NBFC & FINTECH Landscape in India

Crucial components in the financial ecosystem

LSI FINANCIAL SERVICES PVT. LTD.

OUR PROFILE

LSI Financial Services Pvt. Ltd.

LSI Financial Services Pvt. Ltd. was established in 1997 and is a SEBI registered Category 1 Merchant Banker. The vision of the company is to provide services relating to Project Finance Advisory, Techno Economic Feasibility Study, Financial Restructuring and Asset & Equity Valuation to esteemed Financial Institutions and corporate houses. With senior bankers and eminent industry experts, who are supported by 150 professionals in the team, the company has gathered vast experiences in almost all the sectors in the last two decades.

LSI has empowered more than 200 large corporate houses in India with its suite of financial solutions. Today LSI is present across the major Tier I and Tier II cities of country.

The company in addition to its focus on debt syndication, Issue Management, PE Advisory, & M&A Advisory, lays significant stress on creating knowledge pools on economically important topics.

LSI Financial Services Pvt. Ltd. has three other group companies under its umbrella offering a gamut of services in the engineering, legal and financial advisory domains.

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The company is also registered with Indian Bank Association (IBA) as an agency for specialised monitoring and it is handling project monitoring/-cash monitoring etc. for various large industries on behalf of esteem financial institutions of the country.

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- Enterprise Valuation
- Valuation of Brand & Intangible Assets
- Valuation for Merger / Demerger
- Valuation for Acquisition
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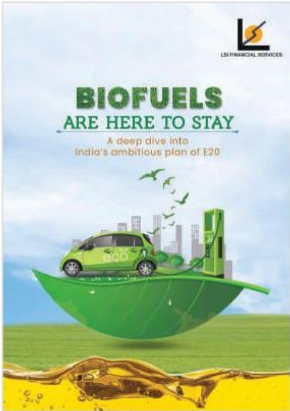
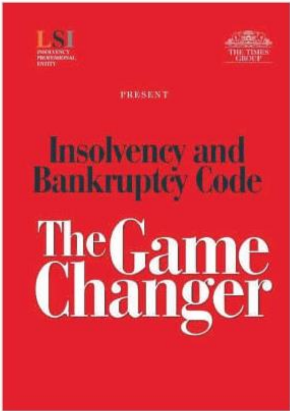
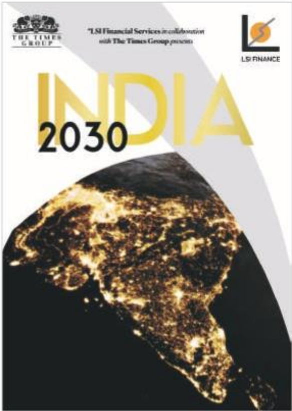
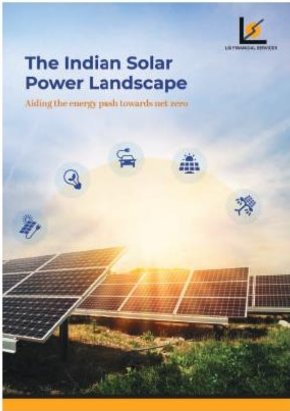
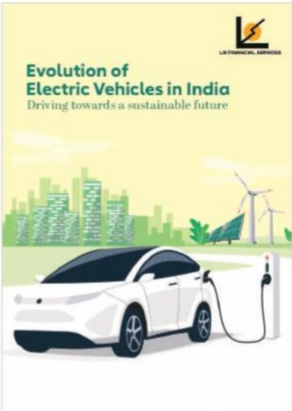
OUR PUBLICATION

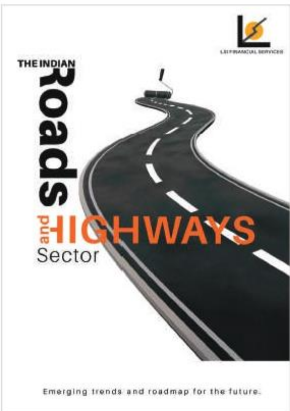


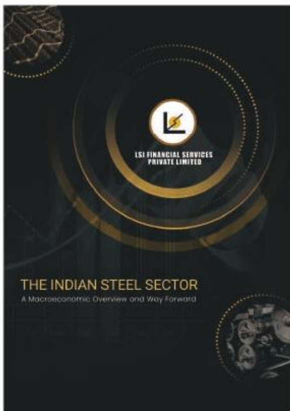












❖ Executive Summary ❖

- In an emerging economy like India, a major driver of growth is sustained investment and stable availability of credit. But, since 2014, credit growth in the banking sector has been lacklustre because of burgeoning Non-Performing Assets (NPAs) on the balance sheets of public sector banks. This credit shortfall was compensated by flows of credit from Non-Banking Financial Companies (NBFCs) until 2018.

- NBFC is a briskly growing component in the Indian financial market which offers credit facility to the individuals and businesses where the traditional banking credit-net is not withstanding.

- The most crucial difference between banks and non-banks is that NBFCs cannot access household savings through deposits. As a result, their cost of funding is structurally higher than banks.

- NBFCs have been establishing their business in areas like mortgage products and Micro, Small and Medium Enterprise (MSME) finance which leads to increasing assets of NBFCs as a percentage of banking assets.

- The total asset size of the NBFC sector has experienced a robust increase in growth at a compounded annual growth rate (CAGR) of 16.3% from 2012 to 2023. The credit growth of NBFC has taken a sharp rise from FY12 to FY18 with a CAGR of 18% but rise has been relatively moderate from FY18 to FY22 with a CAGR of 8.5%.

- The share of market borrowings shrank and dependence on bank borrowings increased due to the Infrastructure Leasing and Financial services (IL&FS) crisis which is evident from the decline in the ratio of market borrowings to bank borrowings from 3.1 in 2016-2017 to 1.9 in 2019-2020.

- Credit intensity of NBFC to GDP has a sustained increase, whereas credit-to-GDP ratio has experienced a relatively more volatile path. NBFCs credit-to-GDP ratio has constantly risen and stood up to 12.6 percent in 2023.
- Amidst tightening liquidity conditions and increasing competition from banks in segments like vehicle loans and loans against gold, NBFCs focused on lending to segments such as unsecured loans, micro-finance loans and MSMEs.

- NBFC outperformed banks in digital lending. Banks are still in its budding stage with Rs. 1.12 lakh crore lent through digital channels compared to Rs. 53.08 lakh crore through physical modes. While NBFCs are charting a different path with Rs. 0.23 lakh crore disbursed digitally as opposed to Rs. 1.93 lakh crore through traditional physical channels.

- Major sources of finances for Non-Banking Financial Corporation are Market borrowing and Bank Loans, which accounts for 75% of their total borrowing. This sector happens to be the largest net borrower and they are integrated to the rest of the financial system.

- NBFCs are associated with foreign banks in terms of receiving funds, or even they are in joint venture arrangements.

- The CAGR of secured borrowing for the aforesaid observed period has been 14.8% and for unsecured borrowing it is 10.2%. In the fiscal year 2022 and 2023 the share of secured loan to unsecured loan stands nearly in the ratio of 60:40.
- Aftermath of the NBFC crisis related to IL&FS and DHFL was followed by a sharp rise in credit risk premium on all bonds. The capital market exposure towards the NBFC sector became risk averse, debt- mutual funds became aware of the credit risk associated in the market and stopped rolling over commercial papers issued by various NBFCs.
- In the aftermath of the crisis, unsecured lending towards NBFCs has been reduced gradually and subscription to commercial papers (medium of short-term unsecured debt) has experienced reduction in share in the borrowing space by approximately 7%.
- In recent times banks have shown a marginally increasing upward trend in subscribing to the debentures issued by NBFCs. Investment by means of debenture and commercial papers together comprises more than 85% in 2023.
- Post the crisis episode of IL&FS, NBFCs have shifted more towards long-term borrowing to reduce the rollover risk and in 2021 it is observed that growth rate of borrowing from banks has reached a relatively higher trajectory compared to the market borrowing.
- Loan exposure of NBFCs are maximum towards the corporates, followed by the retail customers, and combinedly they comprise 69% of loan book as of 2023. In 2022-23, retail loans grew twice as fast as loans to corporations.
- Credit growth by NBFCs to the MSME sector was more than three times that of banks, benefitting from their ability to offer customized financing solutions.
- NBFC-MFIs contributed around 38% to the outstanding overall microfinance loans compared to banks' 36% as of December 31, 2022. The growth momentum is expected to continue with a healthy loan growth of around 25% in FY24 for NBFC-MFIs.
- The Financial Technology, or FinTech sector is expected to grow rapidly at a compound annual growth rate (CAGR) of 10% to 12% through 2025. Fin-Techs require NBFC license to offer loans from their own books but lack of profitable growth, large ownership by international investors and complex shareholding patterns of these investors are few of the major problems causing FinTech lenders to lose out on a license.
- The NBFC sector is expected to grow at a CAGR of 18.5% between 2023 and 2026.Systemically important NBFCs should be subject to extensive annual inspections and occasional regulatory actions. It is important to identify those that are too big to fail and regulate them differently and separately.

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CHAPTER 1: Role of NBFC Towards Growth of Indian Economy

Introduction:

A sound and vibrant financial system is imperative for the growth of the Indian economy. The growth of a balanced financial structure in an economy will have a positive impact on the development of the economy. For a country like India with a diversity in culture and preferences influencing the economic activities, it is of utmost necessity to promote entrepreneurial practice and spirit by ensuring financial access at all segments. In Indian economy there is presence of two financial institution, one is Banking and the other is Non-Banking.

Following the global financial crisis in 2008, non-banking financial institution (NBFI) has emerged as one of the pivotal components of the global financial system. Both across the advanced and emerging economies, growth of NBFI has been phenomenal in terms of size and interconnectedness with financial system. NBFIs are employed with a set of diverse activities and large-scale operations extensively. With the stark difference to banking sector, NBFIs roles are not that strictly categorized. Historically, NBFIs did not have access to statutory public backstops and had either limited or no access to the balance sheet of central banks. Nevertheless, with the expansion of the non-banking financial systems and its growing interdependencies with the rest of the financial system, there lies the possibilities of the emergence of significant systemic risk through financial intermediation. Macroprudential policies must be designed in appropriate way to reduce the systemic risk.

Overview of Non-Banking Financial Institution (NBFI):

In India NBFI structure encompasses multiple entities with diverse functions and distinct business models. Categorization of NBFI is done based on regulatory bodies- two sets of NBFIs are identified, one governed by Reserve Bank of India (RBI), and the second set comprises of the remaining ones governed by other regulatory bodies such as, Securities and Exchange Board of India (SEBI), Pension Fund Regulatory and Development Authority (PFRDA), Insurance Regulatory & Development Authority of India (IRDAI), the central or state governments.

Regulated By RBI

- All India Financial institution (AIFI)
- Public Financial Institution (PFI)
- Housing Financing Companies (HFC)
- Asset Reconstruction Companies (ARC)
- Primary Dealers (PD)
- Non-Banking Financial Companies (NBFC)

Regulated By Others

- Merchant Banking Companies
- Stock Exchanges
- Stock-broking/Sub-Broking
- Nidhi Companies
- Alternative Investment Funds
- Insurance Companies
- Chit Fund Companies

Financial institutions regulated by RBI especially AIFIs & PFIs provide long term funding to agriculture, foreign trade, micro & small industries, infrastructure. HFCs are entitilted to provide housing loans to individuals and cooperative societies and corporate bodies. ARC companies are specialised financial institution dealing with stressed assets by providing an alternative resolution of the same after buying them from the banks and other FIs. PDs are ensuring subscription of primary issuance of government securities, and alongside they are acting as market makers for government securities. NBFCs are the entitities significantly engaged in the business of credit delivery and financial intermediation. NBFCs can be both private and public companies.

Background & Status Quo of Non-Banking Financial Corporation in India:

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

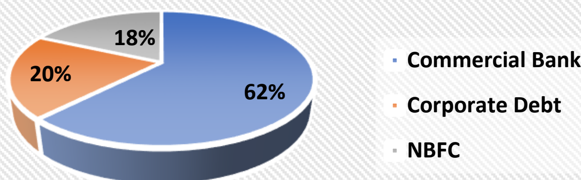
NBFCs are the financial institutions which performs similar to the banking organisation. However, the entities differ in few aspects. NBFC cannot accept demand deposit, alongside they don't constitute the part of the payment and settlement system. Unlike the banking institution, deposit insurance facility of the Deposit Insurance and Credit Guarantee Corporation is not available to NBFC depositors. Nevertheless, NBFC is a briskly growing component in the Indian financial market. Growth of the NBFC is taking place due to demand for credit in various purposes. The salient feature of NBFC lies in developing the credit platform for offering credit facility to the individuals and businesses where the traditional banking system credit-net is notwithstanding. Non-Banking Financial Companies are aiding the expansion of Indian Economy by giving assistance in the form of a strategy to reach the macroeconomic goal of overall financial inclusion. NBFC plays a pivotal role in managing the scared resources in an efficient way by transforming the public's small amounts of retail resources that were not being used into a sizable fund, that could be used to develop the credit system.

Non-Banking Financial Companies in India are there since 1940s, but have been recognised by Reserve Bank of India (RBI) in 1964. Since then, the sector has critically met the role of financial intermediation and there has been substantial growth in asset size and almost becoming 13% of GDP. NBFC functions as a shadow banking system and their activities fall outside the regular banking system. But they act both as substitutes and complement to the traditional banking system. NBFCs are acting as substitutes in geographical regions and income-demography space where traditional banks cannot penetrate. And it is functioning as a complement to the banking system through the process of financial intermediation with certain edge over banks, like lower transaction costs, proximity with the customers, and regulatory arbitrage to a certain extent.

India being an emerging economy considerably a large section of the society of the economy remains outside the traditional banking system coverage. In 2022, gross microcredit percent share of NBFC-MFI has been 38.5% and it surpassed the bank's lending in the microcredit segment. Importance of NBFC sector is growing in the Indian Financial system which is evident from the rise of NBFCs' credit as a proportion to GDP as well as in relation to credit extended by Scheduled Commercial Banks (SCBs). The sector has often been defaced by financial downturn, nevertheless the sector has been very resilient always followed by improved regulatory framework. Even NBFC absorbed the shock during the pandemic. In FY22 they have accrued the financial soundness from the aspect of balance sheet consolidation, asset quality improvement, augmented capital buffers and profitability.

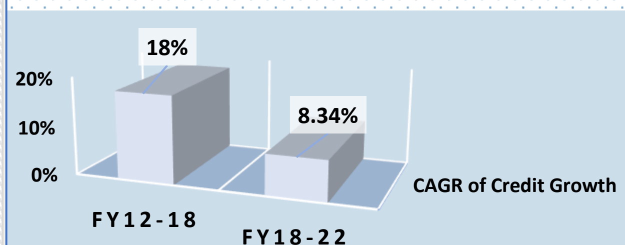
India's transition from an emerging to a developed economy by 2047 requires a big push aided by the credit supply. Estimated *credit requirement growth* will be approximately 25% and therefore alongside the banking sector, NBFC has to complement in supplying the credit to the nation. NBFC has the capability in spearheading the credit supply to segments where there is limited presence of the banking sector or they are restricted by regularities. Sometimes banking sector experiences huge operating costs by lending to some segments of the economy and they also face difficulties in assessing the asses credit risk in the absence of proper documents providing financial information of the customer, there NBFC can play significant role and has leverage to operate. These segments consist of MSMEs, cottage industry, agricultural producers, small real estate developers and low-income individuals. The credit growth of NBFC has taken a sharp rise from FY12 to FY18 with a CAGR of 18% but rise has been relatively moderate from FY18 to FY22 with a CAGR of 8.5%.

Exhibit 1.1: Percentage of Credit Deployment



Source: LSI Research based on RBI Data

EXHIBIT 1.2:CAGR OF CREDIT GROWTH OF NBFC



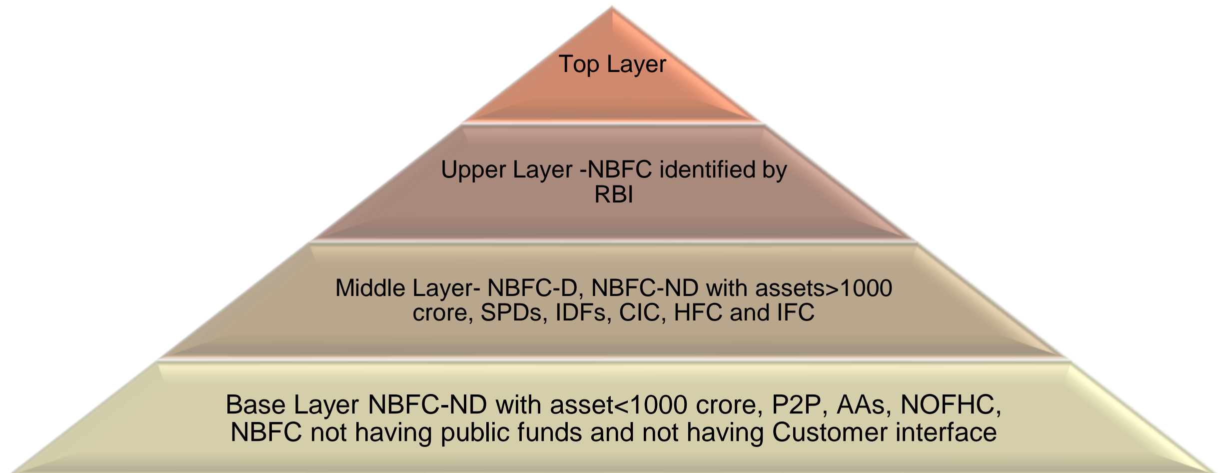
Source: LSI Research based on RBI Data

Structure of NBFC in India:

Non-Banking Financial Companies are categorised based on the basis of asset and liabilities. On the asset side they are classified as infrastructure companies, asset management companies, hire purchase companies, infrastructure debt fund and others. On the liabilities side, these are deposit taking NBFC-D and non-deposit taking NBFC-ND.

Given the scenario the respective sectoral growth both in numbers and in terms of asset size and its implication on fianancial stability RBI in the year 2022, has introduced **scale-based-regulation (SBR)** for NBFCs. The point of view in SBR conceives the concept of regulation of NBFC to be based on the principle of proportionality. Regulations here take account for the ***size, activity, and perceived riskiness of NBFCs***. SBR primarily partitions NBFCs in four layers, namely- Base Layer (NBFC-BL), Middle Layer (NBFC-ML), Upper Layer (NBFC-UL), and a Top Layer (NBFC-TL).

