International Journal of Education, Modern Management, Applied Science & Social Science (IJEMMASSS)
ISSN : 2581-9925, Impact Factor: 5.143, Volume 02, No. 03, July - September, 2020, pp.160-169

A CRITICAL ANALYSIS OF NON BANKING FINANCIAL COMPANIES (NBFC) CRISIS IN INDIA

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ABSTRACT

Recently Non-Banking Financial Companies (NBFCs) has seen lots of Ups and down. IL&FS liquidity crisis has raised a lot of question over business model of NBFCs. The Ripple effect of this crisis leads to benchmark indices getting crashed and creating bearishness all over the market. However even in this crisis few NBFCs didn't let themselves lose their grip on market. This study aims to present that how companies like Bajaj Finance, HDF and LIC etc. fared well despite free falling of other NBFCs and What was the key difference between good performer and bad performers under NBFC crisis. However this crisis was inevitable as the Asset Liabilities Mismanagement (ALM) and short term borrowing, long term lending habit made the work easy. There are certain issues that need to be addressed & in this paper efforts have been made to reflect the lights on these issues.

Keywords: *NBFCs, IL & FS, Asset Liabilities Mismanagement (ALM), Crisis, Shadow Banking, NPA*.

Introduction

Non-banking financial companies (NBFCs) are those companies which offer banking service without meeting the legal requirement of the banks. The NBFCs facilities are not only limited to credit facilities, transfer of funds, shares, stocks, bonds etc but also other marketable securities like leasing, hire purchase, chit fund etc. A large chunk of amount is raised through deposits from public, shareholders and other company by issue of non-convertible debenture. These institutions provide certain bank-like and financial services but do not hold a banking license. In terms of flexibility, it has much more compact and flexible working structure according to the needs of their clients. These are capable of taking quick decision as well taking greater risk at the same time and it supplement the banking sector in order to meet the increasing financial needs of the corporate sector. It plays an important and crucial role in broadening access to financial services, enhancing competition and diversification of the financial sector. Since the great recession, these have proliferated in number and type, playing a key role in meeting the credit demand unmet by traditional banks. NBFCs are also known as Shadow Banking. Shadow banking refers to all the non-bank financial intermediaries that provide services similar to those of traditional commercial banks. They generally carry out traditional commercial banking function, but do so outside the traditional system of regulated depository institution. If we compare shadow banking of India with G-20 countries then we can find out that it is quite good. USA tops the chart and other developed countries also have a great exposure to shadow banking. (CRISIL (AN S&P GLOBAL COMPANY), n.d.; Kundu, 2018)

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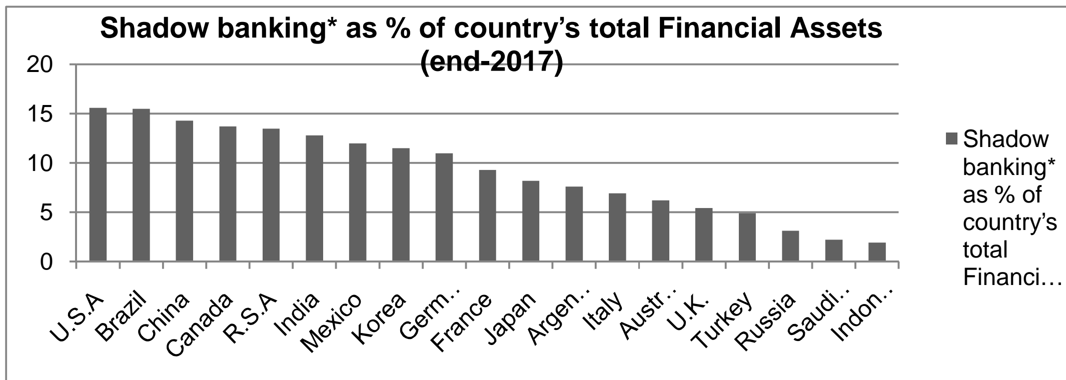


Objectives

The objective of this study is to find out:

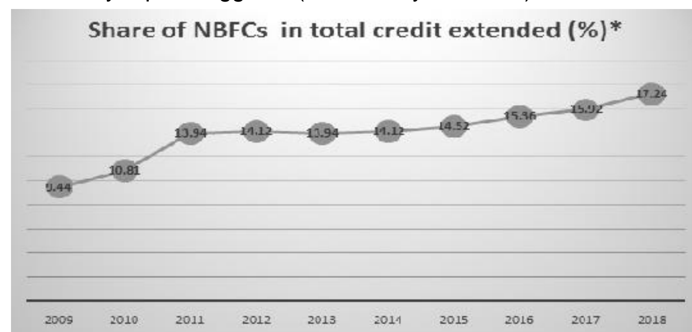
- The impact of IL&FS crisis in the whole NBFC Industry.
- Is it really a systematic issue or otherwise.
- How top rated NBFCs rescued themselves and overcame from this crisis.

