

# “A Analytical Study of Credit to Various Sectors by Nbfcs in India”

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***Abstract: In late 2018, the default by a major nonbanking financial company (NBFC) in India led to a credit crunch in the Indian economy. The crisis raises questions about the business model of NBFCs in India, and the role they play alongside banks in the economy. This paper analyzes the evolution of the NBFC sector in India over time and its importance in extending credit, and it discusses the factors that may have contributed to the 2018 crisis. The paper attempts to understand the advantages and disadvantages of the business model of NBFCs, and the drivers of their rapid rise and subsequent challenges. The paper also briefly discusses the potential impact of the coronavirus pandemic on the NBFC sector. Drawing on lessons from the past, NBFCs need to be strengthened to play an important role in India’s financial landscape.***

## 1. INTRODUCTION

1. A major driver of growth in an emerging economy such as India is sustained investment by the private sector. For triggering as well as sustaining investments, a critical factor is stable availability of credit. Historically in the Indian economy, credit has grown faster than gross domestic product (GDP). The ratio between the growth of bank credit and the growth of nominal GDP ranged from 1 to 2 and averaged 1.42 from 1962 to 2019. For most of this period, banks constituted the predominant source of credit in the formal economy whereas bond markets and nonbank lenders accounted for a relatively smaller share of credit.

2. Since 2014, credit growth in the banking sector has been lackluster largely because of burgeoning nonperforming assets (NPAs) on the balance sheets of banks, especially public sector banks (PSBs). Some part of the shortfall in credit from the banking sector was compensated by flows of credit from nonbanking financial companies (NBFCs) until 2018. In September 2018, Infrastructure Leasing & Financial Services Limited (IL&FS), a prominent NBFC, defaulted on its debt obligations. This event precipitated a crisis that engulfed the entire NBFC sector. Consequently, in the first half of fiscal year 2020 (FY2020, ended in March 2020), there was a sharp decline in incremental credit from both commercial banks and NBFCs.

3. Even as the NBFC sector was struggling to recover from the 2018 crisis, the country was hit by another massive shock in the form of the coronavirus (COVID-19) pandemic, which began spreading rapidly in India from March 2020. In response to the outbreak of the highly contagious disease, the Government of India announced a nationwide lockdown from 25 March 2020, which continued until June 2020. During this period, most economic activity came to an abrupt halt, nonessential businesses were suspended, and essential businesses got heavily curtailed. This shock has had an adverse impact on the NBFC sector in terms of constrained availability of funding as well as growth in NPAs.

4. While much has been written about the NPA problems of the Indian banking sector after 2008 (e.g., Sengupta and Vardhan 2017 and 2019b), less work has been done to study the

NBFC sector and document the structural issues that this sector faces in light of the 2018 crisis as well as the ongoing pandemic-related crisis.

5. The objectives of this paper are to (i) analyze the evolution of the NBFC sector in India in the past two decades, particularly in the context of its role in commercial credit; (ii) understand the 2018 crisis episode; (iii) briefly discuss the potential impact of the COVID-19 pandemic on this sector; and (iv) draw lessons from these events to evaluate the future of NBFCs. The paper attempts to understand the advantages and disadvantages of the business model of NBFCs, and the drivers of their rapid rise and subsequent challenges.

## 2. REVIEW OF LITERATURE

➤ (2020)<sup>1</sup>Samsundhram has discussed the merits and demerits of moratorium facility offered by banks & NBFCs to its customers as per RBI directions for six months as relaxation measure for Covid19. The study observed that, only 30-40 percent of customers used moratorium facility rest is not, even though it does not affect their credit profile. This indicates a good sign for well disciplined financial practices of 16058 NON-BANKING FINANCIAL SECTOR IN INDIA: A CRITICAL REVIEW ON LITERATURE PJAEE, 17 (7) 2020 Indians earlier to Covid19 which increased their financial wealth to bear unforeseen future concerns.

➤ (2019)<sup>2</sup> Nandhini evaluated the financial performance of NBFCs in India. The study revealed that, the growth, operational performance, financial soundness, asset quality of NBFCs improved over the years. The growth of NBFCs in niche segments of financial sector is even higher than banking sector.

➤ (2018)<sup>3</sup> Hareesh has evaluated the financial performance of eight NBFCs –ND-SI working in Kerala during post sub-prime meltdown i.e. 2008-16. For the purpose of study he used the statistical techniques such as correlation and ordinary Least Square Regression. NBFCs are emerged as non-productive short term advances for householder's in the kerala. The study found that banks policy towards small scale industries led to growth of NBFCs in kerala, but, rural banking policy has shown adverse impact on the NBFCs.

➤ (2018)<sup>4</sup>Lavanya and maheswari have examined the effectiveness of credit risk management practices of selected two non-banking financial companies namely Muthoot and Bajaj financials during 2013-2017. The study has examined the probability of borrower default of companies by using Merton model and tested soundness of credit risk management practices with financial ratios such as current ratio, quick ratio, D/E ratio, interest coverage ratio, ROA, ROE, P/B ratio and NPA ratio. The study observed that both companies have problem with high Nonperforming assets which calls for immediate action for risk mitigation strategies. However, Muthoot company is financially sound than Bajaj companies in terms of ROE and liquidity ratios.

## 3. RESEARCH METHODOLOGY

### 3.1 Objectives

1. To study the credit provided by NBFCs in India.
2. To study credit to various sector's by NBFCs in India.
3. To study trends and progress of credit to various sector's by NBFCs in India.

### 3.2 Hypothesis

H1= There is increase in credit by NBFCs on India during selected period of study.

H2= There is significant difference in credit by NBFCs in various sector's.

### 3.3 Sample and Sample Size:

No. of NBFCs – The total no. of NBFCs are 9443.

### 3.4 Sampling Technique:

Convenience sampling technique was used in the research.

### 3.5 Method and Sources of Data Collection:

This study is mainly based on the secondary data.

## 4 Data Analysis and Interpretation:

Analyzing credit to various by NBFCs in India:

(Amount in crore)

Items	2019	2020	2021	2022	2023
Agriculture & Allied activities	62,722	49,012	45,951	53,759	70,603
Industry	9,30,704	9,66,456	10,66,849	11,31,558	13,45,347
Services	4,10,764	3,56,624	3,63,136	4,07,367	4,90,536
Retail loans	5,98,835	7,03,094	7,45,038	8,38,528	11,96,757
Other non-food credit	29,21,46	3,85,291	4,88,222	5,19,491	5,90,677
Non-food credit	22,95,171	24,60,477	27,09,196	29,50,703	36,93,921
Food credit	200	75	-	1739	-
Gross advances	22,95,371	24,60,552	27,09,196	29,52,442	36,93,921

### Interpretation:

From the above table it shows that

1. In Non-food credit of 2019 is lowest i.e., 22,95,171 and in the current year in 2023 is highest i.e., 36,93,921 and from these it is observed that there is increase in credit by NBFCs in India during selected period of study.
2. In food credit of 2019 is 200 and in 2020 it is 75 and then in 2021 no credit and in 2022 it is 1739 and in the 2023 there is no credit so from this we can see that there is significant difference in credit by NBFCs in india.

From the above study it is concluded that there is increase in credit by NBFCs in India during the selected period of study and also it is concluded that there is significant difference in credit by NBFCs in india.

## 3. REFERENCES

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