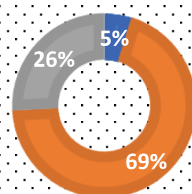
Exhibit 1.3: Scale Based Regulation Framework of NBFC by RBI



- The upper layer consists of top ten eligible NBFC in terms of asset size, along with other NBFCs that are identified based on a set of parameters and scoring methodology. NBFCs-D, CICs, NBFC-IFCs and HFCs will be included in the middle or the upper layer.
- The Top Layer ideally supposed to remain empty unless there is any escalation in the potential systematic risk from any NBFC in the Upper Layer.
- The remaining NBFCs, viz., NBFC-ICC, NBFC-MFI, NBFC factors and NBFC-MGC could lie in any of the layers depending on the parameters of SBR.
- Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case may be.
- NBFC-ML & NBFC-UL are required to make internal assessment of capital adequacy assessment in a similar note as commercial banks maintain capital adequacy under Pillar-2 of Basel-III norms. The methodology of capital requirement assessment by NBFC is expected to account for market risk, operational risk, and all other residual risk.
- For NBFC in upper layer the central bank has additionally introduced prudential guideline or a large exposure framework to check credit-risk concentration (to a single counterparty or a group of connected counterparties).
- The Prompt Corrective Action (PCA) framework for NBFCs in the upper and middle layer, which became operational from October 2022, will also be extended to government NBFCs (except those in the base layer) from October 2024.

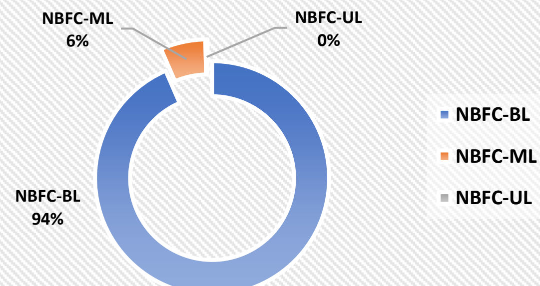
EXHIBIT 1.4: SHARE IN TOTAL ASSET OF NBFC AS ON 2022

■ NBFC-BL ■ NBFC-ML ■ NBFC-UL



Source: LSI Research based on RBI Data

Exhibit 1.5: NBFC Share in Numbers as on 2022



Source: LSI Research based on RBI Data

- **As of 2022, in terms of number 93.5 percent of NBFC belong to the NBFC-BL category and the asset percent of this respective category is 26 percent. In terms of market concentration NBFC-ML comprises of 6.2 percent but the asset concentration of this category is 69 percent. And only 0.3 belong to the NBFC-UL category.**

Two important parameters based on which NBFCs are classified are:

- **Nature of Business Activities**
- **Asset Size of the Company**

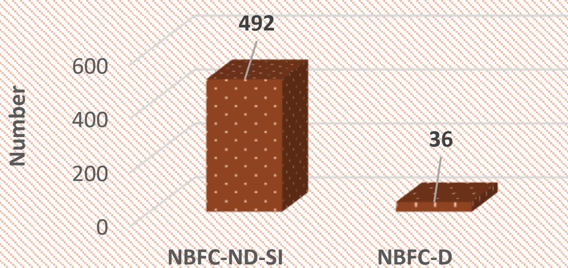
Exhibit 1.6: Classification of NBFC based on Nature of Business Activity as per New Regulatory

Sl No	Classification	Activity	Layer
1	Investment and Credit Company (NBFC-ICC)	Lending which supports productive/economic activities and acquisition of securities for investment.	Any layer, depending on the parameters of the scale based regulatory framework.
2	NBFC-Infrastructure Finance Company (NBFC-IFC)	Infrastructure loans.	Middle layer or Upper layer, as the case may be.
3	Core Investment Company (CIC)	Investment in equity shares, preference shares, debt, or loans of group companies.	Middle layer or Upper layer, as the case may be.
4	NBFC-Infrastructure Debt Fund (NBFC-IDF)	Facilitation of flow of long-term debt post commencement operations date (COD) infrastructure projects which have completed at least one year of satisfactory performance and finance toll operate transfer project as the direct lender.	Middle layer
5	NBFC-Micro Finance Institution (NBFC-MFI)	Providing collateral free small ticket loans to economically disadvantaged groups.	Any layer, depending on the parameters of the scale based regulatory framework.
6	NBFC-Factors	Acquisition of receivables of an assignor or extending loans against the security interest of the receivables at a discount.	Any layer, depending on the parameters of the scale based regulatory framework.
7	NBFC-Non-Operative Financial Holding Company (NBFC-NOFHC)	Facilitation of promoters/ promoter groups in setting up new banks	Base layer
8	Mortgage Guarantee Company (MGC)	Undertaking of mortgage guarantee business.	Any layer, depending on the parameters of the scale based regulatory framework.
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	Base layer
10	NBFC–Peer to Peer Lending Platform (NBFC-P2P)	Providing an online platform to bring lenders and borrowers together to help mobilise funds.	Base layer
11	Housing Finance Company (HFC)	Financing for purchase/ construction/ reconstruction/ renovation/ repairs of residential dwelling units.	Middle layer or Upper layer, as the case may be.

Exhibit 1.7: Classification Based on Asset Size

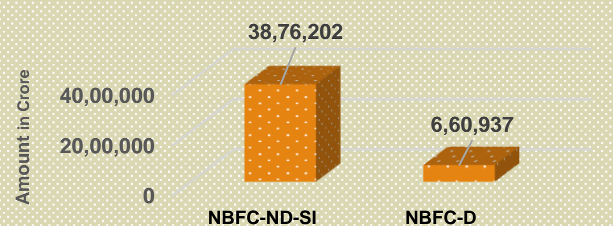
- NBFCs vary greatly in size. The minimum capital requirement to start an NBFC is relatively modest at ₹20 million, unlike banks, which need a license to operate and larger initial capital (currently ₹5 billion for a universal bank).
- Many NBFCs are very small with a total balance sheet of less than ₹1 billion. In 2006, NBFCs were divided by the RBI into two categories based on their asset size and those with assets greater than ₹1 billion were classified as systemically important NBFCs-ND (NBFCs-ND-SI). This threshold was raised to ₹5 billion in 2014. All other NBFCs-ND were considered a separate group.
- Given their larger size, the NBFCs-ND-SI were expected to pose greater risks to the financial system and hence were subject to more strict prudential regulations compared to NBFCs-ND.

Exhibit 1.8: Distribution of NBFC- Number Year 2023



Source: LSI Research based on RBI Data

Exhibit 1.9: Distribution of NBFC-Asset Size Year 2023



Source: LSI Research based on RBI Data

- Non-deposit taking systematically important NBFCs (NBFC-ND-SI) is dominating the NBFC sector with an asset share of 85.4 percent at the end of March 2023. This segment is filled mostly with non-govermental companies but few large govermental companies exists here too.
- Asset share in NBFC-ND-SI domain of govermental company and non govermental company is 43 and 57 percent respectively.
- At the end-March, 2023, deposit taking NBFCs has a share of 14.6 per cent in total asset of NBFC. This domain is majorly dominated by non-govermental public limited companies with 88 percent share of total NBFC-Ds asset, whereas govermental companies have 11.2 percent share.
- RBI has adopted a cautionary approach mandatating the NBFC-D with minimum investment grade rating for their fixed deposits shall accept fixed deposits from the public up to a limit of 1.5 times of their net owned fund (NOF) and for a tenure of 12 to 60 months only, with interest rates capped at 12.5 per cent. In May 2022, it was mandated that minimum investment grade credit rating of 'BBB-' from any of the SEBI-registered credit rating agencies would be necessary for deposits of NBFCs.

Exhibit 1.10: NBFC-ND-SI_Asset share in percent

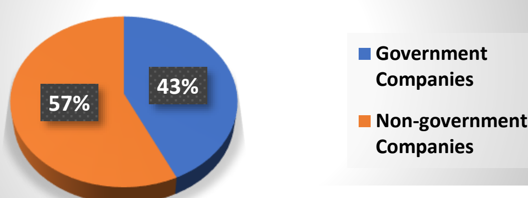
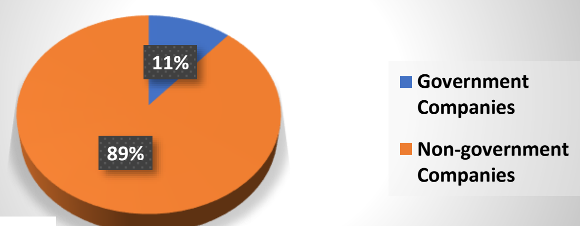


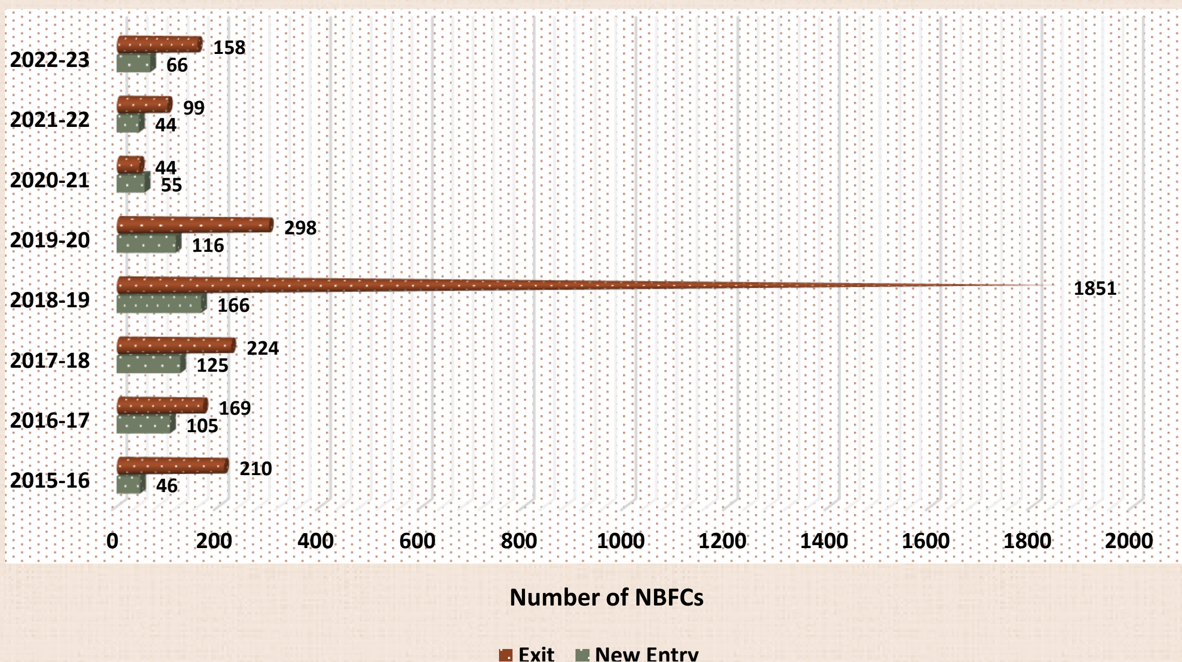
Exhibit 1.11: NBFC-D_Asset share in per cent



Source: LSI Research based on RBI Data

Current Scenario of Entry & Exit of NBFCs in India:

The spurring growth of Non Banking Financial Sector in terms of number and asset size is accompanied by volatile component in terms of new firm entering the sector and few existing firms taking their exit. In the FY 2022-23 there was an increase in count of both registration and cancellation of NBFC. The highest cancellation of NBFC licesnces have been observed in FY 2018-19 after the crisis episode in the respective sector. **Non Banking financial companies take their exit by surrending their licences because of business reason, or RBI often has to revoke their licences if any unfair practice, violations of any extant regulation and guidelines, while monitoring their business practices.** In regard to the unrestrained outsourcing to the third parties, misselling, breach of data privacy, unfair business conduct, charging of exorbitant interest rates, and unethical recovery practices, in 2022, RBI released guidelines on digital lending and has strictly mandated the NBFCs to follow the Fair Practice Code (FPC).



Source: LSI Research based on RBI Data

CHAPTER 2: Performance Analysis of NBFCs in India

Growth Story of NBFC :

Financial Inclusion has always been a prime goal of Reserve Bank of India, and NBFC has been playing a significant role in ensuring that the benefit reach every stratum of the society (which is otherwise left out of the conventional banking system). There is an agreement to the fact that NBFC sector has scripted a strong success story over the years. NBFC has become an integral part of the Indian Economy and their importance has been well realised following their contribution to the economy over the years, which have increased substantially from 8.4% in 2006 to 13% of GDP in 2022.. The lending business of NBFCs has the major portential in the area where the the mainstream banking system has no access because of the missing information or information is very costly, and they faces huge operational cost. NBFCs are bank to the marginalised section of the society by participating in the microfinance programe. But NBFCs also broadens the capital base of the economy by extending the lending business to the infrastructure projects and invest heavily in the real estate segment through Infrastructure Finance Company (NBFC-IFC), Infrastructure Debt Fund (NBFC-IDF) and Housing Finance Company (HFC). The total asset size of the NBFC sector as whole has experienced a robust increase in growth at a compounded annual growth rate (CAGR) of 16.3% from 2012 to 2023. The significant asset growth is implying a robust credit provision by the NBFC sector and can be considered as a definite indicator of the improvement of the marginanlised section of the society.

The ***surge in the growth of the asset of NBFC*** can be traced back to the reasons accounting several factors which may involve some ***sector specific*** and few ***macro-variables***

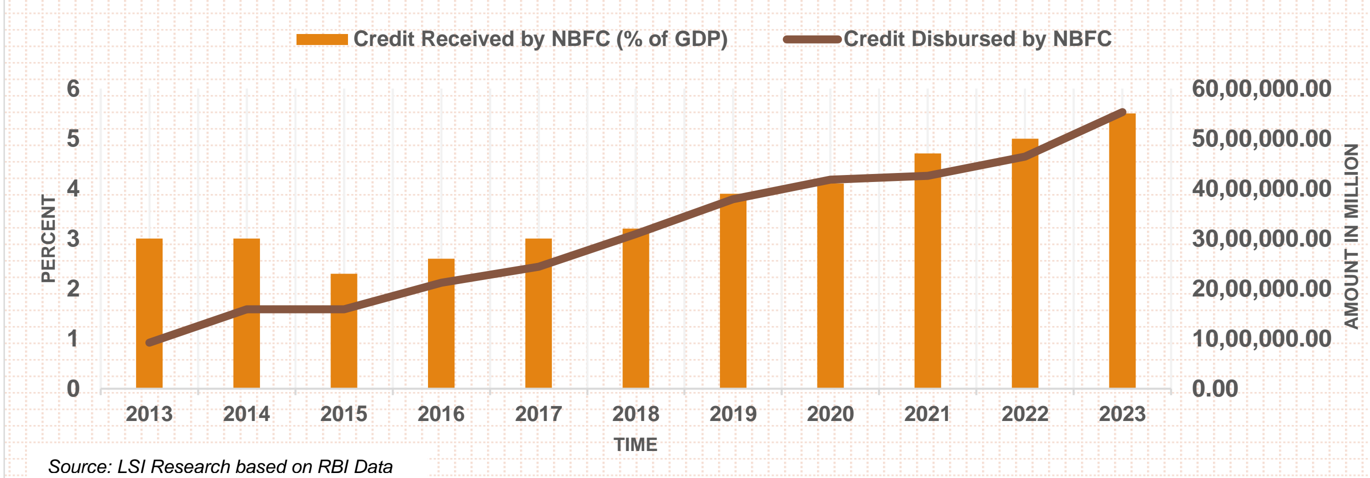
- Regarding **sector specific factors**, one of the most important factors is the **source of funds for the non-banking financial company's sector**. Funds are mobilized from two sources namely **banks borrowings** and **market borrowings.**

- Further, the **investment rate of the economy**, ratio of **gross fixed capital formation to gross domestic product**, is a major **macroeconomic variable** that can affect the NBFC sector.

- Apart from these factors, the most important factor which contributed to the growth of NBFCs in India is the fact that they are lightly regulated vis-à-vis banks and imposition of lighter regulations provided them space to breathe freely and expand at a faster pace. But the introduction of the Scale Based Regulation in recent times has brought the growth of NBFC under the scanner of RBI

- NBFCs emerged as the leading contributor in bank credit performance. **NBFCs grew by 25.8 percent YoY** in August 2023 compared to the previous year which was due to the healthy loan disbursements for their dependency on the banking system especially by the smaller NBFCs. **From holding 8.6% of the GDP in 2013, the credit contribution of NBFC to India's GDP has witnessed a remarkable rise to 12.3% by 2022, signalling its increasing influence in the retail finance market**. Post **FY-20**, there was a **significant balance sheet strength in the overall asset quality of NBFC where gross non-performing assets (GNPA) ratio decreased from 6.0% to 5.8%.** In FY-22, **NBFCs-D** have shown a positive trajectory, **the Return on assets (ROA) and Return on Equity (ROE) standing at 2.5% and 12.5% respectively**. **ROA** and **ROE** of **NBFCs-ND** also **mirrored a positive trend** standing at **1.5% and 6.5%** respectively.

- A **strategic reorientation within the NBFCs has been particularly pronounced in retail credit growth between 2015 and 2018** where NBFC outperformed banks and Housing and Finance companies (HFCs) in retail credit expansion. After a slowdown in credit growth due to the IL & FS (Infrastructure Leasing and Financial Services) incident, the ***trend reversed in 2021*****, with loan sanctions currently growing at a thriving rate of nearly 70% Y-o-Y**, followed by HFCs at around 40%. **The growth in the prime borrower segment during FY17-21 for HFCs and SCBs was significantly outpaced by NBFCs.** During 2015-2021, lending to young borrowers by Fintech NBFC increased by a hundredfold which contrasted with the trends in public and private banks where growth was similar for both old and young borrowers.