Methodology

In this work, Authors propose to do a comparative study between the top performing NBFCs and worst hit NBFCs in liquidity crisis on the basis of a few critical indicators to find out the areas of divergence which led to differences in performance of these entities and to find out how the crisis has been a systemic one &how certain entities were able to do well even during the crisis?

- **Sources of Data:** This research has been done with help of secondary data from various institutional sources like - RBI Financial Stability Reports, RBI reports on 'trends and progress of Banking in India Reports of other institutions like CARE Ratings reports on Economic Profile of the NBFC's have been taken into account. Various other Research Papers and journals also helped to include the daily updates.
- **Period of Study:** The period of this research has been taken from 1990 to third quarter of 2019**.** This research has also focused on the evolution and development phase to the point of liquidity crisis in last quarter of 2019.
- **Goal:** The goal is to find out the different aspects of NBFC
  - Trigger Down effect of IL&FS
  - NBFCs as a model itself is a failure
  - NBFC crisis happens because it did not function sticking to their norms or guidelines.

The importance of NBFCs in disbursing credit to the overall commercial sector has risen in recent years, as banks have struggled to increase lending amid the overhang of Non-Performing Assets (NPAs). (Regulations, 2018) Thus, the share of NBFCs in total credit extended has increased from around 9.4% in March 2009 to more than 17% by March 2018, data from the Reserve Bank of India's (RBI's) latest financial stability report suggests.(Kshetrimayum, 2015)



Difference between Bank and NBFCs

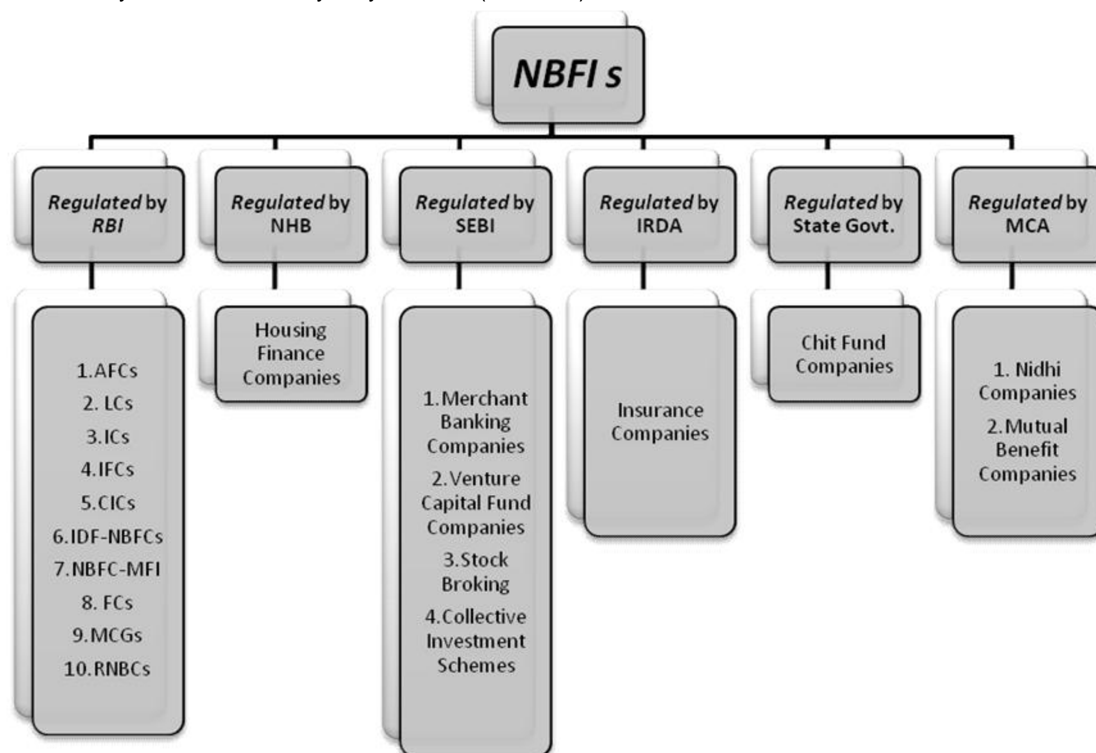
Though the major functioning of both Banks and NBFC's are same but it has some crucial differences. The key differences between these two are following.-

