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Role of NBFCs in the Indian Economy: A Study with Reference to the Current Covid-19 Pandemic

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ABSTRACT

In a prospering economy like India, not only banks but also Non Banking FinancialCompanies (NBFCs) play a crucial and definite role in our financial sector. The recent coronavirus outbreak created a serious liquidity concern in our economy which is affecting our financial intermediaries. The economic slowdown due to the pandemic will affect the demand for loans which will further affect the NBFCs and the rising Non Performing Assets (NPAs) is also a major concern. Liquidity crisis is a serious obstacle for any financial institutions for its growth. In the present economic situation where the stock markets of the entire world are crushed and thereby the investors have started pulling out there money causing it a liquidity crisis, it is of immense importance to conduct a serious research study on NBFCs, which can be a measure for boosting up the liquidity crisis. Present paper aims at in-depth study and analysis of how the present situation impacted our NBFCs and the measures of central government in bettering its present condition which will boost the economy now and post Covid-19 period. Under this research work, a explorative study has been conducted to understand the role of NBFCs in our current pandemic situation such that to uplift the economy in the crisis. The major findings and conclusions for the research paper is that the special liquidity scheme for the NBFCs can be a booster for the economy to get rid of financial crisis due the Covid-19 pandemic and it is also quite certain that the sector can do better operations taking the help of the government initatives.

Keywords: *Liquidity; NBFCs; NPAs; Pandemic; Scheme*

INTRODUCTION

The entire world at this point of time is going through a massive crisis which was hardly faced earlier. The corona virus created pandemic have not only affected the whole economy but have also taken away the lifes of individuals to a great extent across the globe. The Covid-19 pandemic affected human beings physically and financially as the growth of the economy is at stag at these current juncture. The outbreak of the pandemic forced people to lose jobs and unemployment is also rising such that there is a declining growth in every sector. Supply chain is under stress and every small to large scale business is getting significantly affected due to this pandemic created lockdown. From farmers to daily wage earners, all are at risky situation, and the informal sectors are facing uncertainty as they do not know what will happen next in such a recession like situation. Liquidity crisis started taking place as the investors started pulling out their money, which resulted the global stock market to fall where India is not far behind. As the economic and the social wellbeing are correlated in a certain way in a country, one will effect the other and in a situation like this the pandemic is effecting the economic activities. The pandemic raised a situation where there are inadequate social investments, cash are not flowing in the economy and financial activities are degrading. The corona virus pandemic creating threat to human life forcing us to maintain social distancing which is the only short term remedy found until now. Due to the pandemic induced lockdown, several sectors have been hitted hardly to a large extent. Financial activities are also facing a major problem where lot of sectors are affected which are crucial for the development of our economy. A well balanced and robust financial sector is critical for activating and uplifting the economy and facilitating towards progress and economic growth. In an economy like us, the NBFCs do play a comprehensive role by accessing financial services to the needy and unbanked portion of the society. In the recent past scenario, the NBFCs have grown importance in our economy and thereby it is attracting a large number of investors owing them a customer friendly reputation. In away, the reason for importance of the NBFCs in our economy is because of providing accessible and affordable financial services to the economy in recent terms which is boosting the economy.