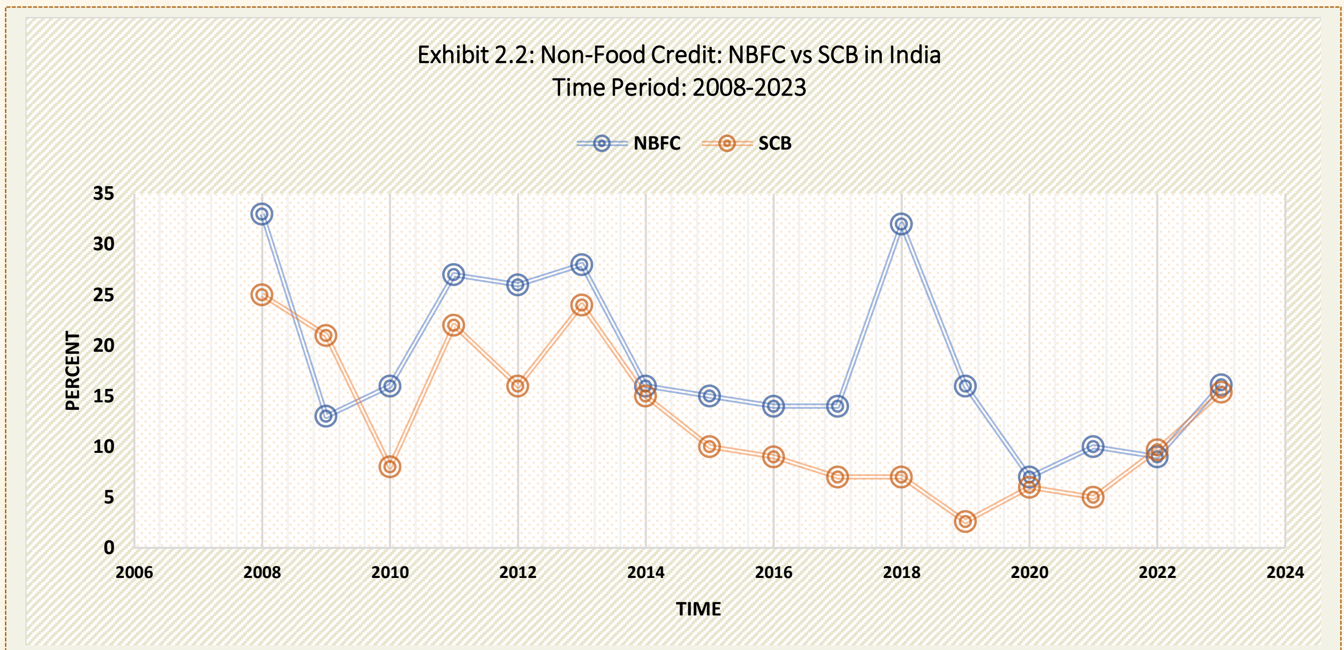


Performance Comparison Between NBFCs & Bank in India:

Though India has a bank-dominated financial system, in recent years total assets of Non-Banking Financial Companies have been increasing at a higher rate and contribution of NBFC sector to GDP has been increasing more steadily than that of the Banking sector. NBFCs have been establishing their business in areas like mortgage products and Micro, Small and Medium Enterprise (MSME) finance. This leads to increasing assets of NBFCs as a percentage of banking assets. NBFCs usually target underbanked segments of the population which provides a route to a higher return on equity compared to banks. NBFCs depend on bank borrowing and market funding. Deposits play a limited role in NBFC sector funding unlike the banking sector. Data by RBI exhibits that as of March 2021, market funding (commercial paper and debentures) and bank borrowing accounted for close to 45 percent and 33.1 percent of total liabilities respectively

Non-Food Credit Growth of NBFC vis-à-vis SCB:

Exhibit 2.2 shows the non-food credit growth of NBFC credit during 2008-2023 that fills the gap created by slower bank credit growth. During this period the **CAGR of non-food credit growth for Bank is estimated to be 12.6% and whereas in case of NBFC it is 18.25%**.



Source: LSI Research based on RBI Data

- The time portrayed in exhibit 2.2 is containing the dynamic behaviour of non-food credit of both NBFC and banking sector in India. Perhaps, this time period has the presence of ***most crucial events in economic history*** which has occurred at very shorter interval of time. The events have created ***structural breaks in economic and financial system globally and domestically***, and increased the ***downside risk*** for investments. Economic turnaround has happened, and is continuing to be so, by putting thrust on economic growth and maintaining the stability of the financial system by means of - ***regulations and credit disbursal supported by in-depth analytical study***.

- The credit growth of both NBFC and banks has experienced a steep fall in the period of ***global financial crisis*** (2008-2010) due to the rise in interest rate. And following the financial crisis there was rising unemployment causing a fall in ultimate consumer demand, having a repercussion in the entire economic system leading to a fall in the investment rate of the economy.

- In reaction to the financial crisis, the federal reserve in USA has taken the policy stance of ***taper tantrum*** in 2013 with the purpose of quantitative easing to promote economic growth and for maintaining financial stability, but the impact on the Indian economy was on the downside because there was outflow of capital following which there was a rising cost of borrowing capital leading to a decline in credit supply.

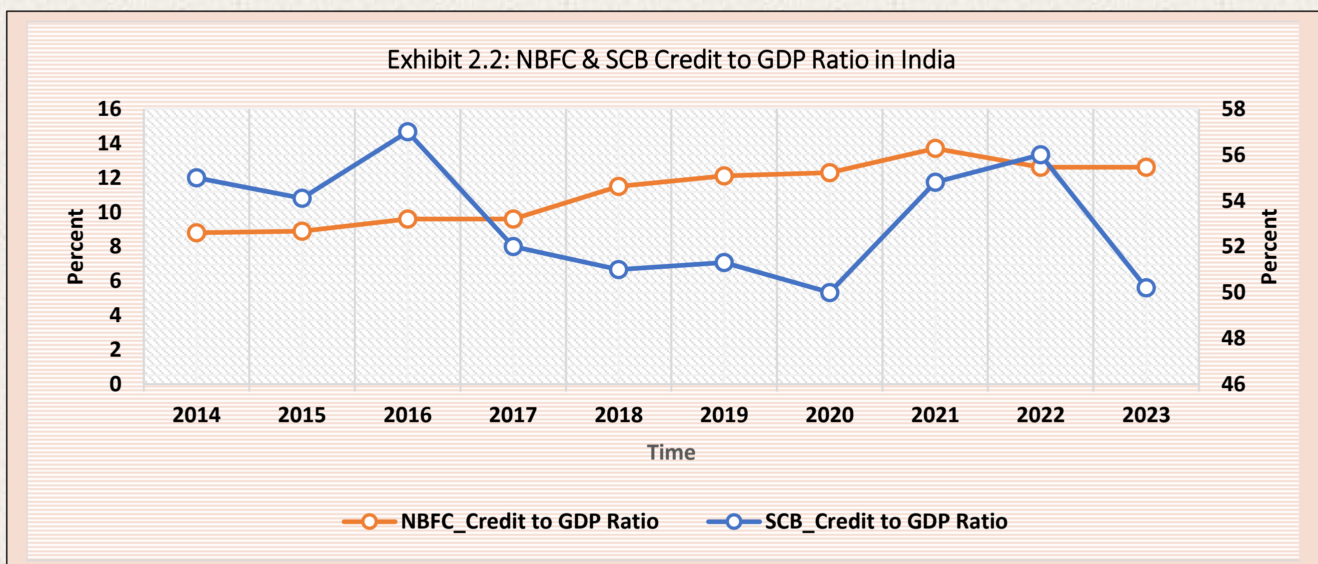
- The credit business was again hit when ***demonetisation*** happened in 2016. But this time the only the credit growth rate of banking sector faced a steep decline from 10% to 4%, whereas NBFCs sustained the y-o-y credit growth at the rate 19%. And during the recovery phase from demonetisation the credit growth of NBFC shoot up by 1.5 times, while banking sector had a moderate credit growth.

- However, due to ***Infrastructure Leasing and Financial Services (IL&FS) crisis*** and its impact on the investor's confidence, the share of market borrowings shrank and dependence on bank borrowings increased which is evident from the decline in the ratio of market borrowings to bank borrowings from 3.1 in 2016-2017 to 1.9 in 2019-2020.

- In the subsequent period the credit business was negatively affected by the ***economic crisis followed by the pandemic***, and NBFC had a fall in credit growth rate of 7% in 2020 from 16% in 2019, while in case of bank it had a less steep fall in 2020. From there onwards Indian financial system is experiencing a rise in credit growth rate. In the recovery phase of the pandemic the credit growth of banking sector kept on declining but NBFC sector's credit growth risen due to its characteristics of the product available. Economic recovery from the pandemic received a significant impetus by means of credit support from the NBFCs. During the entire period of study NBFCs credit growth trajectory was much higher than the Bank, but currently there is a convergence of the growth path of both the sectors.

Credit to GDP ratio of NBFC vis-à-vis SCB:

Exhibit 2.3 compares the credit-to-GDP ratio of NBFCs and SCBs. Credit-to-GDP ratio depicts the outstanding amount of debt at the end of the quarter compared to the sum of the last four quarters of nominal GDP. Credit growth of financial institutions is a key indicator of economic growth of a country. A credit-GDP ratio of 100% is the ideal according to researchers and analysts, which indicates robust demand for credit without the fear of a bubble in the making. A higher credit-to-GDP ratio indicates aggressive and active participation of financial institutions in the real economy while a lower ratio shows the need for more formal credit.



Source: LSI Research based on RBI Data

- NBFCs credit-to-GDP ratio has constantly risen and stood upto 12.6 percent in 2023, and in case of SCBs it is recorded to be 50.2%. ***Credit intensity*** of NBFC to GDP has a sustained increase, whereas credit-to-GDP ratio has experienced a relatively more volatile path.

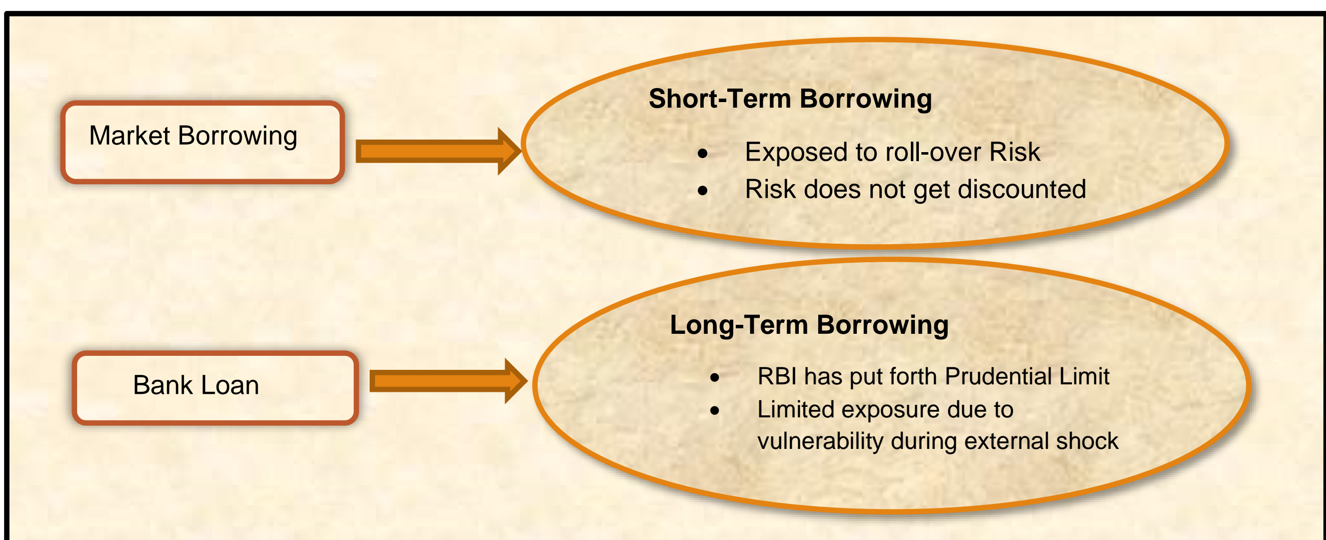
- The credit intensity of NBFCs increased with a pace in recent times led by the credit disbursal in the unsecured loan segment. ***NBFCs improved their capital positions*** to cater to the rise in credit demand. Amidst ***tightening liquidity conditions*** and increasing competition from banks in segments like vehicle loans and loans against gold, NBFCs focused on ***lending to segments such as unsecured loans***, ***micro-finance loans and MSMEs.***

- Banking sector reduced credit disbursal in the unsecured segment because of ***tighter regulation to control NPA*** during the period of 2017-20, followingly experienced lower rate of credit-to-GDP ratio. During this period NBFC expanded its credit disbursal share.

- NBFC outperformed banks in digital lending. Banks are still in its budding stage with Rs. 1.12 lakh crore lent through digital channels compared to Rs. 53.08 lakh crore through physical modes. While NBFCs are charting a different path with Rs. 0.23 lakh crore disbursed digitally as opposed to Rs. 1.93 lakh crore through traditional physical channels.

Source of Finances for NBFCs and Risk Implications:

Major sources of finances for Non-Banking Financial Corporation is Market borrowing and Bank Loans, which accounts for 75% of their total borrowing. This sector happens to be the largest net borrower and they are integrated to the rest of the financial system.



There is a strict instruction on the bank from the central bank to lend not more than 10% of its capital fund to any NBFC, with an exception for the Infrastructure Finance Company (NBFC-IFC) where it is 15%. Moreover, it has been advised by RBI to have a restricted loan exposure to the NBFC sectors. Financial system at large is exposed to vulnerabilities when there are many layers of intermediation that create a chain of interlinkages. Medium for the interconnectedness is through ***structural and financial linkages***.

Implication of Structural & Financial Linkages:

- ✓ Structural linkage refers to a situation where the NBFCs are subsidiaries of established banking institution. In the era of financial integration NBFCs are associated with foreign banks in terms of receiving fund, or even they are in joint venture arrangements.

- ✓ Aftermath of global financial crisis central banks across economies have become more concerned about this interconnectedness and the systemic risk that may be induced through it from possible economic shocks. Shadow banks may percolate this to deposit holders via deposit collections, therefore RBI have tightened regulatory norms for the NBFC-Ds. Therefore, there is a constant decline in the growth of public deposit share with NBFCs, and evidently the focus of NBFCs regarding the funding has shifted to other sources, including bank borrowings and other short-term commercial papers. This increases the probability of default for the financially weak NBFCs as commercial papers need to rolled over.

- ✓ Rollover risk arises in times of redemption pressure when the sector faces any downturn due to declining rate of return and in case of default. During this time of exigencies NBFCs often unable to roll over the commercial paper and non-convertible debentures on the payment due date, coupled with their inability to arrange alternate sources of funding

- ✓ The news of default gets transmitted at a rapid pace, followingly mutual funds investment exposure in high risk NBFCs will be withdrawn, and consequently NBFCs would be facing huge redemption pressure. This gives rise to the risk of refinancing or rollover risk

- ✓ Credit risk, liquidity risk and operational risk arise due to the financial linkages. Rollover risk for NBFCs has become most significant, and can even spread to the wider system in the event of shocks due to high interconnectedness of various arms of the financial system. The real sector economic activities might get affected specifically for the automobile, infrastructure, and real estate sectors where NBFCs are important players in terms of fund lending.

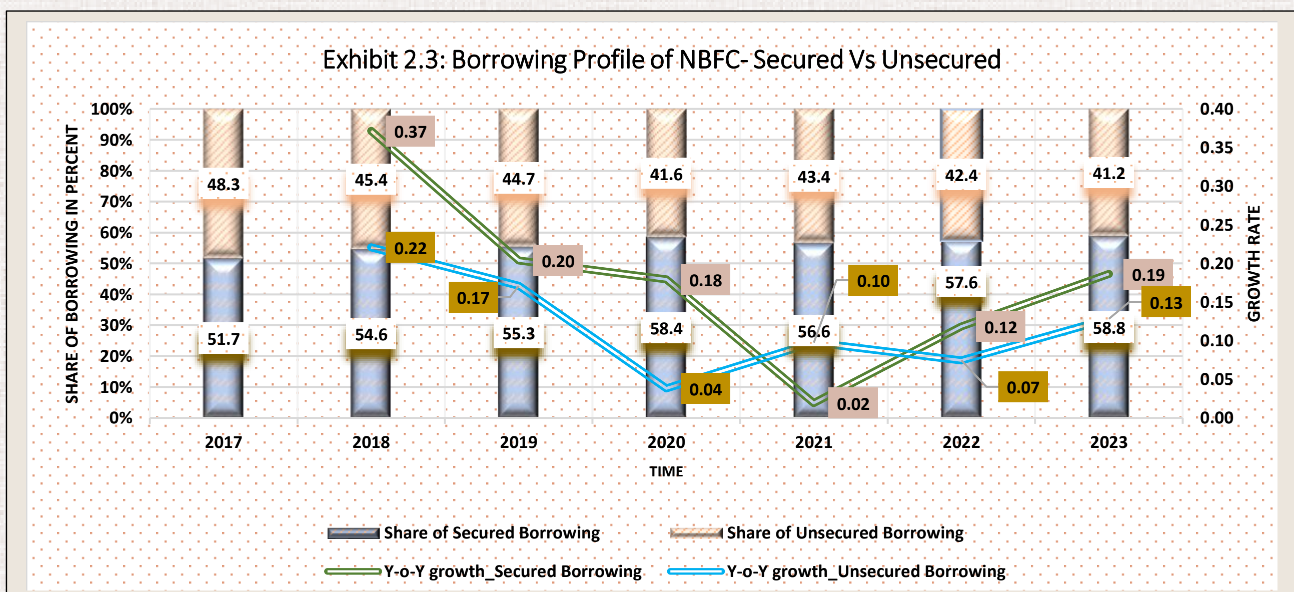
- ✓ The asset-liability management (ALM) problem arises from this dependence on the long-term investment projects and hence may be quite acute for the NBFCs in the infrastructure sector and housing market, where returns typically start generating after a (5–10 years) gestation period. The emergence of the ALM problem is a classic case for an NBFC that largely depends on short-term sources of funds but lends out money to a long-term project. Hence, the ALM problem can be rectified only through robust risk assessment, which may also help an NBFC to avoid generating NPA.

Borrowing Profile of NBFC:

- Majority of operational funding of NBFCs are done by means of **Bank** and **Market borrowing**. The **CAGR of total borrowing** for the period of **Fy2017-23 is 12.7%**. Primarily, borrowing profile of NBFC can be decomposed into ***secured*** and ***unsecured*** borrowing for both bank and market. Exception is there for NBFC-D, which can accept public deposit as well.