- NBFCs are incorporated under the Companies Act of 1956 whereas Banks are regulated under the Banking Regulation Act of 1949
- FDI is allowed up to 100% in NBFCs whereas 74% in banking private sector.
- Demand deposit is not accepted in NBFC whereas it is accepted in banks.
- Credit creation in commercial banks is determined by the availability of excess and cash reserve ratio. On the other hand, NBFCs operations are largely governed by structure of rate of interest.
- Bank can issue cheques against the deposit of bank whereas NBFCs cannot issue the same.(Mondal, 2015)

Types of NBFCs

NBFC universe is very diverse and it is regulated by various regulators. However RBI regulates the most of important NBFC. Under RBI, it has been categorized in 3 different sections. These are -

- Types of liabilities in deposit and non-deposit accepting NBFC.
- Non deposit taking NBFCs by their size into systemically important and other non deposit holding companies (NBFC-NDSI and NBFC-ND)
- By the kind of activity they conduct.(RBI, n.d.)



Origin of Crisis

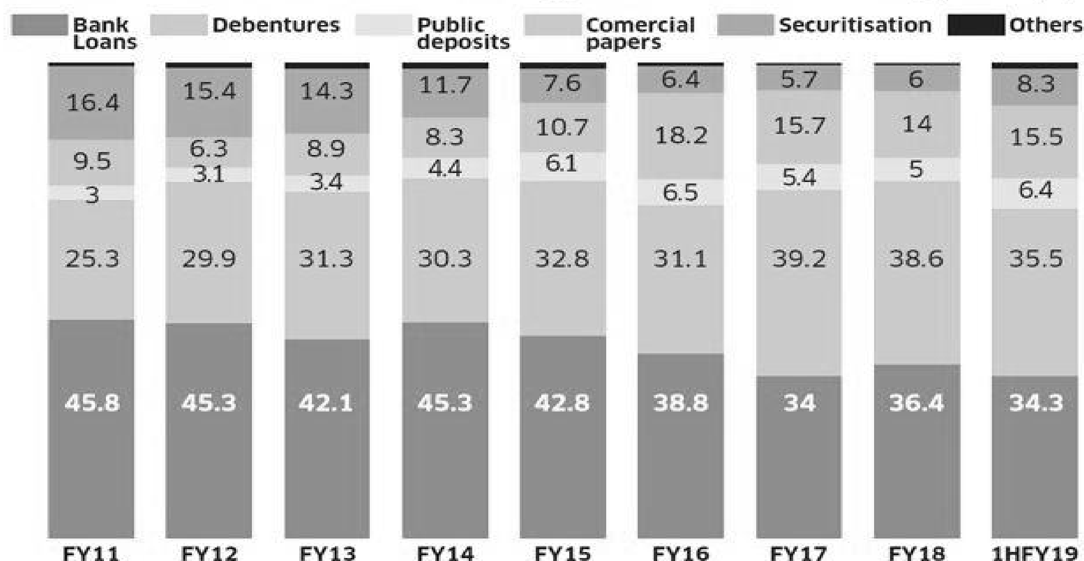
Recent years witnessed a huge surge in consumer leverage. Lending rate by NBFCs has been at a fast pace than Banks. The first instance where NBFCs felt a tremor was when India's leading infrastructure finance company IL&FS defaulted on payments to lenders in September 2018.This produces a ripple effect and gave NBFCs a tough time. After IL&FS, DSP Mutual Fund offloaded 200-300 crore worth of commercial papers (C.P.) at higher yields (11%).This yield was much higher than other previous deals, creating speculation thatDHFL could be facing liquidity challenges. Downgrading of credit rating also impacted the whole system.