Over the years, the NBFCs have substantially contributed to the Indian economic growth by supplementing the effort of other different financial institutions of our country. They act as an intermediary between the investors and the savers as they play the crucial role in the direction of savings and investments in a wave of rapid industrial revolution. For a diverse and large economy like India, providing access to financial services to every individual is crucial for the development of our country. After the industrial revolution, therehas been a strong demand of credit and an increase in credit penetration that should continue to drive the growth of the economy, which was met by the NBFCs to a large extent. The major function of financial institutions like the NBFCs is to transfer the savings of surplus into deficit units and therefore they can have a crucial role for our country.NBFCs have also extended finance to Small and Medium Enterprises (SMEs) by providing a range of products according to their needs. The NBFCs have not only provided loan against property but they also offer various services to the MSMEs of our nation. Therefore, other than banks, the role of NBFC sector is also very crucial in a prospering country like India (Kubik, 2020). But, due to this pandemic created lockdown, our economy is in a major crisis where the NBFCs are also severally affected. As the collections of the NBFCs have become standstill at this situation, their primary cash flows have been disrupted and debt servicing has become a severe challenge for them. With minimal collections at this time, the NBFCs will have to depend upon back up credit source from banks and on their own cash reserves that they have generated previously. They have been facing a squeeze in liquidity position at this very moment which is challenging for the NBFCs (RBI, 2021). Looking at such crisis in the recent times at our economy, the Central Government of India have suggested measures for different sectors which is named as Atma Nirbhar Bharat Abhiyan Prakalpa or we call it as Self Reliance Scheme. Such remedial measures will help to revive the economy in a purposeful way and will give a much needed booster in the current liquidity crunch and crisis (Misra, 2020). The schemes will be effective in the long run as things have been redefined in a lucid manner as these measures looks like the probable solutions of the current economic problems. Business entities and different sectors which were facing a tough time at the pandemic period, can take advantage of these innovative schemes which in turn will boost the economy. Therefore, the schemes can be a relief to restart the economy and move forward from the crisis situation.

LITERATURE REVIEW

Many research works have been conducted so far considering different aspects of the NBFCs. Some of the existing and extensive review of literatures are shown below:

Balachandran (2006) studied about the NBFCs and have observed that in the financial markets, different financial products that are available, provide an effective credit and payment system and thus they facilitate the channelizing of funds from savers to investors in our nation. The researcher also pointed in the study that the growth of NBFCs in the year 1981 was 700 which increased to 40000 in the year 1995 and finally concluded that the deposits ofthe NBFCs are growing at an increasing rate than other financial institutions and thereby the NBFCs can play a crucial role in Indian financial system.

Mohan (2009) examined the contribution of financial inclusion to achieve the greater economic growth. The study also highlighted that India has a lower rank in financial depth and India's rural economy has shifted towards more commercialized sector. Therefore, it is very important to include the people in the folds of financial services. The study concluded that financial inclusion will help in further development of India's financial system and promotion of economic growth.

RBI Bulletin (2015), stated that the NBFC sector of our nation has shown a tremendous growth in recent years which are generically different from other public sector banks and shadow banks operating elsewhere around the globe. According to the report, it was also found out that the financial performance of our NBFCs are improving day by day and also they are emerging as an important source of financing credit to infrastructure sector and to micro, small and medium enterprises.

Kumar, July 1, 2020 b: The pandemic created lockdown has led to worsening conditions for NBFCs, especially that of the private sector and the low rated ones. The news report also studied that the several liquidity measures taken by the Reserve Bank of India have got a remedial impact on financial institutions and markets but the stress due to the pandemic was still there in certain areas. It also revealed that there is a need to ensure the flow of credit to the NBFC sector with certain credit backstop within the system.

Chhibber (2021) studied and observed that Indian NBFCs assumed critical importance in the financial system in last few years. The researcher found that the credit to MSMEs by the NBFCs grew at a rate of 12 percent year on year in June 2019 and the researcher also stated that mutual funds reduced the exposure of the NBFC sector very much in the year 2018. The study also highlighted that over the years various measures have been taken by the government of our country to create demand and thereby to generate liquidity in the market such that the banking sector of our nation lend further to the NBFC sector under different schemes.

Research gap

Based on the above extensive review of literature; it has been observed by the researcher that literature lacks any definite study regarding the role of NBFCs in economic development of the country under current situation and impact of current pandemic on NBFCs. Hence, a descriptive and explorative study has been considered by the researcher regarding the role of Non Banking Financial Companies (NBFCs) in the current pandemic period brize the research gap.

Objectives of the study

Following are the research objectives of the concerned research work as identified and decided by the researchers, based on the extensive review of the literature.