- In the observed period between Fy2017-23 shared of secured borrowing has always outweighed the unsecured borrowing. For the NBFC sector at large the **CAGR of secured borrowing for the aforesaid observed period has been 14.8% and for unsecured borrowing it is 10.2%**. In the **fiscal year 2022 and 2023** the **share of secured loan to unsecured loan** stands nearly in the ratio of **60:40.**

- Since the NBFC crisis related to IL&FS and DHFL in 2018 the regulatory tightening from RBI has increased and there was panic in the capital market regarding the rise of default and other possible uncertainties present in the NBFC sector. **Aftermath of NBFC crisis was followed by a sharp rise in credit risk premium on all bonds. The capital market exposure towards the NBFC sector became risk averse, debt- mutual funds became aware of the credit risk associated in the market and stopped rolling over commercial papers issued by various NBFCs**. There was steep decline in the roll over rates from 90% to less than 10%. Likewise, the Bond issuance scenario also experienced a decreased. The commercial paper market froze and steep decline in the subscription of bonds issued, created a dearth of new fund availability for the NBFC sector at large. Alongside, NBFC sector during that time had a severe shortage of liquidity at the face of high redemption pressure. Even the best rated NBFCs at that time found it difficult to raise fresh debt from the market as the bond market became risk averse to a high degree. Credit spreads on NBFC bonds shot up. NBFC with the best rating could raise debt from the market at a very high interest rate, which led to the rise in the borrowing cost. Following this episode, the entire sector faced a liquidity shock which soon transmitted into worries about a potential solvency crisis. The **deceleration in growth rate of borrowing both in case of secured and unsecured fund is visible in exhibit 2.3.**

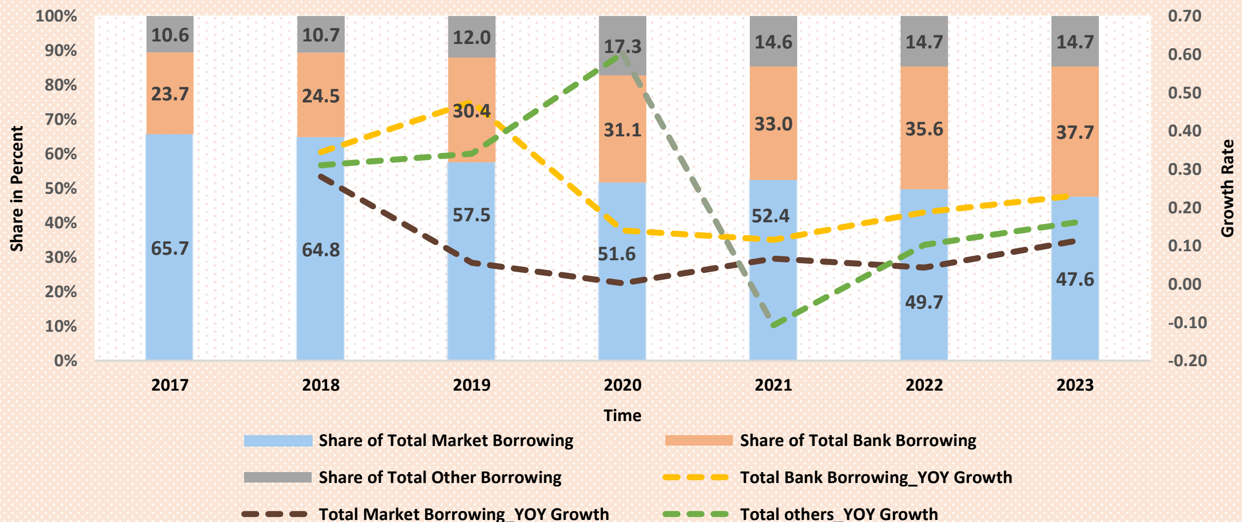


Source: LSI Research based on RBI Data

- Growth of unsecured borrowing was relatively lower than the secured borrowing, but the growth rate of the same picked up much higher and before the secured borrowing, from 2020. Growth rate recovery of Secured borrowing started a year later in 2021. Since NBFC sector was facing high liquidity shock, and to tide over the consequent possible solvency crisis, the sector had to borrow capital at high interest rate by the medium of unsecured borrowing. Another approach of NBFCs to breathe over the liquidity crunch was selling their loan portfolios to banks. The buyers, while buying portfolios from liquidity-stressed NBFCs cherry-picked and, as a result, the residual loan books of NBFCs were perceived to be of lower credit quality. This led to a further funding squeeze, which adversely affected the ability of NBFCs to lend to the real economy.

- Bank borrowing to the NBFC consist of term loan, cash credit, working capital loan and overdraft. Market borrowing consists of commercial paper, debenture, borrowing from FI's and intercorporate borrowing. Bank also funds NBFC in terms of market borrowing by means of subscribing to the commercial papers and debentures issued by the NBFCs. Analysing the details of the bank borrowing, it is observed that banks are preferring more in funding to the upper layer NBFCs, and over the period, bank lending is rising steadily in this segment. Since 2022, nearly half of the funding of total borrowing of NBFC-UL is coming from bank. NBFCs existing in the middle layer depends more on debenture as a major source of funding.

Exhibit 2.4: Borrowing Profile of NBFC: Market vs Bank vs Other sources



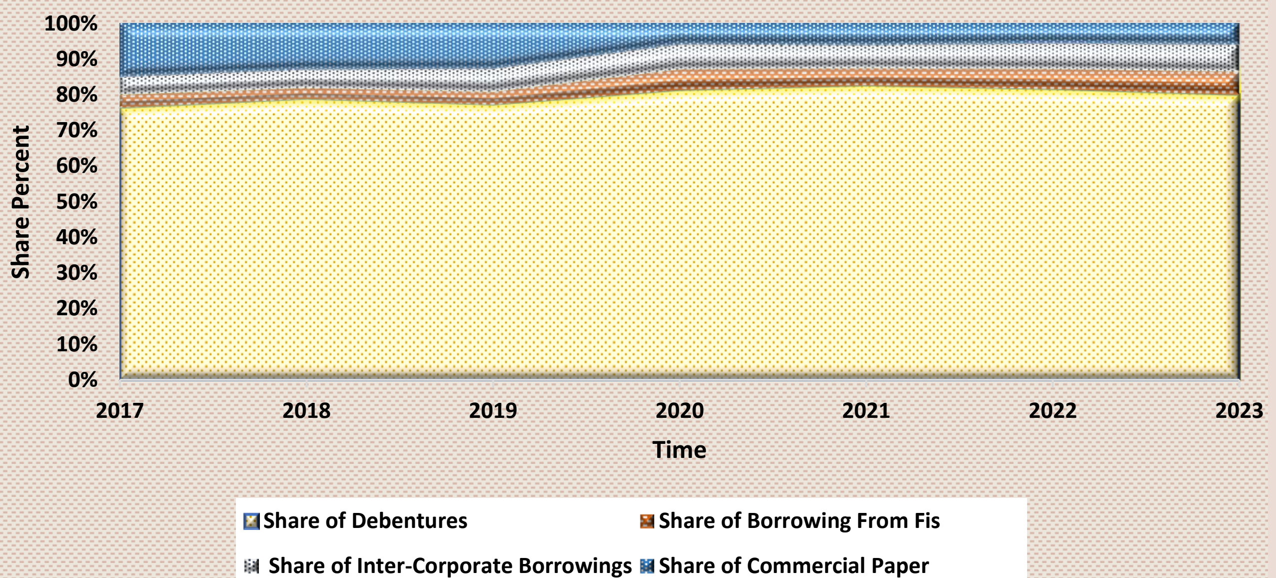
Source: LSI Research based on RBI Data

- From exhibit 2.4 it is evident that share of market borrowing has been dominating over bank and other sources. But, the CAGR of bank borrowing for NBFCs stands highest at 20% for the period of FY2017-23, following is the growth rate of borrowing from other sources at 18%, and CAGR of market borrowing is at 7%.

- The quantum of exposure of bank through direct lending to NBFCs might be low, but by means of market borrowing indirectly (by means of subscription of commercial papers and debentures) has been rising steadily, since the year 2022. Banks are preffering to subscibe the instruments of NBFCs of upper layer, which in general have strong parentage and are under enhanced regulation.

- Commercial papers issued by NBFCs are mostly subscribed by the mutual fund companies, and dynamically, their dominance of share is expanding gradually over the bank's share in the same. Subscription of NBFCs debentures has highest share in the market borrowing space, followed by subscription of commercial papers.

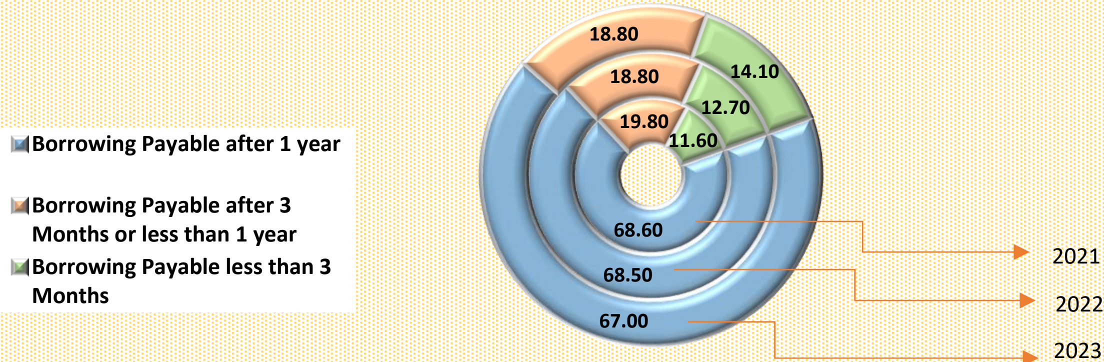
- In recent times banks have shown marginally increasing upward trend in subscribing to the debenture issued by NBFCs. Investment by means of debenture and commercial papers together comprises of more than 85% in 2023. From 2019 to 2023, there has been marginal uptick in the share intercorporate borrowing, and gained its share by 2.5% since then. From exhibit 2.7 it is distinct that unsecured lending towards NBFCs have been reduced gradually. In the aftermath of crisis, subscription to commercial papers (medium of short-term unsecured debt) has experienced reduction in share in the borrowing space approximately by 7%.



Source: LSI Research based on RBI Data

- Post the crisis episode of IL&FS there has been a reallignment of the borrowing structure of NBFCs, they have shifted more towards long-term borrowing to reduce the rollover risk. Hence, term loan from bank is gaining share in the NBFC's borrowing profile, whereas the working capital loans remain downcasted. From 2018 to 2021, NBFCs were struggling to raise fresh debt both from the market and directly from bank. Many macro factors alongside the intrinsic parameters of NBFC sector was making the investor's exposure risk averse. There were abrupt winding up of some schemes by the debt mutual funds companies to shift their fund away from NBFCs, and selling of financial assets of the institutions were the only outcome.

Exhibit 2.6: Repayment Tenure Distribution of NBFCs Borrowing

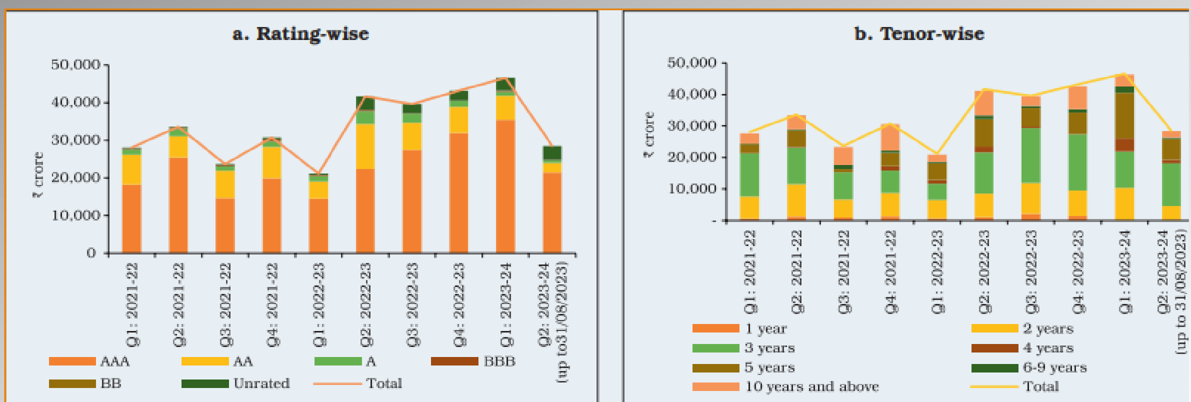


Source: RBI. LSI Research

- However, from 2021 onwards, recovery from pandemic driven economic crisis got underway, but the yield on bonds of NBFC spiked, implying investors owed larger interest payments alonside with an indication of greater risk. There was a gradual narrowing of spread, but there was a presence of differntiation between AAA & AA rated NBFCs. The gap between spread of three-year bonds of AA rated NBFCs and bonds of AAA rated NBFCs of the same maturity fell from a peak of 145 basis points (bps) in January 2021 to 74 bps in December 2021, thus, reaching pre-pandemic levels. This was manifestation of a gradual reduction in the risk aversion in the market. Similar scenario emerged with respect to commercial papers issued by NBFCs, spread increased during 2020 and the gap and the yield increased gradually and spiked during the second wave in 2021. But the spread narrowed from the latter half of 2021.

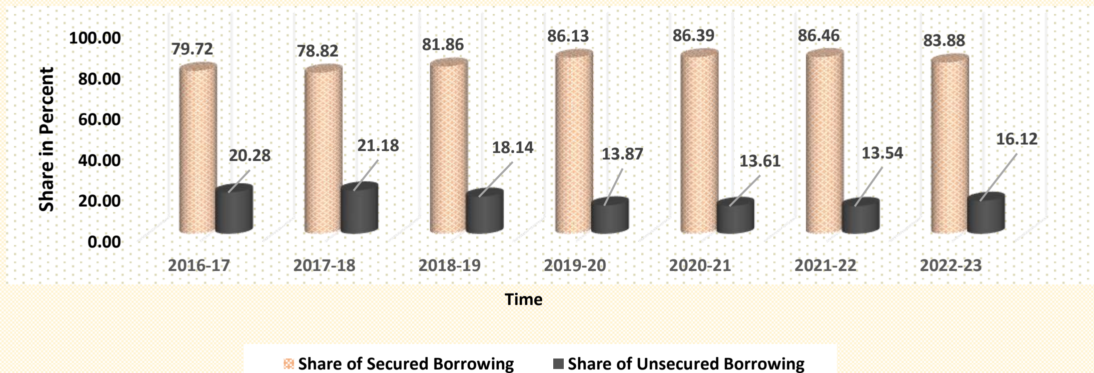
- From time points ahead of 2021, it is observed that growth rate of borrowing from bank has reached a relatively higher trajectory compared to the market borrowing, due to the reallignment in borrowing structure towards the longterm loan borrowing from bank. Around two-third of NBFCs' borrowings is payable in more than 12 months. At end-March 2023, there was a marginal uptick in short-term borrowings which are payable in three months or less. Issuance of non-convertible debenture (NCD) increased in 2022-23, and about 80% of NCD issued by the private NBFC are of either AAA or AA rated. Short-term tenured bond issued for 2-3 years are about 50% of the total NCD issued, and longer tenured issued bonds (more than 10 years) consist of 20%, and rest are medium tenured (5 to 9 years). The spread on bonds remained relatively low in the FY2022-23, reflecting upward movement in economic activity, which ultimately restored the market confidence.

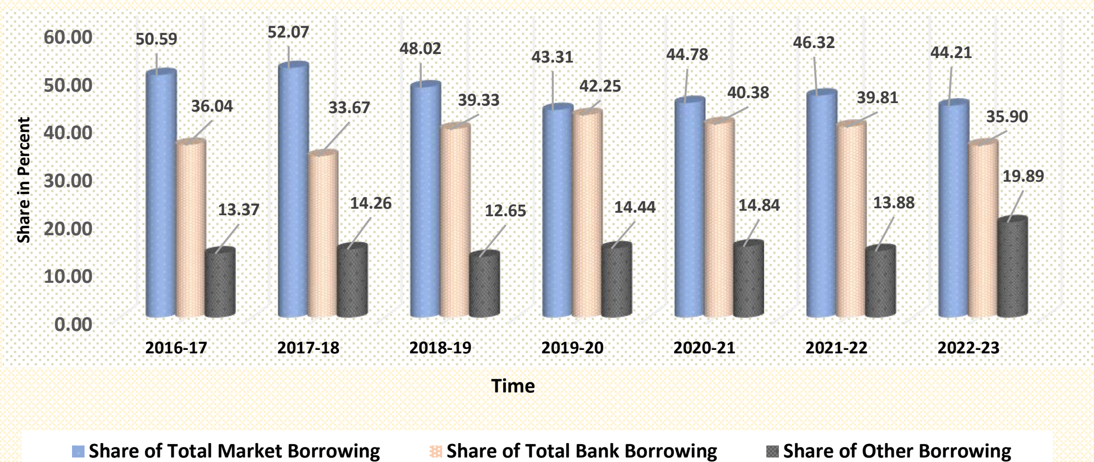
Exhibit 2.7: Issuance of NCD by Private NBFC in India



Source: RBI

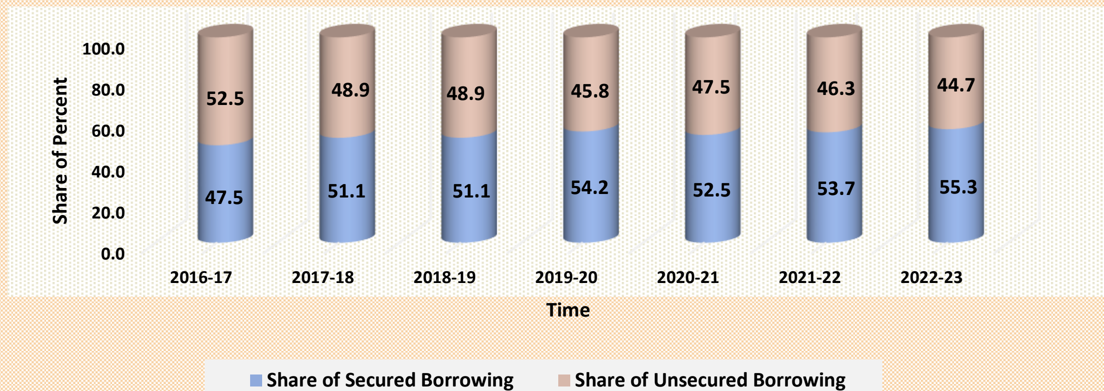
Analysis of Borrowing Profile of NBFC-D & NBFC-ND-SI

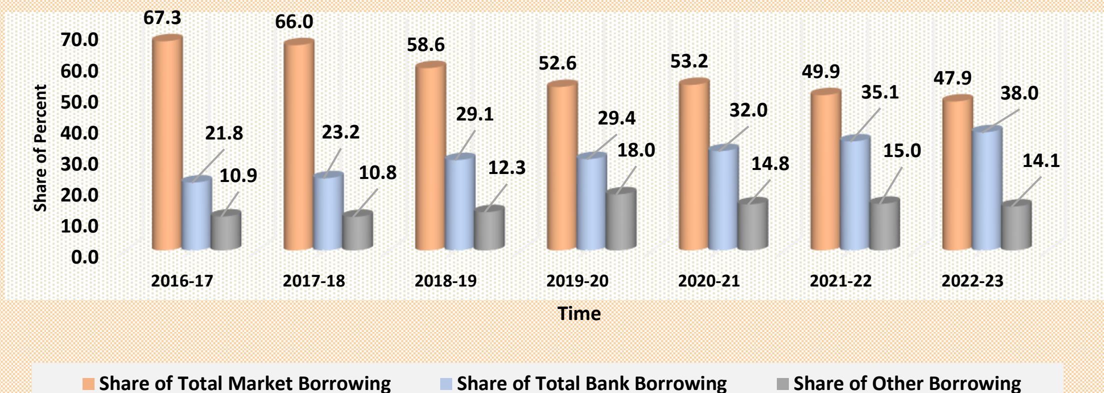




- **Market borrowing** has preponderance in the borrowing space of **NBFC-D**
- But there has been gradual increase in the share of bank borrowing at the expense of reduction in share of market borrowing. A sudden **reduction of 5%** in the share of total market borrowing in 2019-20 was due to the IL&FS crisis.
- In 2022-23 there was a sharp increase in the share of **Other Borrowing** (mostly comprising of increase in public deposit) **approximately by 7%**. Whereas there was a **steep downfall** in the **share of bank borrowing majorly by 5%**. NBFC-D managed to raise the liabilities by means of public deposit rather than bank, as the risk premium levied by the banks was at the higher end, following the strict ALM guideline mandated by RBI.
- **CAGR** of **Secured Borrowing** and **Unsecured Borrowing** has been **12% and 8%** respectively, for the period of 2017-2023
- **CAGR** of **Market Borrowing** and **Bank borrowing** for the period of 2017-2023 is found to be **9% and 12%** respectively.

