention Account (SMA-2) which is on the brink of being classified as NPAs, doubled during the year which is a cause for concern.

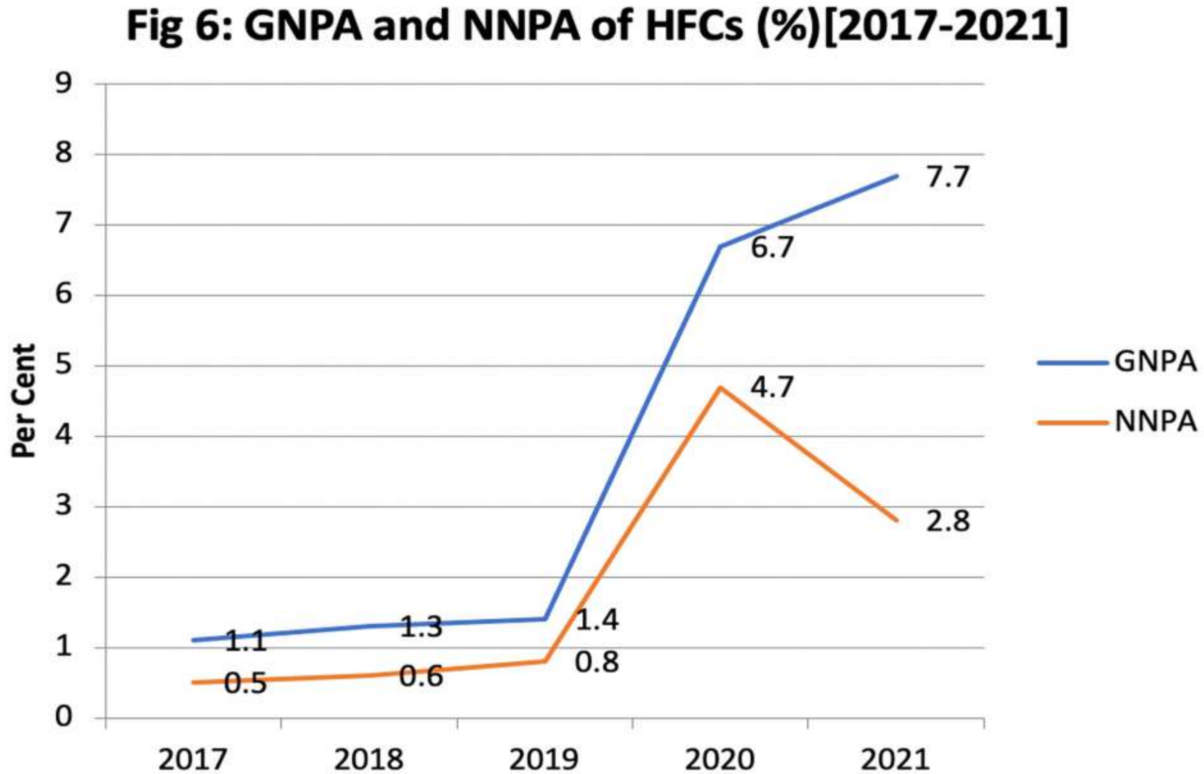


Source: RBI Financial Stability Report; Dec'2021

Infomerics Ratings

GNPA and NNPA trends of the Housing Finance Companies (HFCs):

The GNPA ratio of the Housing Finance Companies (HFCs) increased, but the NNPA ratio moderated due to increased provisioning. It is interesting to note that the "RBI Report on Trends and Progress 2020-21" has mentioned that (P.153), that in 2020 and 2021 the GNPA figures, respectively 6.7% and 7.7% would be lower to 2.5% and 3.1% respectively, if two HFCs are excluded. Hence, stressed asset build-up due to concentration risks cannot be ruled out entirely.



Post IL&FS, the market financing conditions for NBFCs became challenging. Rating downgrades, closer investor scrutiny and enhanced regulatory oversight led to greater market discipline, with the better rated and better performing companies continuing to have relatively easy access to market financing, while those with asset-liability mismatch (ALM) issues and/or asset quality concerns saw their borrowing cost spike. More recently, the disruptions caused by COVID-19 outbreak have caused apprehensions that credit profiles of NBFCs could deteriorate, given the moratorium extended by NBFCs on their assets, as well as the overall environment of heightened risk aversion. Recent developments in the mutual fund industry, which is a major source of funding for NBFCs, have also heightened rollover risks.