Instrument Type	Current Rating			Historical Rating/Rating Watch/Outlook			
	Rating Type	Rated Limits (million)	Rating	11 September 2018	24 August 2018	27 November 2017	1 September 2016
Issuer rating	Long-term/Short-term	-	IND D	IND C/IND A4	IND AA/RWN/IND A1+/RWN	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
NCDs	Long-term	INR49,850	IND D	IND C	IND AA/RWN	IND AAA/Stable	IND AAA/Stable
Subordinated debt	Long-term	INR11,000	IND D	IND C	IND AA/RWN	IND AAA/Stable	IND AAA/Stable
Short-term debt/commercial paper	Short-term	INR7,000	IND D	IND A4	IND A1+/RWN	IND A1+	IND A1+
Bank loan	Long term	INR7,587.5	IND D	IND C	IND AA/RWN	IND AAA/Stable	-

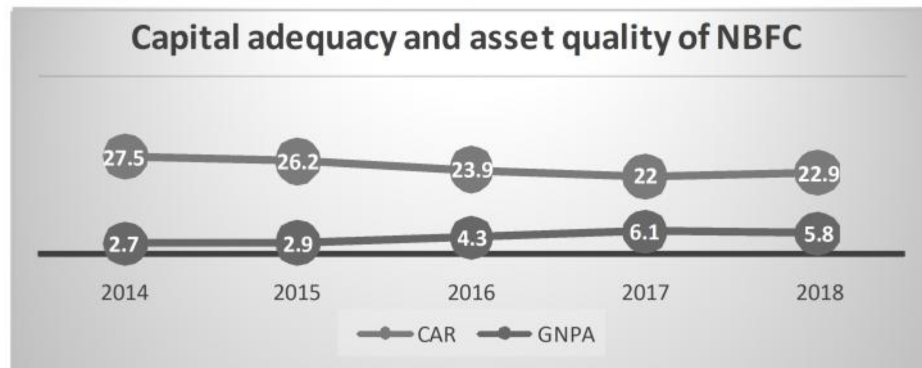
Source: India Ratings & Research (A Fitch group Company).(Agarwal, 2018)

Several started raising question against this problem. However it was spread that there is a fundamental liquidity problem in NBFC division. Some analyst thought Asset Liabilities Mismanagement (ALM) could also be the reason of this crisis. But the basic reason which we believed to be behind this is that NBFCs acquires short term loan from the market lenders and further lend it to their clients in form of long term loan. It leads to duration mismatch of assets and liabilities. This kind of working template always posed a level of threat to companies. Problem arise when NBFCs becomes too big, invest in dubious quality assets and interconnection with other financial companies in NBFC. This has worked as a ripple effect in Indian financial market resulting benchmark Indices crash and creating bearishness everywhere. Defaults from top leaders make it hard for other NBFCs to borrow from the market. NBFCs raise funds mainly by issuing debentures and commercial papers and borrow from banks. Cost of funding of NBFCs has been falling despite a spike in systematic rates. Home finance companies migrated towards short tenure borrowing in recent times as short terms borrowing is cheaper by 100 basis points.

The funding mix for NBFCs till March quarter is as follows



Trend followed by retail NBFC is very much clear. Overtime they have tried to shift onto debenture rather than banks.



*Gross non-performing assets as % of total assets.

**Capital as % of risk-weighted assets.

Source: RBI Financial Stability Reports

According to a statement by Indian Credit Rating Agency(ICRA) in June, 2018 retail focused NBFC with portfolio size of 7.5 lakh crore would need another 4 lakh crore of fresh debt funding in FY2019 to supplement their envisaged their portfolio growth of about 20% in financial year 2019 which seems an impossible dream as of now. Overall NPA ratio of NBFC has worsen in recent years and capital adequacy has been hit.NPA ratio attributes to increasing RBI regulation and a progressive harmonization of the NPA vis-à-vis banks.

So, there are a few speculations that arise in the market that what really leads to collapse of NBFCs in India. Some of them are followings

- Trigger Down effect of IL&FS
- NBFCs as a model itself is a failure
- NBFC crisis happens because it did not function sticking to their norms or guidelines.

Further I would like to show that how the companies performed despite the NBFC slowdown. So, based on these three hypotheses we would like to draw a comparison which would help us in determining that the real cause of this crisis. Companies like Bajaj Finance, LIC worked well despite crisis pushed by NBFCs. Various Variables like Non Performing Assets (NPA), Capital Adequacy Ratio (CAR) and Liquidity Adjustment Facilities (LAF) etc. will be taken into account. With the help of these I would draw a comparison between best and worst performing NBFCs recently. So we would be checking the above options one after another. (Kaur, 2018)(Sharan, 2014)