Source: LSI Research based on RBI Data



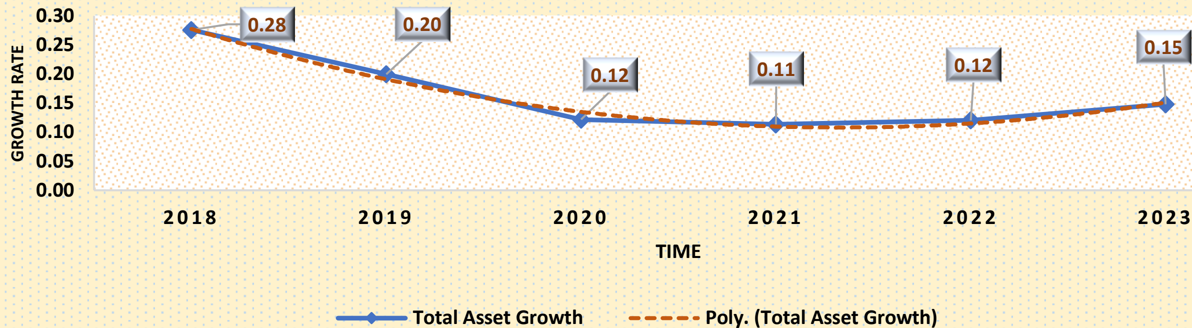


- In the **NBFC-ND-SI** segment there is a **pre-eminence of market borrowing's share**. Nonetheless, that **dominance is found to be slumping down**, and on the contrary, the **share of bank borrowing** is gradually having an **increasing share**.
- There is a possible **convergence between the trend of market and bank borrowing in near to medium term.** This phenomenon has been more obvious after the **realignment in the risk exposure stance by the lending institutions**, followed by a **proportionate response from NBFCs with respect to change in borrowing structure**. Wherein, NBFCs are **preferring long term debt** from the bank to avoid any **redemption pressure due to market volatility**, which can boil them down to a liquidity crisis, which they have faced during the IL&FS crisis episode.
- Realignment of borrowing structure has also been found in terms secured vs unsecured borrowing, since the market has **risk exposure towards the NBFC market has changed with high degree of risk aversion attached with high-risk premia.** Therefore, the share the share of secured borrowing has gradually inched up over the unsecured.
- **CAGR** of **Secured Borrowing** and **Unsecured Borrowing** has been **15.3% and 10.3%** respectively, for the period of 2017-2023
- **CAGR** of **Market Borrowing** and **Bank borrowing** for the period of 2017-2023 is found to be **7.5% and 22.2%** respectively

Source: LSI Research based on RBI Data

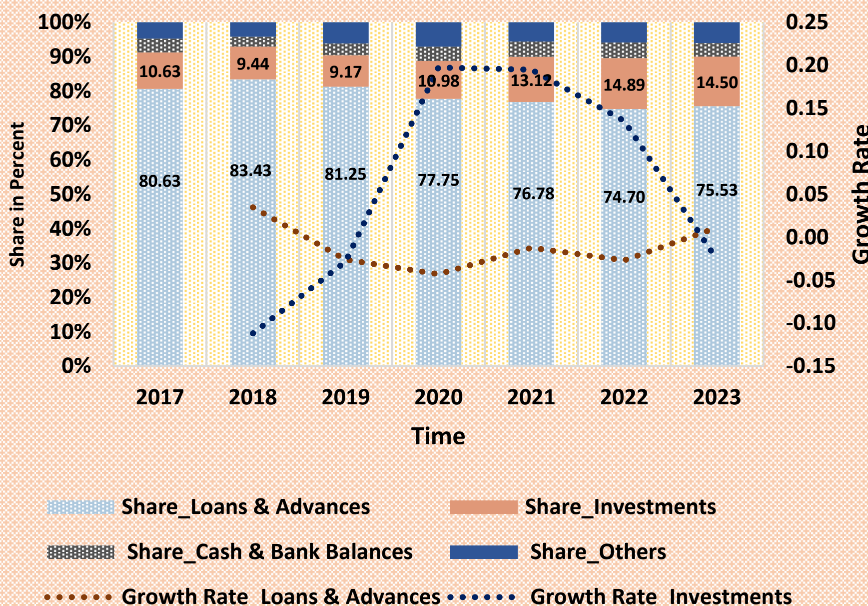
Analysing the Asset Quality

Asset structure in the balance sheet of NBFCs is decomposed into four components; **Loans & Advances,** followed by **Investments, Cash & bank Balances,** and **Others**. This report will critically focus on analysing the **dynamic behaviour of → 1: Loans & Advances, & 2: Investment**, top two component of the asset book, comprising a **mean share of 78% and 12% respectively, for the period of 2017-2023.**



Source: LSI Research based on RBI Data

- CAGR of the asset growth of NBFC for the mentioned period has been **13.7% and a percentage variation of 14.8%** in FY2022-23. Post the IL&FS crisis episode the **asset growth of NBFC tumbled to 12% in 2020 to 28% in 2018**. Since then, there has been a relatively crawling recovery of the asset growth with an upward rising trend, and reaching the pre-crisis growth rate seems to be far from the horizon. Asset growth of NBFC depends on the growth behaviour of its two important component Loans & Advances, and Investment, henceforth analysing the asset book by deep diving into it.



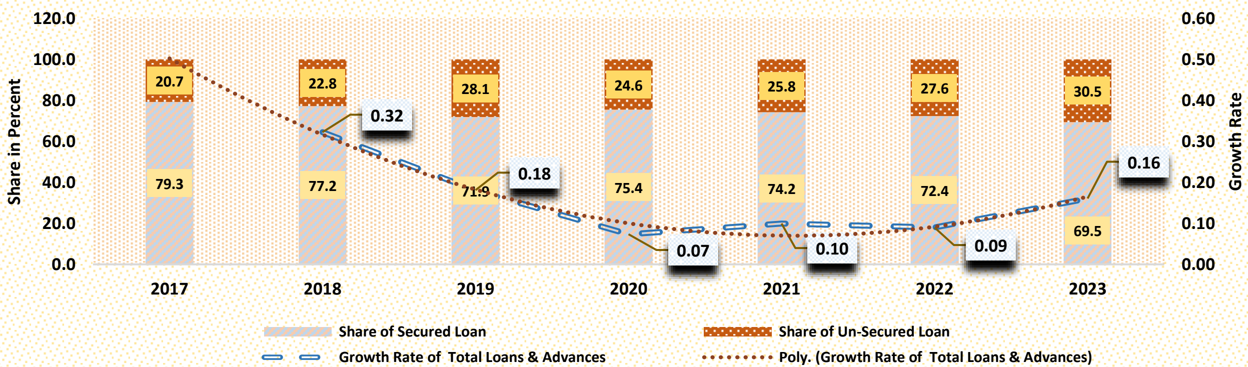
- **Share of Loans & Advances component in the asset book has a predominance over with CAGR of 13%, for the period of 2018-2023. Whereas Investment has relatively less share, but relatively high CAGR of 19%, for the same period. Percentage variation of loans & advance and Investment has been 16.1% and 11.8% respectively.**

Source: LSI Research based on RBI Data

1.Loan & Advances Profile of NBFCs

- Loans extended by NBFCs mostly are of **secured type** than the **unsecured**, and are of longer tenure. But there is a gradual expansion in the share of the unsecured loans as opposed to the secured ones.

- **CAGR** of **secured** and **unsecured loans** has been observed to be **11% and 19%** respectively. There is **gradual shift in the trend of loan-tenure towards shorter-term** (receivable within 12 months). However, the longer-term tenured loans (more than two-thirds of the loan book) provided by NBFCs comprises of the majority share, notwithstanding with a declining share.

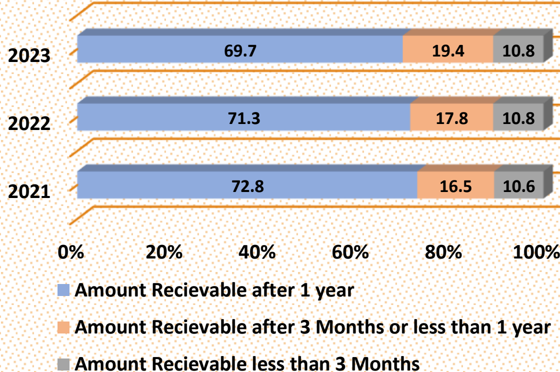


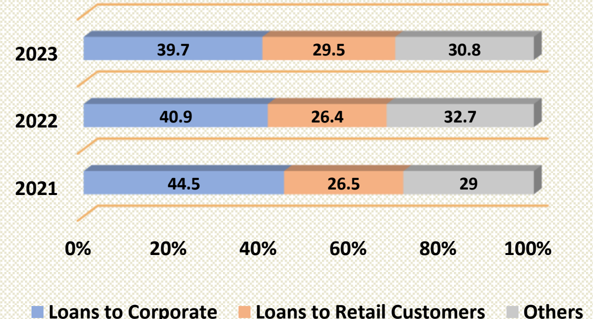
Source: LSI Research based on RBI Data

- Overall **loan growth of NBFCs** have experienced a **massive downturn by 25 points** between 2018 and 2020, majorly due to the dearth of funds for loan provision, after the crisis period. The recovery of overall growth trend again changed its course in the upward direction from 2021 onwards but with a slow pace.

- Loan exposure of NBFCs are maximum towards the corporates, followed by the retail customers, and combinedly they comprise of 69% of loan book as of 2023. In 2022-23, retail loans grew twice as fast as loans to corporates.

- Asset growth of NBFCs is being moderate due to the slow increase in the loan growth.

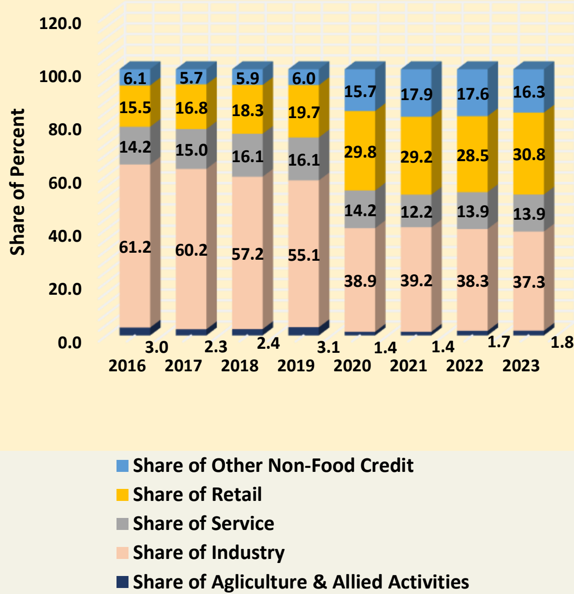


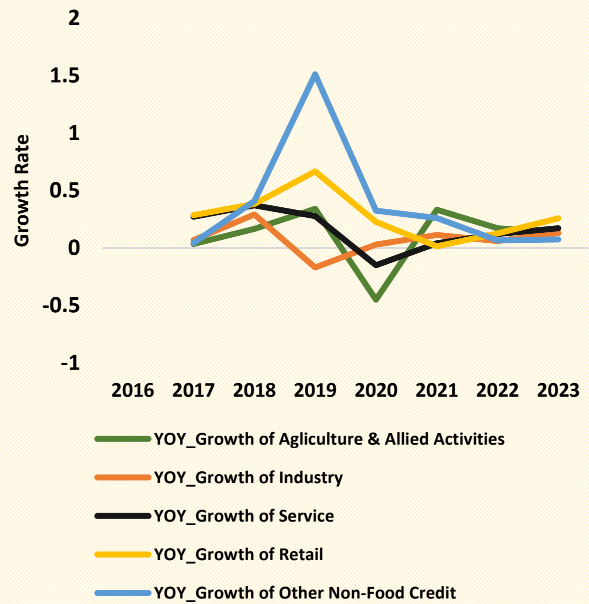


Source: LSI Research based on RBI Data

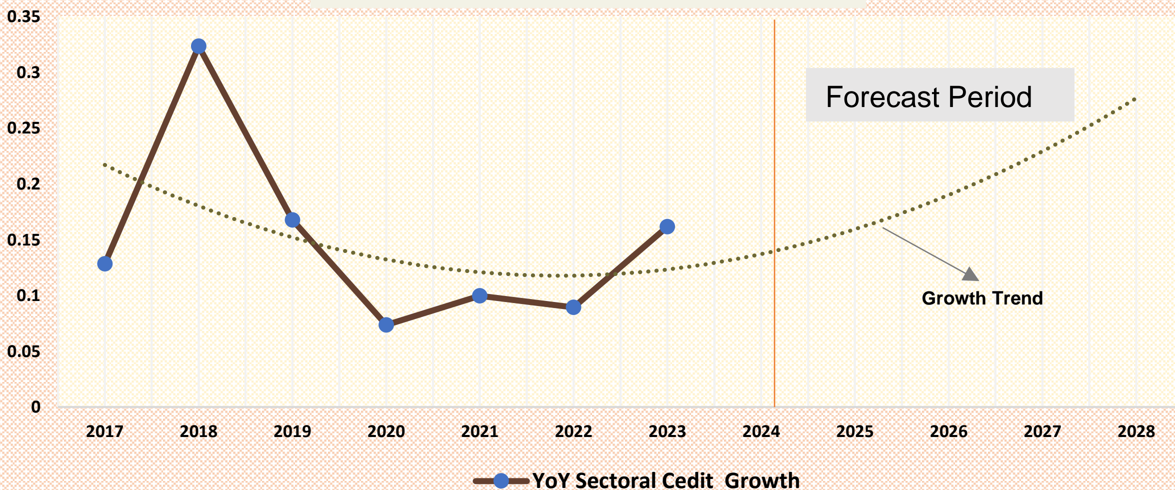
Sectoral Credit of NBFCs: - Deep Diving into Loan Analysis

*NBFC has a crucial functional role in the **Indian credit ecosystem** by complementing banks in deploying funds to several productive sectors and fulfilling the objective of financial inclusion*. NBFCs with its comprehensive capacity plays a significant part in providing credit for equipping the unbanked and under-banked sectors like MSME and other segments (especially to the retail customers) which are beyond the reach of the formal banking sectors. The sectoral credit coverage of NBFC extends to → **Industry, Retail, Services, Agriculture & Allied Activities and Other Non-Food Credit.**





Source: LSI Research based on RBI Data



Source: LSI Research based on RBI Data

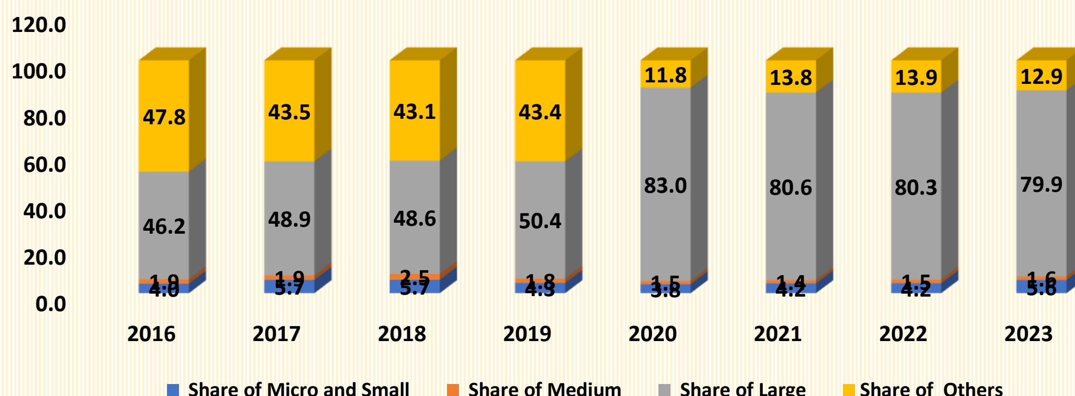
- Overall, **sectoral credit growth has a CAGR of 15% for the period of 2016-2023.** Historically, **Industry has the dominance over the other sectors in the lending space.** Albeit, the **share of industrial credit** has **gradually declined** over the period **by 24%.** And by the end of March, 2023, Industry's share of credit comprises of **two-fifth of total sectoral credit (37.3%)** extended by NBFCs, due to substantial amount of **credit provision in infrastructure lending by government owned NBFCs**, but with **relatively least CAGR of 7%. Retail sector's share of credit** is in the **second order of dominance** in the NBFCs credit space, and with due course of time the share is increasing by **two-times with a CAGR of 27%.** Following is the share of **credit to the service sector with a CAGR of 15%.**

- Remarkably the category of **Other Non-Food credit** is having the highest **CAGR of 32%** and its respective share is expanding in the lending space. Another important category, **agriculture & allied activities is showing a very dynamically a poor performance with the least mean credit share of 2.1%, and is having the one of the slowest credit growths i.e., CAGR of 7%,** along with the industry. However particularly for the **year 2023**, It is noteworthy to mention that there has been a silver shining for **both industry and agriculture** with a relatively high recorded growth rate of **15% and 27%** respectively. For industry it was 5.7% higher than the bank's provision of credit to the industry. In 2023, **Credit provision in the retail segment and service sector experienced a robust growth of 18% and while the former recorded 27%, highest in the bracket**, but marginally lower than the bank's provision. **Credit expansion** in the **service sector** has been majorly driven by **transport operators and retail trade, in 2022-23.**

- India's NBFC sector's overall credit growth has a two-fold increase between 2017 & 2018. But there was huge slump in the credit growth rate for the next two subsequent periods **due to unavailability of loanable funds to NBFCs after the crisis when the borrowing was severely affected due to increase in the volatility of the sector and consequently high borrowing cost.** The overall **sectoral credit growth trend is showing a moderate recovery** in the current fiscal in exhibit 2.18, and **it is forecasted to have a U-shape recovery but relatively at a middling rate. Credit growth** in the current fiscal is **determined with the expectation of resonating micro and macro factors. The most influential driving segment of the credit growth is claimed to be unsecured-retail loans in the near to medium term.**

In this report a deep dive will be carried out for analysing the **industry segment** since it has historically dominant share but with a declining trend, and on the **retail segment** because of its rapid growing nature in the lending space of NBFCs

Exhibit 2.19: NBFCs Credit Share Decomposition within Industry-Segment

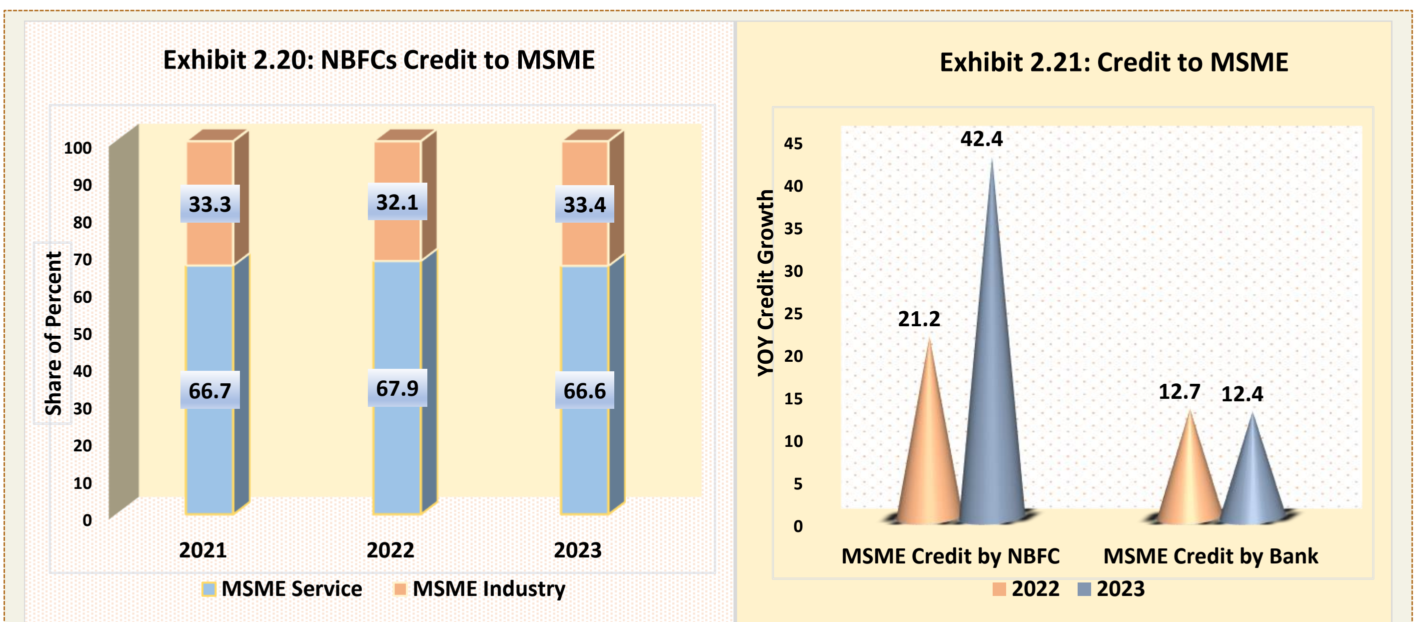


Source: LSI Research based on RBI Data

- Within the industry segment the **large industry** has a predominance in the credit landscape of NBFCs with a robust **CAGR of 15%** in the observed period of 2016 to 2023, and near to increase its share twice in the same period.