NBFCs maintain their liquidity through loan repayments; and an increased moratorium by the government can lead to disruptions in maintaining liquidity and reduce the solvency. It may also pose a risk to stability of the whole financial system as banks also have large exposures to them.

Low rated NBFCs may also face challenges as they are not active in the bond market. Many companies have started to default to NBFCs in the absence of a moratorium. There is around ₹ 1.75 lakh Crore of debt maturing by June 2020 which puts the NBFCs under risk.[12] Despite the RBI's efforts to increase liquidity in the bond markets and improve risk appetite at the system level, bond markets continue to stay illiquid and cost of liquidity remains high for NBFCs.

Liquidity Risk stress testing

The RBI Financial Stability Report (December 2021) has highlighted the following:

The resilience of the NBFC sector to liquidity shocks is assessed by capturing the following- (i) Assumed increase in cash flows (ii) Assumed decrease in cash flows.

The following scenarios are applied:

(a) Medium risk involving a shock of 5 per cent contraction in inflows;

(b) 10 per cent rise in outflows, and high risk entailing a shock of 10 per cent decline in inflows and 15 per cent surge in outflows.

The results indicate that the number of NBFCs which would face a negative cumulative mismatch in liquidity positions over the next one year in the medium and high risk scenarios may work out to 52 (covering 24.5 per cent of the asset size of the sample) and 67 (34.7 per cent), respectively.

Cumulative Mismatch as a percentage of outflows over next one year	No. of NBFCs having liquidity mismatch		
	Baseline	Medium	High
Over 50 %	10 (5.9%)	10 (5.9%)	11 (6.1%)
Between 20% and 50%	1 (0.2%)	5 (2.8%)	22 (9.0%)
20% and below	7 (3.8%)	37 (15.8%)	34 (19.6%)

Source: RBI Financial Stability Report (December 2021).

Large NBFCs with good track record, promoter backing and ratings have limited draw-down of loan issues; whereas smaller unrated NBFCs are severely dependent on banks for borrowing, and more vulnerable.

In the long run, these disruptions may lead to a weakening of the credit structure for NBFCs. An increase in moratorium may also hide defaulting and unsecured borrowers which will make it difficult to assess the quality of credit and weaken the credit structure and in turn damage even the financial structure.

The regulators in telecom, insurance and stock market were the developers of the respective sectors. Hence, it has sometimes been suggested that the Reserve Bank of India could follow the example of IRDA, SEBI and TRAI for representing the cause of non-banking finance companies in India. Towards this end, liberal bank funding at competitive rates and creation of a new refinance corporation for road transport financing on the lines of the National Housing Bank (NHB) would be helpful.

The Indian Banks Association (IBA) had constituted a Working Group on Funding of NBFCs under the chairmanship of RV Shastri (Chairman & Managing Director of Canara Bank) at the behest of Finance Minister way back in 2001. This IBA working group in its report had made very positive recommendations for liberal bank funding of NBFCs, particularly Asset Financing Companies. But the recommendations of this Committee were not implemented.

The RBI has strengthened the regulatory oversight of the sector as well as issued Prompt Corrective Action Framework (PCA) for NBFCs effective October 2022. The recent amendment of the Factoring Regulation Act can incentivise all NBFCs to boost the MSME sector. Many NBFCs have used the pandemic to reinvent their business models, appreciating the power of data analytics and Big Data in business applications. In this regard, many have tied up with FinTech firms to leverage on technological innovations.

In order to equip them better on the cyber security issue, the RBI has placed a report on digital lending including lending through online platforms and mobile apps on November 18, 2021 in the public domain. The RBI's recent act of superseding the boards of NBFCs which failed to repay debts is evidence of the vigil the regulator has on the sector in protecting stakeholders' interests and preventing adverse impacts on the financial system. The ever-increasing hybrid financial sector transformation in the era of fintech and the role of independent regulatory institutions [13] will further develop the NBFC space along with the banking system in India.

It is, however, important to understand that because of the distinctive peculiarities and vulnerability of the domestic macro-economy, the financial system and its constituents, there cannot be a one-size-fits-all-approach in countries across the development spectrum. There has to be an incisive examination of complex multi-layered issues within the expansive range of institutional arrangements, historical settings and socio-political milieu.