Trigger Down Effect of IL&FS

One of the major reasons of this trigger down is that the way IL&FS were structured. Basically IL&FS (parent company) runs operation through a chain of 169 companies out of which 135 are indirect subsidiaries. These indirect subsidiaries are a kind of Special Purpose Vehicle (SPV) spun off for specific projects. Six are joint venture and four are associate companies. It resulted in that they left with a little amount of debt to run business. Overall IL&FS generated a mammoth Rs.91,000 crore debt. And this huge Sum was generated only with Rs.9.83 crore of equity capital in the parent. Other listed companies like IL&FS Engineering and Construction Co., IL&FS Transportation Networks and IL&FS Financial Services—that have their own equity capital, but for the most part, the parent would raise debt that would then be infused as equity in each subsidiary. The subsidiary would then use that equity (which was debt on the parent IL&FS's books) to raise more debt. It is similar to what Ponzi schemes used to be. This template of working worked wonder for them until recent years where due to slow approval of construction projects due to environmental problems. (Srivastava, 2018)

This created Assets Liabilities Mismanagement (ALM). Short term money started financing long term investment projects. However these work only upto a point where the financial institution can refinance its debt on a regular basis. But in the case of IL&FS they are facing cash flow issue and losses due to various projects being stuck to get clearance and completion. And short term debts needed to be paid when it comes due. IL&FS has short term borrowing of Rs. 25,000 crore and they keep rolling over. Given that cost of capital was rising and projects were taking longer time than anticipated this default was only a matter of time.IL&FS made plans to start selling assets as a corrective action. Terms sheets were

prepared, banker engaged and proposal invited. However, the sales couldn't be completed in time to avert a default. There could have other steps taken rather than selling the assets to choke this default. First, the asset sales would take time and a fire sale is never going to fetch the best value. Second, creditors were circling and they had to be kept at bay while the sale process was on. Besides, for each individual asset IL&FS would have to approach the courts—a time-consuming process. Director too without the permission of Board of Director could take bold steps like authorizing the fundraising programme The turbulence in the renewable energy sector (wind and solar) has also made the going tough for IL&FS Solar Power and IL&FS Energy, which has wind power assets along with coal and gas-based plants.(PIB DELHI, 2018)

Debt mutual funds have begun to take write-downs in the range of 3-5 percent on their portfolios, now, IL&FS commercial paper is illiquid with no buyer. The only silver lining is that at ₹3000 crore the amount is unlikely to result in any systemic risk for debt funds as it is widely dispersed. It is not known how much IL&FS commercial paper insurance companies have on their books. Lastly, there is the role the ratings agencies played. They closed the stable door after the horses had bolted. Post the September 6 default they moved quickly to downgrade IL&FS debt from investment grade to default. Investment managers question why the government hasn't held them accountable so far.

A look at the financials of ILFS Financial Services (IFIN) - whose commercial paper was swiftly downgraded from A1+ (having a very strong degree of safety and lowest risk) to A4 (very high credit risk to default) and then to default status in a matter of two weeks - suggests that there were enough warning bells in the company's books for lenders or ratings agencies. As per the FY18 financial results of the company, its gearing (debt/equity) was a high 8 times and the rise in provisioning and interest costs was already adding pressure on the company's profitability. The company's exposure to infrastructure sector, only increases the risk. There is a matter of concern that stretched liquidity position of group was known for some time, it took an actual default for them to revisit their investment grade ratings.

Key financial indicators (audited) – IL&FS Financial Services Limited

	FY2016	FY2017	FY2018
Total Income	1,921	2,346	2,294
Profit after tax (PAT)	192.78	208.78	99.66
Net Worth^	2,057	2,157	2,150
Total managed portfolio	12,523	12,415	15,398
Total managed assets	17,956	19,563	21,889
Return on managed assets (PAT/AMA)	1.14%	1.11%	0.48%
Return on average net worth (PAT/Avg. net worth)	9.43%	9.91%	4.63%
Gearing (times)	7.23	7.56	8.42
Gross NPA%	2.80%	3.30%	5.30%
Net NPA%	2.20%	2.36%	3.49%
Net NPA/Net worth	13.36%	13.47%	24.51%

^Net worth does not include preference share capital with premium; Total Debt = Borrowings + preference share capital + Interest accrued on borrowings