- **NBFCs** are steadily expanding their credit share in **Micro & Small and Medium (MSME) segment**, catering to their respective credit need and contributing to overall financial inclusion and economic growth. The **service sector within MSME segment dominates the credit share** from NBFCs. **Together MSME sector has a credit share of 7.6% in 2023. CAGR of Micro and Small sector is 12% and for Medium it is 4%, for the period of 2016-2018.** Credit growth by NBFCs to the MSME sector was more than three times that of banks, benefitting from their ability to offer customised financing solutions.

- The co-lending framework for priority sector lending has also facilitated flow of credit by NBFCs to the MSME sector, leveraging on the low cost of funds of banks and greater reach of NBFCs. MSME sector experienced a near to double growth in credit from 2022 to 2023.



Source: LSI Research based on RBI Data

- Economic upturn in India from 2021 onwards, featured with a robust private consumption trending above the long-run average has made the expansion of the credit in the retail segment. NBFC sector grappling with low credit growth have been quick-moving in grabbing a significant market share against the stiff competition from the banking sector, in the retail segment. NBFCs retail segment consist of → vehicle loan, advances to individual against gold (gold loan), microfinance loan/SHG loans, and other retail loan (comprising of housing loans, education loans and consumer durables loans).

- Vehicle loan has the highest share over the period of 2016-2023 in the retail segment with an average share of 10% in the overall sectoral credit provided by the NBFCs. Vehicle loan segment specifically took a downturn in terms of growth (turning negative) due to the pandemic driven economic crisis. After emerging out of the challenges of economic crisis there was a steep increase in the credit growth of vehicle loan segment by double digit and the trend seems to be continuing the same in the coming fiscals.

- Gold loans by NBFCs occupies the second place in the retail segment and remains a dominant provider although the gold loan growth rate took a plunge in the aftermath of crisis. The gold rate has upsurged quite high since the economic crisis and remained to be so, implying high collateral value of gold, leading to a lower interest rate, which is causing gold loan growth to be sluggish. However, in context of gold loan NBFC has a predominance in the share over the banks, with 59.7% and 40.3% respectively. With respect to the gold loan segment banking sector and NBFCs are collaborating with each other to achieve a more market efficient outcome in terms of loan products and returns.

- Existing share of housing, consumer durables and education loan are minimal within the retail segment of NBFC. But the Other retail loan segment is observed to have the strongest growth since 2021. Home loan segment is going to gain in the coming fiscals with the rise in the demand for loans due to the focus on affordable home loan ((ticket sizes of less than Rs 25 lakh). Consumer durable loans are massively expanding by providing unsecured loans with easy processing, along with better reach to the customers by means of technology at appropriate time.

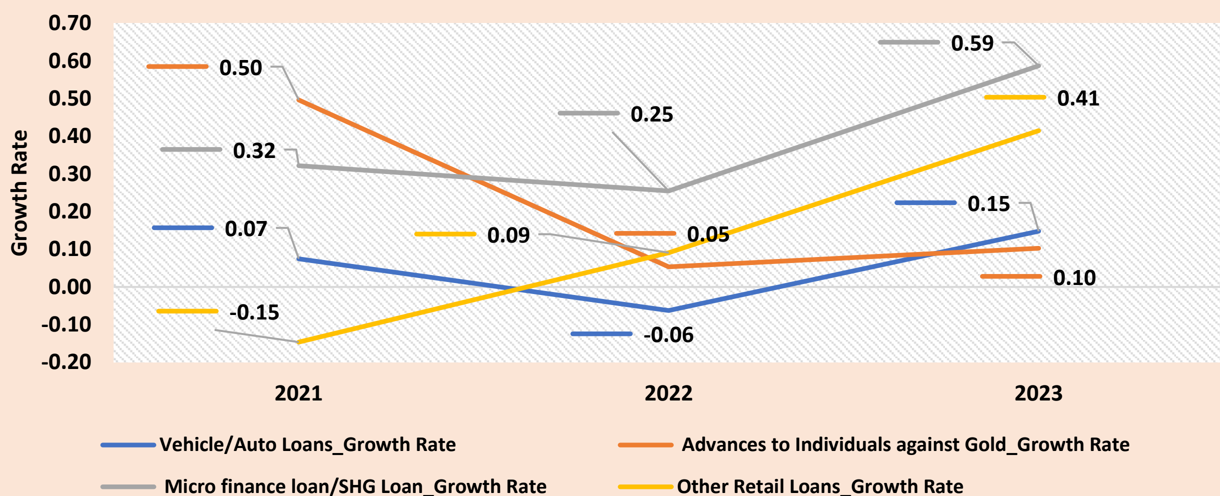


Exhibit 2.22: Credit Growth of Selected Sectors of Retail Segment

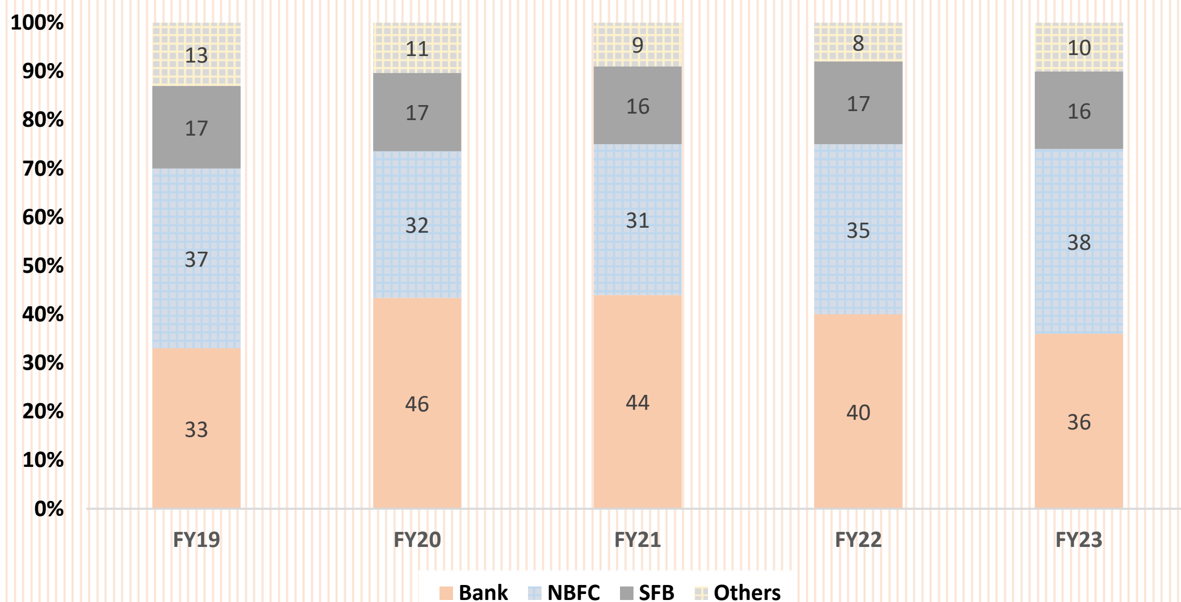
Source: LSI Research based on RBI Data

Focus on Micro Financing in India

To tackle many long-standing challenges, several states in India are pioneering bold new initiatives and are making great strides towards inclusive growth. Micro Financing has been targeted as a tool to eradicate poverty through the provision of credit to the poor and marginalized economic functions. Combining microcredit, micro-savings and microinsurance, microfinance can help low-income people in raising productivity, reducing risk, obtaining higher returns on investment, and improving the quality of their lives and those of their dependents. Though Microfinance is being considered as a very powerful tool for uplifting the economic conditions of the poor, its function as a tool for fighting social and financial asymmetries is a growing concern nowadays as there is a substantial doubt about its actual impact on the recipients.

Surging growth of NBFC-MFIs:

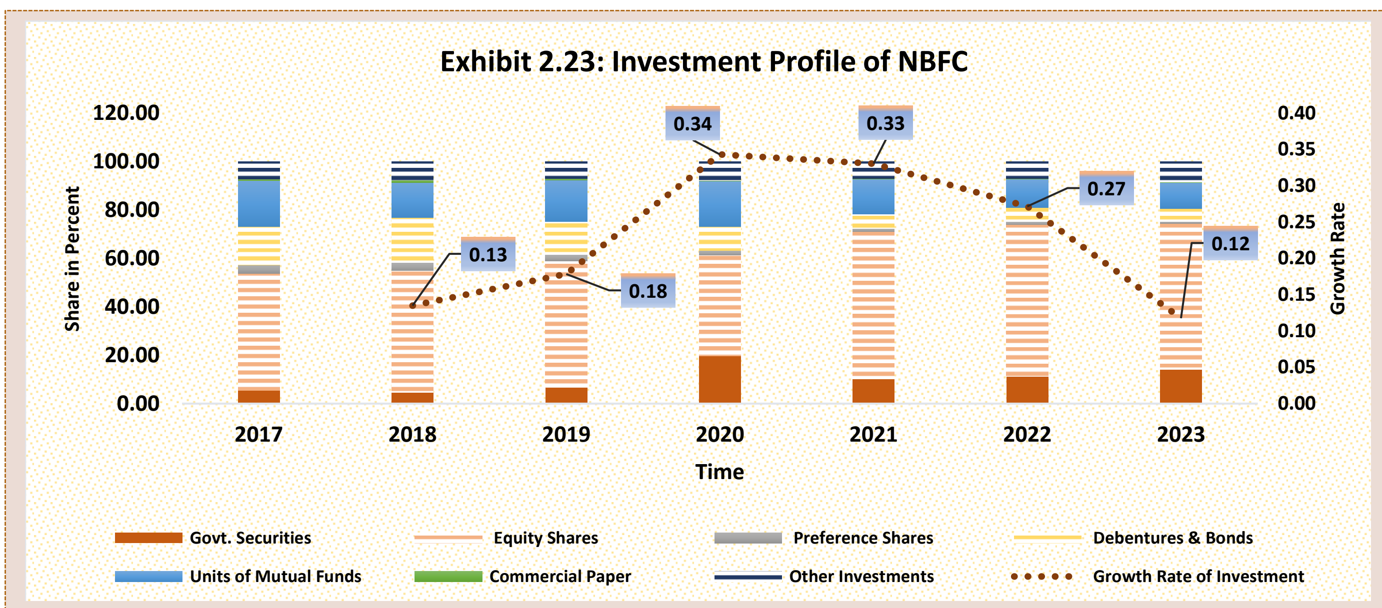
- **MFIs (Microfinance Institutions)** operate at a smaller level in comparison to NBFC and provide smaller loans to the underprivileged sections of the society. Microfinance industry in India is largely dominated by Non-Banking Financial Corporations-Microfinance Institutions (NBFC-MFIs) and is regulated by the Reserve Bank of India along with two self-regulatory organizations like Sa-Dhan and MFIN. During Covid-19 period, the growth rate of NBFC-MFIs surpassed that of banks, resulting in a higher market share in the microfinance sector. **NBFC-MFIs contributed around 38% to the outstanding overall microfinance loans compared to banks' 36% as of December 31, 2022. The momentum is expected to continue with a robust loan growth of 25% in FY24 for NBFC-MFIs.**



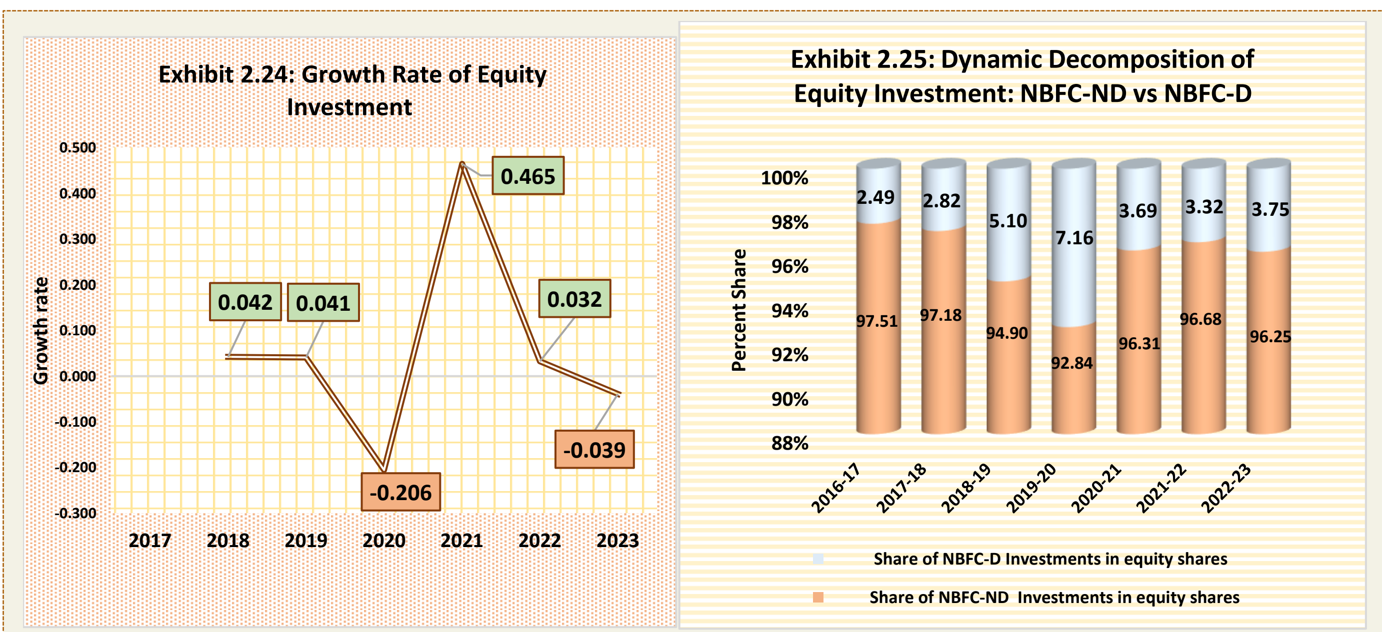
Source: LSI Research based on RBI Data

2. Investment Profile of NBFC

- In the asset book of NBFCs investment is surfacing to be as a major component by increasing its share gradually with mean share of 12% and CAGR of 19% (for the period of 2017-2023).
- NBFCs investment profile comprises of government securities, equity shares, preference shares, debentures & bonds, unit of mutual funds and commercial papers. Due to the lower interest income form the loans and advances, NBFCs have aligned its asset book towards the investment with greater share in the observed period.
- Nature of investments have a diversified portfolio of long-term and short-term, and in recent times preference for the NBFCs have been more for long-term investments.



Source: LSI Research based on RBI Data



Source: LSI Research based on RBI Data

Analysing by Deep Diving into Investment Instruments

- During the observed period, NBFCs continued to increase their investment in equity shares driven by a bullish stock market.

- Exposure towards equity market has been balanced between both short-term and long-term conditioned upon capital appreciation of the respective invested company, with the mean share of 54% and CAGR of 3.2%.

- Another key feature of investing in equities is easy availability of liquidity but at the cost of high-risk premia for short-term exposure.

- NBFCs are practicing a herding behaviour and gradually increasing its share in the fixed-income market to cushion from the economic vulnerabilities arising domestically or international uncertainties.

- Investment in government securities got momentum from 2020, and has the highest CAGR of 14% in the period of FY2017-23. Government securities along with the share of equities comprises more than half of the investment space of NBFCs.

- However, there is a declining share for long-term investment instruments like mutual funds, and debentures & bonds, both with a negative growth rate→ CAGR of -7% and -14% respectively.

- NBFCs are subscribing less to the debentures & bonds primarily due to reason of difficulty in liquidating the instrument easily during the time of redemption pressure to be faced from the borrowing side in case of any crisis in the sector. Another plausible reason for reduction of share from the fixed income market and shifting the funds to the equities in 2021 because equity market was discounted and Indian economy was at the initiation of the economic recovery.

- There is a reduction in the share of mutual funds to cater the redemption need from the borrowing side. Redemption demand was not met by selling off equities but by pulling out the NBFCs invested funds from mutual funds to avoid high opportunity cost otherwise (because risk gets discounted in equity market only in long run due to its volatile nature, whereas the risk is already relatively discounted in the mutual fund market in short-term itself by means of diversification of investments for a balanced return).