1. To study how the NBFCs have been affected in the current pandemic created nationwide lockdown in the economy.

2. To know how far the recent central government's measures will revive the NBFCs.

3. To study the implications and post effect of the crisis in the NBFCs.

METHODOLOGY

The current study is explorative and descriptive and in nature which is based on analysis of secondary sources of data to fulfil the above mentioned research objectives of the study. The secondary information that was used in the study was collected from various websites considering news reports and the present situation of the NBFCs of our country. Apart from the mentioned websites; various journals, research articles, newspapers and reports have also been used for the purpose of the study. Based on various information generated through secondary sources, the information has been clearly and conceptually analyzed by the researcher to understand how the NBFCs of our country have been affected due to the pandemic and its resulting lockdown. The researcher also focused on the self-reliant schemes taken by the central government of our country such that how those various innovative measures will help to combat the recent economic crisis in India and how far it can revive the NBFCs of our economy. Based on the extensive analysis and discussion of the study, conclusion has been drawn by the researcher such that how the smooth running of the NBFCs can be improved through the recent central government schemes or any other strategies that should be taken for the overall effectiveness of the industry and for the sustainability of the economy as a whole.

RESULTS AND DISCUSSION

Impact of Covid-19 Pandemic on Nationwide Non-Banking Financial Companies (NBFCs)

Due to the recent Covid-19 pandemic, every sector is getting affected creating a serious crisis in our country. Our economy is facing a tough time since they are having cash flow difficulties along with debt servicing problem. The economy is facing rescission where economic and financial activities are staged. Talking about our financial sector, not only banking sector but also the Non Banking Financial Companies (NBFCs) and Micro, Small and Medium Enterprises (MSMEs) and are facing serious problems in the pandemic period. Therefore, the impact on our NBFCs on account of the pandemic are analyzed below:

- The economy is facing liquidity crisis because of the pandemic induced lockdown and one of the severe affected section is the NBFC sector since they hardly have any cash in hand and majority of the NBFCs are surviving in daily cash collections. The revenue flow of the NBFCs is seriously affected because of the pandemic.

- Difficulties with the NBFCs are growing since they are facing financial problem where cash flows are at standstill in the current situation.The revenue streams of the NBFCs are setting up in the lockdown as they are facing severe difficulties. Liquidity crunch is faced by the NBFCs since it is difficult for the sector to raise capital from the market at the current pandemic situation.

- Due to low demand and loss of business opportunities, NBFCs are losing revenue and the revenue recovery rate is also slow. The debt servicing obligations has become a major problem for the NBFCs to run their business operations effectively.

- Delayed EMI payments on account of the pandemic will also increase the Non Performing Assets (NPAs) which is a major area of concern for the NBFCs right now. Moreover, money is not flowing from either of the demand or supply side and they hardly have cash to perform and continue their operations effectively.

- As per various rating agencies, NBFCs are likely to witness a spike of delinquencies across all asset classes which would be a challenge for them to sell their portfolio in future. Impact on NBFCs due to the pandemic have also created numerous issues for the private lenders and other non banking institutions in India.

- Highly unpredictable market created in the Indian economy due to the pandemic has impacted our NBFCs severally. Additionally, the benefits given to the commercial real estate sector in relaxation of meeting their loan amount given by the NBFCs is also a major issue for the NBFC sector. The moratorium provided to the borrowers acting as a pandemic relief affected the loan repayments such that the default borrowers will act as NPAs for the NBFCs.

- The Reserve Bank of India has extended moratorium on loans up to 31st August, 2020 which can temporarily meet the hardship of the borrowers but in the absence of any such moratorium on part of the Non Banking capital market borrowings, the repayments of loans coming up in the next term has become one of the primary challenges for the NBFCs.

- According to the estimates of the experts, the credit cost of NBFCs would increase by 280 bps and its NPAs by 190 bps in financial year 2021 just because of the Covid-19 pandemic. Since, markets are rolling down, most of the NBFCs have lost close to approximately 30% to 40% value in such a small period of time whose funds were considered as one of the most preferred stocks.