#AMA – average managed asset

Amounts in Rs. crore

As per the FY18 financial results of the company, its gearing (debt/equity) was a high 8 times and the rise in provisioning and interest costs was already adding pressure on the company's profitability. The company's exposure to infrastructure sector, only increases the risk. . IFIN's loan portfolio increased 24% YoY to Rs. 15,398 crore as on March 31, 2018, from Rs. 12,415 crore as of March 31, 2017, driven by disbursements in the infrastructure segment. - The company's gross non-performing assets (NPAs) increased to Rs. 816 crore as on March 31, 2018 (5.3% of gross advances) from Rs. 410 crore as on March 31, 2017 (3.30% of gross advances) driven by certain large-sized slippages. The NPAs, after adjusting for write-off and restructured assets, however, remained largely stable assets, at 8.1% as of March 31, 2018 as compared to 7.8% as of March 31, 2017. - The company's profitability, which has been reeling under pressure given the high credit costs and other provision, reported a further contraction in FY2018. The credit costs continued to remain high in FY2018 given the higher provisioning requirement due to further slippages (provision on NPA increased to Rs. 169 crore in FY2018 from Rs. 41 crore in FY2017) as well as write-off (Rs. 107 crore in FY2018). – IFIN's gearing remained elevated at 8.42 times as on March 31, 2018, (7.56 times as of March 31, 2017); the risks are aggravated considering the wholesale loan-book coupled with exposure to infrastructure sector. While the company had maintained a capital adequacy ratio of about 20% over the past few years, it declined to 17.25% as of March 31, 2018 owing to the increase in loan-book.

Key financial indicators- IL&FS Securities Services Limited (IGAAP)

	FY 2017	FY 2018	1Q FY2019
Fee income (other than broking)	76.19	92.99	23.13
Net interest income	56.97	37.93	15.27
Other non-interest income	12.32	5.82	0.57
Operating income	145.49	136.74	38.97
Profit before tax	77.40	70.40	21.70
Profit after tax	51.02	45.08	14.29
Net worth	289.30	221.19	234.48
Return on net worth	17.64%	20.38%	24.27%
Gearing Ratio (times)	1.74	4.14	4.30

Source: Company, ICRA Research. Amounts in Rs. crore

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Also according to a note from State Bank of India, the company had a negative net worth based on RBI guidelines, but its capital adequacy ratio was 21.08% as of March 31, 2017. This, the bank said, was due to the difference in the treatment of group companies by the company's policy and as per RBI guidelines, and that the company had been following the same practice of accounting since 2007. Serious Fraud Investigation Office (SFIO) a subsidiary of Ministry of Corporate Affairs (MCA) alleges that IL&FS subsidiary forged documents for loans borrowing. So the current NBFC crisis can be attributed to IL&FS collapse. Insolvency of single NBFCs causes illiquidity in NBFC sector. This happens due to fact that expectation of investor changes due to a prominent insolvency and they now doubt the quality of assets on the book of other NBFCs and refused to roll over short term financing which leads to illiquidity. This seems to be the case that happened after the IL&FS case. So IL**&FS leads the crisis and we can term it as a trigger down effect of IL&FS.**

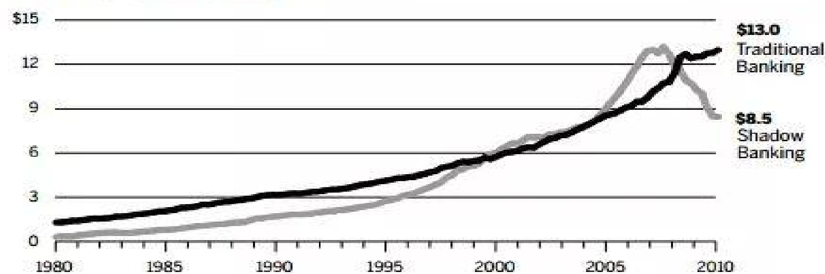
NBFCs as a Model of Failure

To call NBFC model a failure would be harsh on the NBFCs because this crisis was caused because of the failure of one specific entity rather than the whole market. Though there is a question mark on the working procedure of NBFCs but it doesn't implies that NBFC as a model is failure. If we look at Global Financial Crisis (GFC) in 2008 it was caused primarily due to subprime lending to those who were unable to repay. The Housing Finance Companies (HFC) lend to clients without checking their background and credit score. It leads to decrease in interest rates and prices fall significantly. The shadow banking sector played a critical role in Global Financial Crisis. It was under the purview of fewer regulation and government protection than traditional banking. This made shadow banking highly fragile. It had a comparative advantage as compare to traditional banks. However, the recent financial crisis showed how vulnerable shadow banking was to a liquidity shock and forced a major government response. Many believe the lack of government regulatory oversight of the shadow banking system led to excesses precipitating in the global financial meltdown and Great Recession of 2008-09. The shadow banking system may still be exposing the larger financial markets to excessive systemic risk. While all investments expose the investor to some level of risk, the unknown consequences of having such a large shadow banking system may lead some investors to prefer more conservative investment strategies in the years ahead.