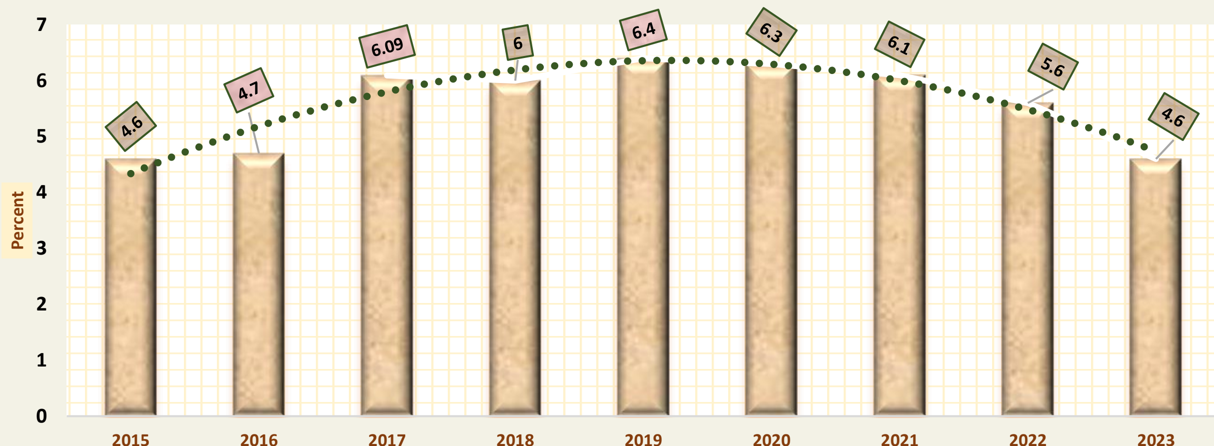
- After the crisis episode in 2018, NBFCs have gone through a structural change in terms of realigning their investment profile in a big way to avoid short-run disruption in the cashflows and return from long-term investments. Regarding the commercial paper investment, the growth rate is found to be negative with reduction of share to 4.7% of the total investment portfolio.

Analysing the Asset Quality & Financial Performance of NBFC

In India, NBFC as a sector experienced a considerable growth in terms of numbers and asset over the last two decades. In the last decade, the sector has undergone through multiple crisis consisting of sector-specific, and other macro crisis hailing from both domestically and globally. But it is noteworthy to mention that the sector has restructured itself in response to all the major challenges it faced by simultaneously strategizing its borrowing and credit profile to improve its asset quality and consequently the financial performance.

Discussion on Asset Quality:

Assessment of NBFCs undoubtedly is dependent on the containing asset quality. Lending business of NBFC involves the manifestation of credit risk, and the profit earning is estimated after accounting for the expected level of associated credit cost. Credit cost is dependent upon the nature of the respective asset class for which the credit has been provisioned and the correspondingly pricing of the loan segment including the risk premia is charged. Credit cost is directly proportional to the delinquencies happening in the loan portfolio. Risk management by the NBFCs are crucial in maintain the credit cost to keep under control. The financial institutions lending to the NBFCs evaluate their credit risk while investing in a NBFC by assessing the status of the non-performing assets (NPA). Henceforth rising gross NPA severely affects the availability of the funds for the NBFCs and as a result business operations will be affected.



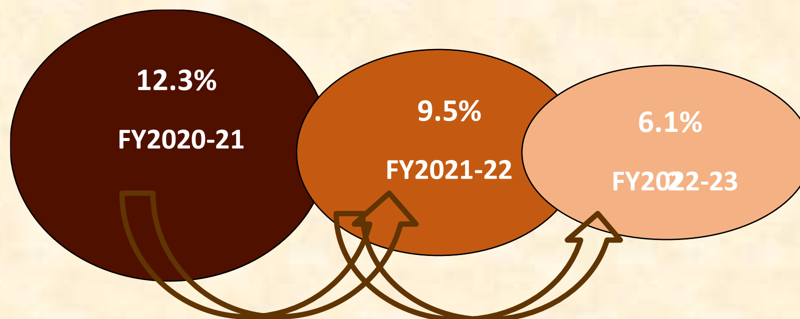
Source: LSI Research based on RBI Data

- Form the above exhibit 2.26 it is depicted that the GNPA of NBFC is distributed symmetrically in the observed period. GNPA increased between 2015 and 2019 at 7% rate, and thereafter declined till 2023 at 6%.
- Up till 30th September, 2022, NBFCs were allowed by RBI to follow the NPA upgradation norms - which stated that a loan account which is classified as NPA can be upgraded to a standard asset only if the entire arrears of interest and principal borrowed are paid by the borrowers.

- Since the year 2021 onwards recovery of loan started increasing with the growth of economic activity taking up again. By the end of FY2022-23 asset quality of NBFC improved remarkably and the GNPA position reached a relatively favourable position as was in 2015.

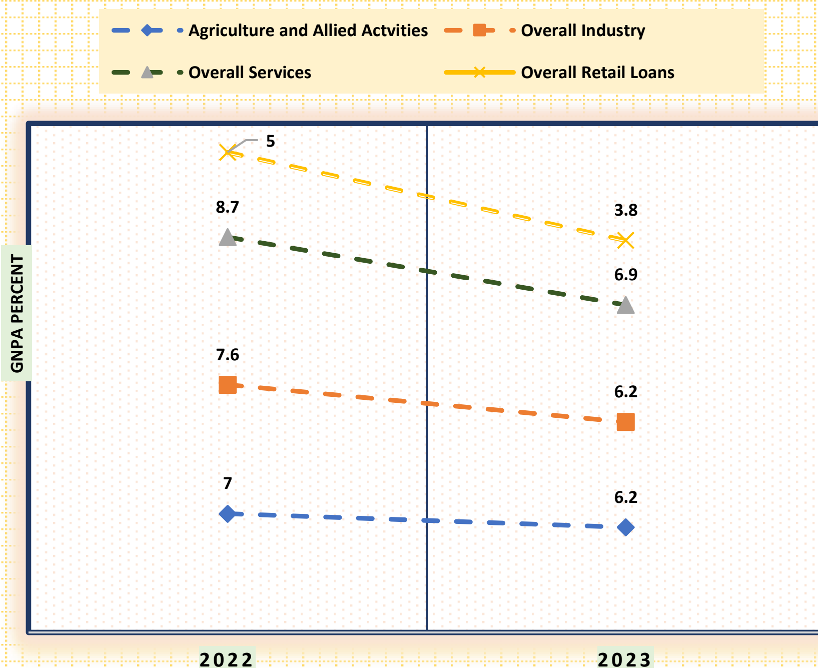
- The decline in GNPA could be accrued to better on time loan servicing, better recovery practice, and write-offs. Due to relatively lesser volatility in the market, there was lower slippage which also resulted in the reduction of GNPA to a five year low in 2022-23.

Delinquency of Performing Asset



- Overall delinquency of the performing loans almost halved after the economic activity gained momentum gradually with the tapering of the impact of the pandemic.

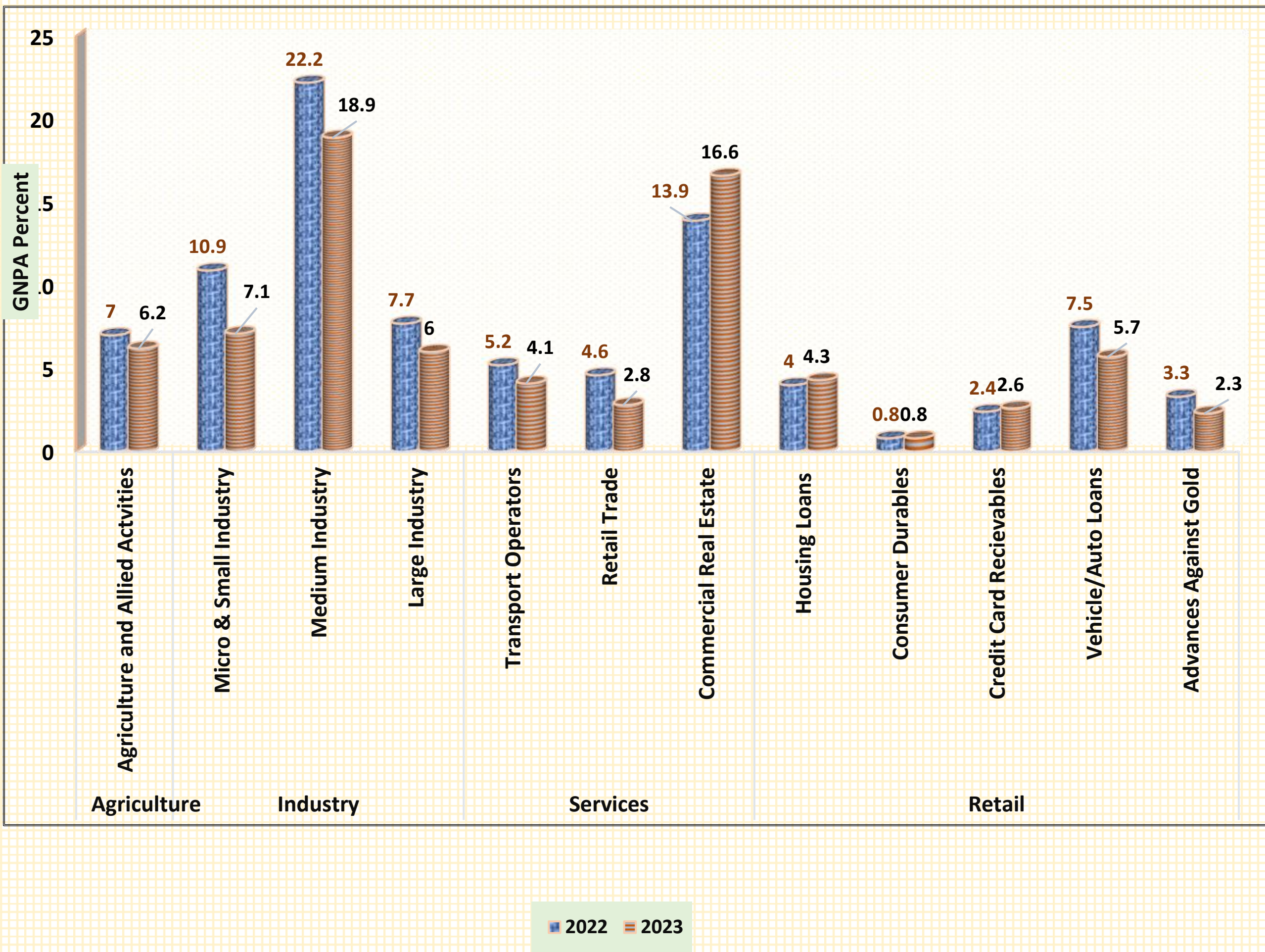
- During 2022-23, the delinquency ratios in all buckets came down, with the maximum delinquency in the less than 30 days bucket. **The share of the standard asset with no delinquency increased 87.7 per cent at FY2020-21 to 93.9% to FY2022-23.**



Source: *LSI Research based on RBI Data*

- Resumption of economic activities augured the decline of overall sectoral GNPA ratios at the end of FY2022-23.

- The GNPA for retail sector descended the most followed service sector industry and least for the agriculture and allied activities.

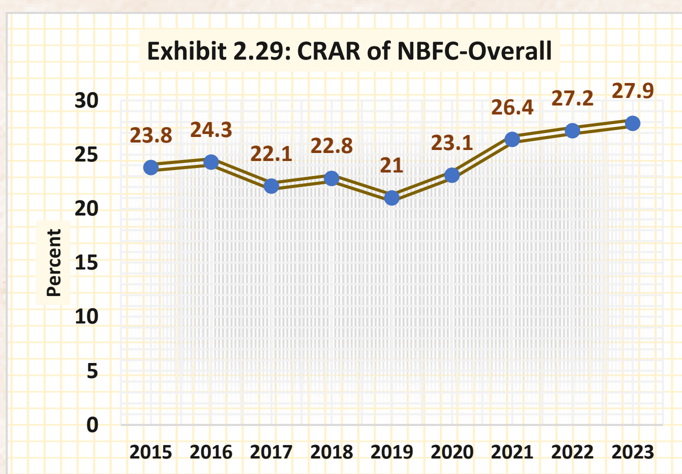


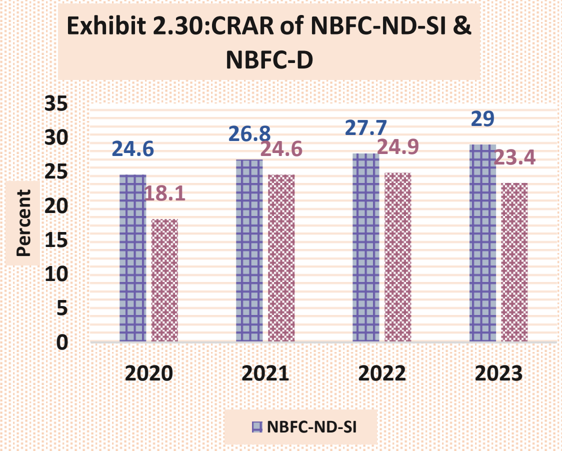
Source: LSI Research based on RBI Data

- In March 2023, GNPA ratio for the retail sector is below the overall average. Within the retail sector vehicle loan and gold loan segment performed better in terms of reduction in NPA.
- Every segment within the service sector has improved their asset quality, excepting the commercial real estate had experienced deterioration in asset quality and has the highest GNPA ratio.
- MSME segment registered the relatively better improvement in the asset quality compared to the large industries in FY2022-23.

Capital Adequacy and Risk

Investment in NBFCs is rationally assessed by the lenders based on the capital buoyancy available in NBFCs to absorb losses arising from their respective business activities. Capital adequacy is the parameter in terms of understanding of the bolstering capacity towards the lenders from the NBFCs by absorbing unexpected losses. Capital to risk weighted ratio (CRAR) is the ratio of a NBFC capital to its risk-weighted assets and current liabilities. CRAR is utilized by the investors to understand the capital adequacy and financial stability position of the NBFCs. High CRAR implies NBFCs are in relatively better position to absorb the downside risk and expands its business activities and keep their respective investors funds secured.





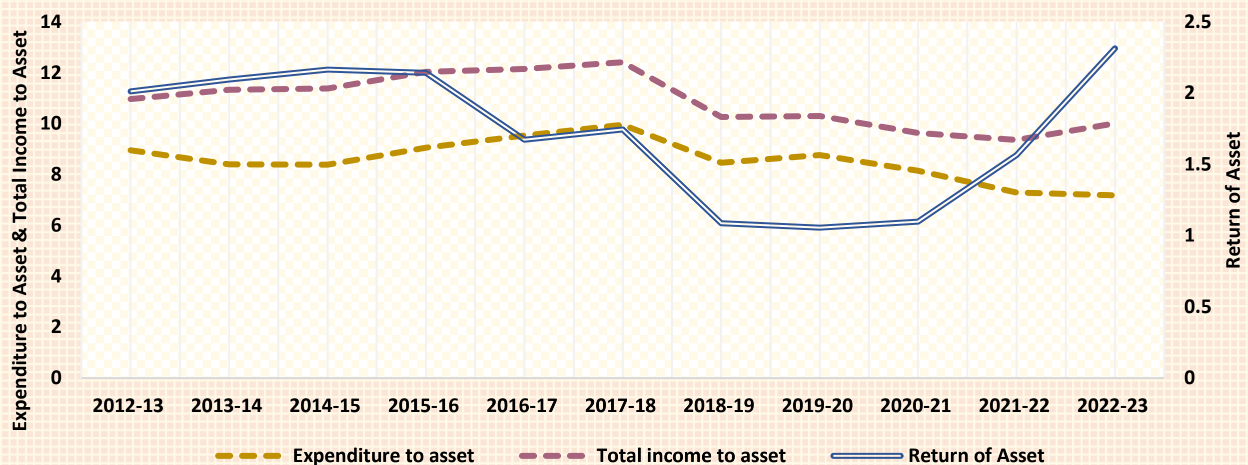
Source: LSI Research based on RBI Data

- NBFCs have maintained the adequate of capital level in the period of study i.e., 2015-2023, with CRAR well above the minimum regulatory requirement: not less than 15% of aggregate risk-weighted assets, including both on and off-balance sheet items.
- From 2015 to 2019 there has been a decline in the CRAR for the purpose of easing of liquidity to expand the business activities, but on the contrary it increased exposure of risk in the market.
- Later, in 2018 IL&FS, a major infrastructure-financing NBFC, defaulted on its debt, and sent shock waves throughout the sector. In response to the trepidation created in the debt capital market, NBFCs raised the CRAR to improve the financial stability, and boost confidence into their investors regarding the cushion for their underlying investment.
- Across the category of NBFCs, the CRAR improved notably on the back of y-o-y higher Tier-1 capital and reached new heights as compared to the pre-crisis.

Financial Performance Analysis of NBFC

- NBFCs earn their income majorly based on the allocation of funds, and fee-based income contributes merely 2% of the total income. **Aggregate income of NBFCs** grew with a **CAGR of 10.7%** in observed period of FY2012-13 to FY2022-23.

- On the expenditure side, interest expense, operating expenditure and expense incurred on writing-off bad debts are major contributors to the total expenditure and grew with a **CAGR of 9.3%** in the same period.



Source: LSI Research based on RBI Data

- Analysis of financial performance of NBFC sector can be decomposed into two-time phase; **Phase1: 2012-2018 & Phase2: 2019-2023**. Between the phases there is a significant change in the trajectory in the downward direction of **Total Income to Asset & Expenditure to Asset Ratios**. The change in the trajectory implies there is a **shrinkage in the business activities** of NBFCs after the IL&FS episode. There was a **slowdown in the supply of credit** due to the **scarcity of funds available**, and alongside the total expenditure of NBFCs increased because of the **spike in borrowing cost of capital due to high-risk premia levied on them**.

- Key **profitability indicator *Return of Asset (ROA)*** grew over the observed period with a **CAGR of 1.28%.** There was a decline in the level of ROA from 2016 onwards with the **progressive deterioration in asset quality** and it plummeted more after the crisis episode. During this period the spread declined alongside ROA. But since FY2020-21, **ROA changed its course and started increasing steeply with CAGR of 21.6% with the improvement in the asset quality.**

- For the last two fiscal the **aggregate income** experienced a steep increase **led by interest income**, and **expenditure mostly driven by interest cost** (one third of the total expenditure) and operating cost (one fourth of the total expenditure) **grew at a relatively slower than the income led the net-profit grew significantly**. Fund based income comprised of 90% of the total income, though there is a rise in the share of fee-based income gradually in recent times. The cost to income ratio during the last fiscal declined revealing increase in the operational efficiency. **Beside the robust profit, the net interest margin (NIM) and return on equity (ROE) improved in last two fiscals positively influencing the ROA**.