ENDNOTES

1. A necessary evil is an evil that someone believes must be done or accepted because it is necessary to achieve a better outcome—especially because possible alternative courses of action or inaction are expected to be worse. It is the "lesser evil" in the lesser of two evils principle, which maintains that given two bad choices, the one that is least bad is the better choice.
2. IMF. "Should Financial Sector Regulators Be Independent?". Economic Issue No. 32.
3. Report on Trend and Progress of Banking in India 2020-21 (published on 28 Dec'21)
https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=52956
4. RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22
[https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12194&Mode=0]
5. RBI/2021-2022/158 DOR.STR.REC.85/21.04.048/2021-22;
https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12230&Mode=0
6. "Enterprises with over Rs 500 crore turnover required to onboard TReDS platform to improve cash flow to MSMEs' (14 September 2020) PIB Delhi https://www.pib.gov.in/PressReleasePage.aspx?PRID=1653944
7. 'Cabinet approves "Partial Credit Guarantee Scheme" for purchase of high-rated pooled assets from financially sound NBFCs/HFCs by PSBs' (11 December 2019) PIB https://pib.gov.in/Pressreleaseshare.aspx?PRID=1595952
8. 'RBI extends PSL by banks to NBFCs for on-lending' (23 March 2020) ET BFSI https://bfsi.
economictimes.indiatimes.com/news/policy/rbi-extends-psl-by-banks-to-nbfcs-for-on-lending/74780964
9. 'Special liquidity scheme for NBFCs/HFCs'(1 July 2020) RBI/2020-21/01; DoR (NBFC) (PD) CC No.113/03.10.001/2020-21.
10. 'RBI'S TLTRO 2.0 lifeline for NBFCs finds few takers'(24 April 2020) CNBC TV 18
https://www.cnbctv18.com/finance/rbis-tltro-20-lifeline-for-nbfcs-finds-few-takers-5760191.htm
11. Gopinath Shyamala (2009): 'Addressing the Regulatory Perimeter Issues – Indian Experience' Remarks at the Ninth Annual International Seminar on Policy Challenges for the Financial Sector, accessible at
http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=424.
12. 'NBFCs risk not repaying Rs 1.75 lakh crore'(11 April 2020) Times of India
https://timesofindia.indiatimes.com/business/india-business/nbfcs-risk-not-repaying-rs-1-75-lakh-crore/articleshow/75089889.cms
13. "On the Importance of Independent Regulatory Institutions – The Case of the Central Bank" by Dr. Viral V Acharya, Deputy Governor, Reserve Bank of India1 Delivered as the A. D. Shroff Memorial Lecture in Mumbai on Friday, October 26, 2018

Infomerics Valuation And Rating Pvt. Ltd.

SEBI REGISTERED / RBI ACCREDITED / NSIC EMPANELLED
CREDIT RATING AGENCY

CORPORATE OFFICE

Mr. ML Sharma
Mobile No.: +91 9619112204, E-mail: mlsharma@infomerics.com
Office No.: 022-62396023; 022-62396053
Address: Office No. 1102-1104, B wing, Kanakia Wallstreet, Off Andheri Kurla Road, Andheri East, Mumbai - 400093.

EAST INDIA OFFICE

Mr. Avik Sarkar
Mobile No.: +91 8929802903, E-mail:: asarkar@infomerics.com
Office No.: 033-46022266,
Branch Office Address: Flat 10A, 10th Floor,
"Chatterjee International Centre" 33A, J. L. Nehru Road,
Near Park Street Metro Station, Kolkata – 700071

WEST INDIA OFFICE

Mr. Dheeraj Jaiswal
Mobile No.: +91 8928802910, E-mail: dheeraj@infomerics.com
Branch Office Address: #1102/A, Synergy Tower, Prahaladnagar, Corporate Road
Nr. Vodafone House, Off S.G. Highway, Ahmedabad - 380015

SOUTH INDIA OFFICE

Mr. D. Suresh Pai
Mobile No.: +91 8929802937, Email: dspai@infomerics.com
Address: 501, 5th Floor, Prestige Meridian – 1, 29, M G Road,
Bangalore – 560001, Karnataka, India

Disclaimer

' Infomerics Valuation And Rating Private Limited has taken due care and caution in preparing the report and information is based from sources which it believes to be reliable and authentic. However, Infomerics Valuation and Rating Private Limited does not guarantee the accuracy, timeliness, adequacy or completeness of any information and is not responsible for any errors or omissions. Use of information and data contained in this report is at user's own and sole risk.The management of Infomerics Valuation and Rating Private Limited are not liable for the results obtained and interpreted from the use of such information.'