Traditional and Shadow Banking Systems

The funding available through the shadow banking system grew sharply in the 2000s, exceeding the traditional banking system in the years before the crisis.

IN TRILLIONS OF DOLLARS



NOTE: Shadow banking funding includes commercial paper and other short-term borrowing (bankers acceptances), repo, net securities loaned, liabilities of asset-backed securities issuers, and money market mutual fund assets.

Source: Federal Reserve Flow of Funds Report and Financial Crisis Inquiry Commission

From the above graph, it is clear that post global financial crisis the funding availability saw a huge dip whereas traditional banking system wasn't affected much. Before that in 2000's shadow banking fund availability surpassed that of traditional banking in USA. These stats show that shadow banks are capable of doing business with ease but it needs certain a certain robust regulator and norms which helps this sector to perform well over the period of time.

Coming to the Indian market NBFC's saw a lot of success and was well complimented by the Traditional Banking system. NBFC's use its characteristics for its benefit and became a serious player in Indian market. However few companies suffer for not adhering to its norms and investing in a risky project. But it doesn't define the whole NBFCs. Post IL&FS crisis a lot of stats suggest that few companies has made a progress despite the slowdown and fared pretty well. NBFCs were dependent on banks with 70 per cent of their total funds coming from banks. After the global financial crisis caught them on the wrong foot, they began to tap the market for funds. The surge in liquidity at mutual funds and insurers' investments in bonds has made funding a better proposition. Large NBFCs have developed a business model that allows them the flexibility to grow their retail book and deliver credit to retail customers at competitive and reasonable cost.

But the things are not as easy as it seems for small NBFCs. The major flaw in NBFC model is that it relied mostly on short term funds which were then lent out as long-term loans. This leads to a situation called an asset-liability mismatch. For example, an NBFC raises money by selling 6-month debt papers and on-lends this as a car loan with tenure of 5 years. This leads to a situation where the NBFC has to roll over (or renew) the 6-month debt paper or raise fresh loans to repay the debt paper. In good times, this happens as a matter of course. But when times are tough, this cycle is broken.But this is not true for whole sector as there are a few companies which stand out in recession. So the bigger question which arises is that what really makes them different from the IL&FS and DHFL.

STOCK	PRICE ON 6 JUN 2018 (₹)	PRICE ON 6 JUN 2019 (₹)	CHANGE (%)	INCREASE IN MKT CAP (₹CR)
Bajaj Finance	2,155.00	3,452.90	60.2	75,679
HDFC	1,854.70	2,188.20	18.0	65,196
Bajaj Finserv	5,912.90	8,140.80	37.7	35,455
Muthoot Finance	380.20	633.00	66.5	10,148
Bajaj Holdings & Investment	2,765.80	3,536.00	27.8	8,572
LIC Housing Finance	486.50	557.50	14.6	3,581
Manappuram Finance	104.90	137.75	31.2	2,768
Capri Global Capital	83.40	172.80	107.3	1,566
JSW Holdings	1,857.8 00	2,942.00	58.4	1,203
Paisalo Digital	299.00	396.50	32.6	395
TOTAL MARKET CAP ADDED				2,04,565

So if we talk about the Bajaj Finance then there were many factors which make Bajaj Finance stand out with other defaulting NBFCs. So is the case with HDFC and other well performing NBFCs.