Deep Diving: For the understanding of associated variables having impact on Return of Asset

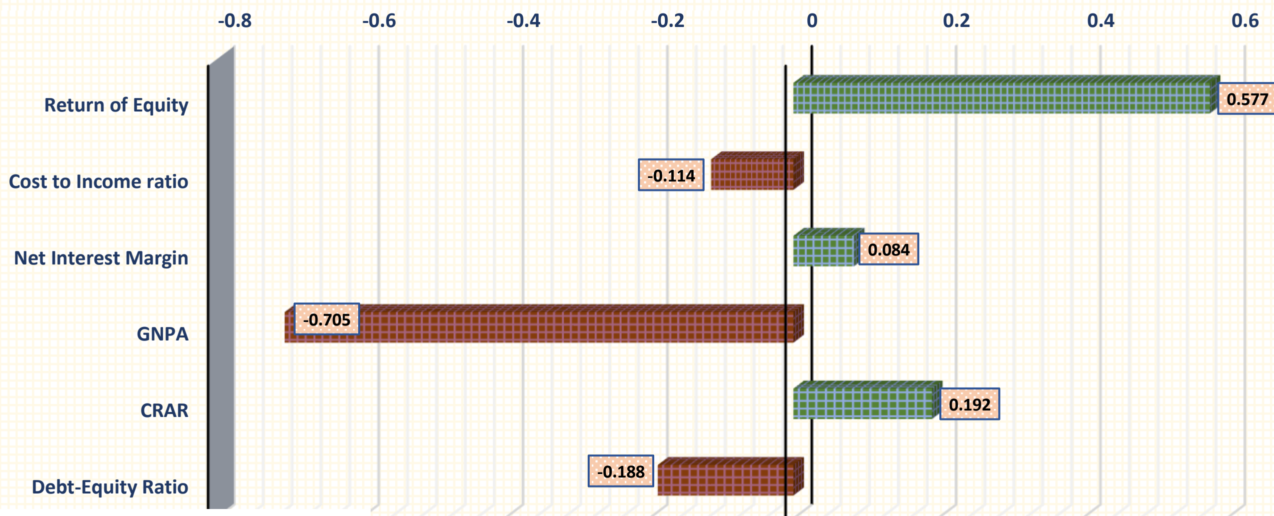
To investigate the impact of the associated variables on the **Return on Asset (ROA)** an **empirical model** has been has been framed in this study.

Return on Asset(t) = f (Return on equity(t), Cost to income ratio(t), Net Interest Margin(t), Gross Non performing asset ratio(t), Capital risk weighted asset ratio(t), Debt equity

The above model with stochastic specification will be estimated following the least square regression method after following necessary treatment of the time-series econometric approach.

Here in this model **ROA** has been considered as the **dependent variable**. An improved ROA signifies the efficiency of management in utilising the total asset base.

Exhibit 2.32: Change in Return of Asset due to 1% change in Influencing Variable



Source: LSI Research based on RBI Data

Set of Positively Influencing Variable

- **Return on Equity (ROE)** is impacting positively and is having a **statistically significant** relationship with ROA. The relationship seems to be consistent theoretically, implying NBFCs with high return on equity realize high profits by judiciously using shareholders wealth and thus have a very positive impact on profitability.
- **Net Interest margin (NIM**) is an important performance metric that evaluates the success of NBFCs investment decisions as opposed to its debt situations. As hypothesised NIM is having a directly proportional relationship with ROA, implying increasing interest margins result from increasing net interest income and thus should lead to increased profitability.
- **Capital risk weighted asset** ratio bears a positive relationship with profitability of the company and has very high significance relationship with Return on Asset. Theoretically better the capital provisions the company has, higher is the chance of respective NBFC getting profitable in long term.

Set of Negatively Influencing Variable

- Estimated model reveals that **Cost to Income ratio** is having an inverse relationship with ROA, indicating that profitability increases with decreasing cost to income ratio. The ratio would be severely affected by the write-offs and in lieu will affect the profitability of the NBFCs.
- **Debt-to-Equity ratio** is empirically found to be negatively impacting the ROA, implying that NBFCs with high leverage is putting pressure on profitability and increasing the financial risk too.
- **GNPA** is empirically observed to have a negative a significant relation with ROA, implying that with the decrease in GNPA i.e., improvement in asset quality of NBFCs will increase the return on asset.

CHAPTER 3: FinTech- A Breakthrough in Financial Market

Introduction:

The Covid-19 pandemic has accelerated the digital transformation in countries with more stringent pandemic policies. The lower community mobility experienced a greater increase in the downloads of financial applications to replace physical interactions between consumers and providers. Financial Technology, popularly known as **'FinTech,'** thrived from the integration of technology and traditional financial services and is one of the fastest growing areas of the information technology industry. FinTech is replacing traditional financial services and gaining importance in e-commerce, banking, trading, wealth management and various other sectors. FinTech technologies enable the provision of personalized solutions for ***customer-specific needs***. **As e-commerce expands rapidly across the globe, the fintech market is expected to grow at a compound annual growth rate (CAGR) of 10% to 12% through 2025.**

The rise of FinTech is a testament to the power of innovation as it continues to enhance financial inclusion, dismantle barriers, and democratize access to financial services. In recent years, the cutting-edge technologies witnessed the birth and expansion of ***digital banks, P2P (peer-to-peer) lending platforms***, offering unique benefits and accessibility to Small and Medium-Sized Enterprises (SMEs) and a vast array of efficient, **user-friendly, and cost-effective alternatives to conventional banking systems**.

Types of FinTech

FinTech is a broad term encompassing various concepts, technologies, products, and services. A comprehensive understanding of different fintech variants identify how different technologies are used for transforming financial services.

- **Blockchain technology**

Blockchain technology enables decentralized and immutable ledgers of financial transactions to prevent the risks of counterfeit data and double spending problems. The impact of Blockchain on the democratization of financial services helps in enabling better security, privacy, and transparency in tracking financial transactions.

- **Mobile payments**

Digital payments have come a long way enabled QR code scanning and voice banking. The continuously declining relevance of cash has turned the whole world's attention toward mobile payment systems such as PayPal, Apple Pay, Google Pay, Venmo etc. for payments transactions. Government initiatives have been the primary catalyst to provide supply side push to the mobile payments ecosystem like launching of new payments systems such as UPI, Aadhar-linked electronic payments and improvement of the digital infrastructure

- **Personal Finance Management**

Wealth-Tech or Personal Finance Technology is a unique and personal category of FinTech which facilitates wealth management and retail investment practices with better efficiency and automation. Its primary goal is to help investors in easier management of investment portfolios.

- **Robot-based advice**

Robot-based advisor is the most formidable type of Financial Technology powered by Artificial Intelligence (AI) and Machine Learning (ML) for offering recommendations regarding financial decisions. AI and ML help in capitalizing on meaningful insights from humongous piles of financial data to investors. Most importantly, Robot-based advisors do not take breaks and provide data analysis capabilities round the clock.

- **Insurance Technology**

Insurance Technology or Insur-Tech has enabled formidable improvements in insurance services. User-friendly applications play a crucial role in easier collection of insurance details on smartphones and ensuring easier management of coverage. Insur-Tech is working on telematics to improve core insurance products and streamline coverage

- **Regulatory Technology**

Regulatory Technology is a subclass of FinTech that offers the foundation for various regulatory solutions such as risk management, compliance management, regulatory reporting, and transaction monitoring. It enables efficient delivery of simple cost-effective, secure and easy-to-understand regulatory obligations. Reg-Tech aims at promotion and standardization of transparency in regulatory processes in a consistently reforming financial landscape trying to catch up with the latest innovations and advancements.

- **Crowdfunding**

Crowdfunding services emphasize new methods for micro and small enterprises to discover investors for their projects. Crowdfunding platforms removed the need to visit a bank to obtain loans or any kind of funding for projects. It has potential growth in the forecast period from 2021 to 2026 with a CAGR of more than 16%.

Market Scenario of FinTech in India

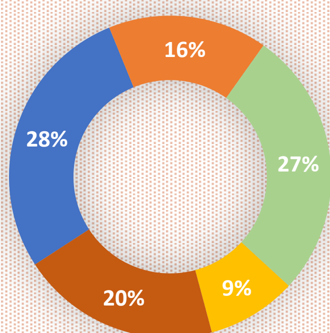
Due to Lower penetration of financial services, higher internet penetration and untapped opportunities, the rapid pace of growth in the **FinTech sector in India** comes on the back of accelerated digitization in the country. **FinTech companies in India are reshaping the financial services ecosystem in the following ways-:**

Not being burdened with legacy operations, ***FinTech*** companies are likely to reduce costs and improve quality of financial services. The industry develops unique and innovative models of assessing risks.

FinTech companies are less homogeneous than incumbent banks and create more diverse, secured, and stable financial service providers.

The opportunity for ***FinTech*** lies in adopting best practices around risk and internal controls, operational excellence, compliance culture and employee engagement.

Exhibit 3.1: Segment-wise Fintech In India

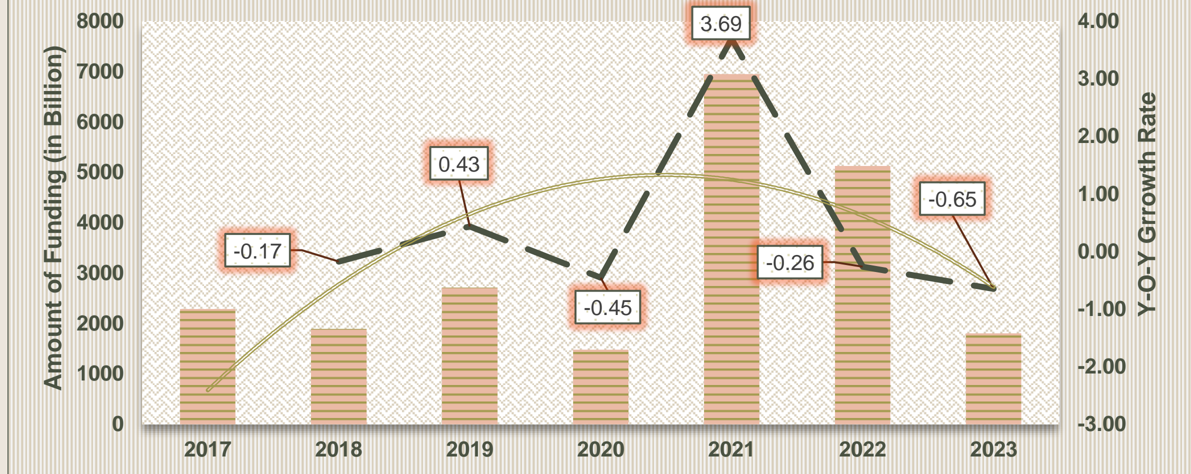


Data Source: BLinc Insights, LSI Research Calculations

In FY2021-22, the Indian FinTech market stood as the third largest FinTech ecosystem in the world behind the US and China. According to reports and studies, the overall financial market size in 2021 was estimated at $500 billion of which the FinTech market constitutes $31 billion. Out of 6386 FinTech, the segment wise distribution is shown in the

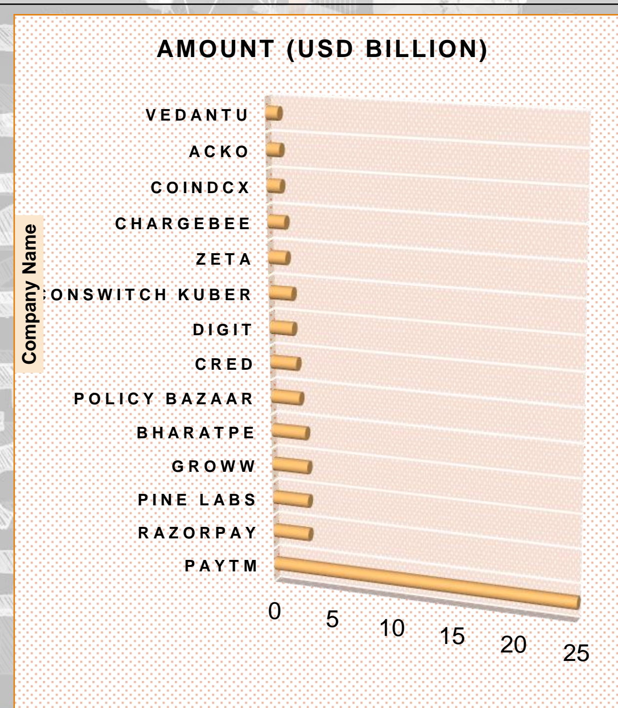
FinTech Funding in India

India's FinTech sector continued its downward trend in 2023, carrying on a drift that started in 2022 as rising interest rates and fears of an impending recession prompted investors to hit the brakes on their investment pace and shift strategies.



Data Source: Indian Fintech Funding Report 2023, LSI Research Calculations

Market Valuation of Fintech in India



In 2023, 24 startups have acquired the unicorn status in India. The Indian FinTech ecosystem is made up of various sub-segments like payments, lending, Insurance technology (Insure-Tech), Wealth technology (Wealth-Tech) and regulation technology (Reg-Tech) where 70% of Fintech Unicorns were into payments and digital lending. Fin-Techs in India are focused on innovative technologies which help in reducing the information asymmetry between financial institutions and investors to tackle market inefficiencies.

Data Source CBINSIGHTS, LSI Research

FinTech and NBFCs: Key Differences

FinTech	NBFCs
• Time to receive loans takes 1 to 3 days.	• Time to receive loans usually takes 4 to 6 days.
• High convenience	• Medium convenience
• High customer service	• Dependability of customer service is medium
• 20-27% interest charges	• 14-20 % interest charges
• Medium flexibility of rules	• Low flexibility of rules
• Involvement of paperwork is low	• Involvement of paperwork is high
• Verification process is automated.	• Verification process of documents and signing of agreement are done manually

From FinTech to NBFC- A Bridge too far

The main problem faced by the **FinTech companies**, **is the requirement to maintain higher capital adequacy ratios and stricter compliance norms**, which is particularly challenging for smaller FinTech companies that may not have access to adequate funding. To cope with these challenges Fin-Techs tried to acquire NBFC licenses to expand their product offerings and maintain compliance with RBI regulations. But RBI was not very keen to open the NBFC space to Fin-Techs. Fin-techs require NBFC license to offer loans from their own books, thereby building an asset base. Without the license, they remain confined, to capital market for raising capital, and to banks and other NBFCs for sourcing of loans. But lack of profitable growth, large ownership by international investors and complex shareholding patterns of these investors are few of the major problems causing FinTech lenders to lose out on a license. Data by RBI shows that licenses of 1851 NBFCs were cancelled by the regulator in 2018-2019. 44 new licenses were given out in 2020-2021 where the number was only 44 in 2021-2022. The RBI is not enthused by so many license applications especially after the issue with IL&FS and DHFL. Regulatory institution RBI has become very concerned about the NBFC sector and Fin-Techs find themselves under intense scrutiny when they apply for an NBFC license. This is apparently because of an overlap of capital structures of these Fin-Techs. Once a Fin-Tech takes the form of NBFC, its business gets built on the leverage from bank loans as against equity capital which is in turn a contingent risk for banks and with bank lending to NBFCs at an all-time high.

CHAPTER 4: Future of NBFCs in India

SWOT Analysis of NBFC

Strengths	Weakness	Opportunities	Threats
High service aspect	Risk management and technological systems are weaker	Increasing demand for credit in the financial market	Deterioration of asset quality may not only wipe out profits but also net worth.
Generates higher yield on assets	Weak credit history	New-to-credit segment provides a massive opportunity to expand their market base.	Entry of foreign players after 2009
Focus on fast and easy recovery and disbursements	Limited compliance expertise and resources	They face no competitions due to probable risk	High cost of funds
Last resorts of borrowing	Unsupportive legal framework renders delayed and nonpayment of credit dues	Large untapped market, both rural and urban	Possibility of borrowers defaulting on their loan repayments
Product customization according to client needs	Imprudent liquidity management	Securitization to release funds to fuel asset growth	Face a high risk of cyber threats and attacks, both from internal and external sources.

Note: *The SWOT analysis examines the internal and external environment and helps to identify strategies and techniques that need to be adopted for increasing strengths (S) and reducing weaknesses (W) in order to turn them into opportunities (O) by opposing threats (T).*

Operational Challenges

- Funding related problems
- Problems faced in obtaining an NBFC license.
- Complicated NBFC compliances
- Lack of flexibility in loan classification of NPAs.
- Absence of a statutory recovery tool.
- Existence of Several Representative bodies.
- Lack of capacity building
- Diverse tax treatment
- Lack of defaulter database
- Stripping of priority sector.
- Minimum mandatory credit rating for NBFC

Future pathways for NBFC in India

- Despite the challenges, the NBFC sector is expected to grow at a CAGR of 18.5% between 2021 and 2026. Most of the funding in the NBFC sector comes from banks which implies they still access deposits; hence regulation could be light on the asset side but not on the liability side. Based on the lessons from the IL&FS crisis, the RBI needs to recalibrate its regulation approach towards NBFCs.

- Systemically important NBFCs should be subject to extensive annual inspections and occasional regulatory actions. It is important to identify those that are too big to fail and regulate them differently and separately.

- It is necessary to strike a balance between regulation and economic efficiency because highly connected NBFCs may be more efficient than other NBFCs in channelling funds to sectors that banks do not provide credit to.

- As witnessed in the aftermath of IL&FS crisis in 2018, NBFCs are faced with a severe credit crunch. Unlike banks, NBFCs have no institutionalized mechanism that allows them short-term access to liquidity. It is not easy to replicate the bank type repo operations for NBFCs. Hence there is a need to develop a mechanism to help NBFCs deal with episodic liquidity shocks.

- A wider pool of debt capital, both domestic and international, must be made accessible to NBFCs in order to create a sustainable and stable funding model. Regulatory mechanisms such as asset-based securitization could help NBFCs access large pools of debt capital such as pension funds. Moreover, raising capital could be encouraged to be invested in debt papers issued by NBFCs through alternative investment tools that have a higher risk appetite.

- For a sustainable NBFC model to be developed, all the stakeholders in the financial system like credit rating agencies, auditors, the securities market regulator, banks, and mutual funds must develop a nuanced understanding of the risks associated with this model.

Future pathways for NBFC in India

- In a developing economy like India, it may not be economically attractive for commercial banks to serve underserved or unserved customer segments either because they do not have the necessary expertise to serve these customers, or access to them. The existence of NBFCs is to serve these customer segments and doing so requires them to have some flexibility in operations and balance sheet management compared to commercial banks. Hence NBFCs require different regulatory treatment compared to commercial banks.

- As NBFCs borrow from banks, they pose an important systematic risk to the banking system as they grow larger. Therefore, a regulatory balance is necessary for operational and financial flexibility and containment of the systematic risk. To achieve this balance, NBFCs must be separated into two groups: systematic and larger ones and others. This separation would allow supervisory attention to the systemically important entities.

- Over the years, successful NBFCs have developed expertise as well as credibility which survived the 2018 crisis whereas a handful of weaker ones which are undifferentiated will disappear as funding for them becomes increasingly scarce and costly.

- Non-banking Financial Institutions are an indispensable part of a developing economy's financial sector where access to bank finance continues to be a challenge for a large chunk of the businesses and population. The evolution of NBFCs in India has provided good lessons to other developing countries as well. To avoid the unremitting cause of the 2018 crisis, both equity and debt must exercise the necessary discipline, and capital providers need to become more discriminating when funding NBFCs.

- The Government of India is taking several measures in easing the challenges facing the NBFC sector by introducing partial credit guarantee schemes and providing liquidity support to NBFCs, Housing Finance Companies (HFCs), as well as Microfinance Institutions.

- 2023 has brought growth for the NBFCs by an innovative and resilient streak which includes adapting efficiently even during the pandemic period to avoid the revolving credit landscape. The market share of NBFCs has increased in the last few years to 18% of the overall credit in March 2019 from 12% in March 2008. It is expected to increase further, indicating the importance of the sector to overall credit delivery in the economy.

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