Norms Violationby NBFC's

According to a forensic audit report by Grant Thornton, there were several instances of violation of RBI regulations by IL&FS with respect to the sanction of loan beyond regulatory limit. According to the report instances of risk assessment not being registered in the system and discrepancies between the details mentioned in the manual Credit Approval Memorandum (CAM) and the system CAM, which was the base document for the sanctioning of loans. Also, there five more instances where there was no adequate monitoring with regards to personal guarantee promoter of the borrowers. Senior Fraud Investigation Office (SFIO) in their charge sheet against the IL&FS case accused the company's erstwhile top management of forming a coterie with its auditors and independent director to defraud it while running the business as their "personal fiefdom". According to this reports from investigation, IFIN management had adopted fraudulent practices to avoid classifying some loan accounts as non-productive assets (NPAs), and thereby escape higher provisioning requirements as per RBI guidelines for NBFCs. Apart from that IFIN also started lending to other companies belonging to the same defaulting borrowers. Reports suggested that IFIN lending to its group companies increased significantly in FY13, with the lending percentage reaching 15 per cent of total loans and advances that year. The lending percentage continued to rise in the subsequent years, hitting 37% of total loans and advances of FY18 or around Rs 5,200 crore. The probe also found that IFIN had supported group entities by lending through vendors or third parties. To do so, the account books of 14 existing borrowers/contractors of IFIN and IL&FS Transportation Network (ITNL) were used for onward lending to ITNL or its subsidiaries or special purpose vehicles (SPVs). Loans to these entities were given on the basis of a letter of comfort and no security or collateral was taken from them. According to a report by The Economic Times, the SFIO chargesheet alleges that it was only in November 2017 that "the classification of group companies in order to arrive at NOF [net owned funds] and credit to risk assets ratio [CRAR] as per RBI Act was strongly conveyed to IFIN.(BusinessToday.In, 2019)

Conclusion

To stop the domino effect of this crisis the government immediately needed to intervene and stop the further financial and also take measures to resolve defaulted dues to the claimants**. Confidence of** money, debt and capital markets, the banks and financial institutions in the credibility and financial solvency of the IL&FS Group needed to be restored with utmost importance. The Government, after analyzing the emerging situation of the IL&FS Group comes to the conclusion that the governance and management change in IL&FS Group is very necessary for saving the Group from financial collapse, which required an immediate change in the existing Board and management and appointment of a new management. Continuance of the present Board had become prejudicial to the interests of the company and its members and this management was affecting public interest because of its adverse impact on financial stability and making capital markets so adversely affected. Therefore, the National Company Law Tribunal (NCLT) was approached today by the Government under section 241 read with 242 of the Companies Act, 2013 to order supersession of the present Board of Directors of the IL&FS and its substitution by the new Board of Directors. Besides, the fact that the company continued to pay dividends and huge managerial pay-outs regardless of looming liquidity crisis shows that the management had lost total credibility. There have also been serious complaints on some of the companies for which an SFIO investigation has been ordered into the affairs of IL&FS and its subsidiaries. In the words of government it stated that **"**the Government is committed to ensure that ILFS Group receive much needed temporary liquidity support. It is hoped that financial institutions would be supportive for providing urgent liquidity. The Government would also take all necessary steps to ensure that the infrastructure and other productive sectors of the economy continue to get financial resources to maintain the growth momentum of the Indian Economy, the fastest growing economies in the world."

So far we have seen the different aspects of the crisis and the role of government. What we can infer from it is that the crisis was supplemented by the various factors making it a major crisis in Indian market. If we review our first parameter i.e. the trigger down effect of IL&FS then we can say that it worked as a spark for lightening the fire. However it was not an overnight issue. The working model of IL&FS was faulty and it was there to blame. Short term borrowing and long term lending leads to assets liabilities mismanagement (ALM). Various other projects got stuck due to the environmental causes. This delayed the return on the investment. Bearishness starts spreading in market and investors started withdrawing their money. IL&FS then missed the deadline for repay their clients and it initiated the crisis in Indian NBFCs sector.

The second parameter i.e. NBFC as a model is a failure is not the fundamental cause of the crisis because at the same time i.e. of crisis I have stated that it was not a fault of model but of specific entity. IL&FS failed due to its specific working model whereas companies like Bajaj Finance, HDFC, Muthoot finance fared well despite crisis. The basic reason of this is that they invested in low risk projects and follow the norms accordingly. On the other hand companies like DHFL, IL&FS etc. invested in risky projects and paid the price. Unlike bajaj they didn't diversify their assets and investmentprojects.

There are few important measures that can be taken to ensure that these activities didn't happen in future. Some of them are:

- Extending special credit lines for the companies who are in dire need through special window by RBI.
- Tightening the regulation by the regulators by the virtue of economic variables like Non Performing Assets (NPA), Capital Adequacy Ratio (CAR), and Liquidity Adjustment Facility (LAF) etc.
- Access to depositors funding.
- Stop borrowing for short term and lending for long terms projects.
- Diversifying the assets in order to survive a crisis from a specific sector.
- Special care for large and small size NBFCs as they are more prone to sudden collapse. Medium size enterprises are less risky.

These are the steps that can be taken amid the NBFC crisis in future. As of now the condition is pretty much stable thanks to support from the RBI and the government of India. However we would need a robust format of this model to avoid any such collapse in the sector in near future.

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