Several Measures taken by the Government of India and their Impact

The central government has taken following innovative initiatives to counter the impact on the Indian NBFCs that arises from the current pandemic all over the world. The government of India has introduced the Atma Nirbhar Abhiyan, on May 13, 2020, a comprehensive scheme that will be helpful in boosting the economy under current scenario in May 13, 2020. The main motive behind the launching of the scheme is to make the economy self dependent. The abhiyan is based on five principles, Economy, Demand, Infrastructure, Vibrant Demography and System. The total allotment under the scheme is 20 lakh crore, which is around 10% of of our country's GDP (Das, 2021). The importance given to NBFCs under the said scheme has shown that government has put special importance in bettering the NBFCs problems and prospects considering it a very serious issue in this pandemic situation.

• The Government launched "Special Liquidity Scheme" which are jointly for the Non Banking Financial Companies (NBFCs), Housing Finance Companies (HFCs) and Microfinance Institutions (MFIs) as they were finding difficult to raise money in the debt markets in the current pandemic situation. As per the self reliance scheme, Indian Government will provide a liquidity scheme of rupees 30,000 crore which will help to invest in both the primary and secondary market transactions and also in the investment grade debt paper of NBFCs, HFCs and MFIs. The scheme progressed well after its launch as because 37 proposals which includes amount of rupees 10,590 crores have been approved and also six applications searching for finance of rupees 783.5 crore were under process as on September 11, 2020 and the banks approved the purchase of portfolio of rupees 25505 crores as on July 01, 2020 (Kumar, 2020b).

• As per the scheme, supplement will be made to the Reserve Bank of India and several measures will be there to supplement liquidity which is very much needed in a crisis like situation caused due to the pandemic. The stimulus package will lunge forward to the stacked economic activity which will in turn help our Nation's NBFCs to revive. Because of the pandemic and its resultant weak economic activities, the schemes also helps to tighten the sectors underwriting standards, and there will also be lower disbursements just because of the increasing debt overdue for payment.

• The central government scheme will not only create confidence in the market for the NBFCs/ HFCs/ MFIs players but will also boost up liquidity in a greater scale that will in turn help the MSMEs to resume its operations quickly. As the relief scheme come as a package among the NBFCs, other sectors will get its revival measures for the better benefit of the economy.

• Under the Special Liquidity Scheme, the Government will fully guarantee the securities which will in turn help to provide support of liquidity for the NBFCs that will definitely instil confidence in the market. As per the scheme, it can also form a Special Purpose Vehicle (SPV) which may insert funds in the economy. Such measures will really boost to the NBFCs to get back into its feet in a comfortable way.

• Because of the pandemic, the emergency credit line was extended by the banking and the NBFC sectors to the MSME sector and other businesses that will help to cover up nearly 20 percent of the sectors outstanding credit. This will give a significant relief for the MSME sector, who are really in need of working capital along with cash. This measure will help the MSMEs to get back on track which is very much needed since it is one of the backbones of our economy and till 2nd October, 2020 more than 2.7 million individuals received over 1.32 lakh crore loans under the emergency credit line guarantee scheme by the banking and the NBFC sector (PTI, 2020).

• The scheme brings a crucial government intervention which will provide a booster dose in tackling the current economic slowdown which is recently much needed and that will regain the growth momentum to revive the economy. The innovative schemes laid down by the government will also improve the situation of credit availability at a lower competitive rates of interest for the borrowers.

• The Partial Credit Guarantee Scheme 2.0 taken by the Central Government is to allocate rupees 45,000 crore for the NBFCs that will precede the much needed capital creation and growth in our economy. It will boost up liquidity into the ecosystem of the NBFCs which in turn will help other sectors to continue operations which are staged in this lockdown period. It was also provided by the scheme that the first 20 percent loss will be borne by our Government (PTI, 2020).

• Nationwide NBFCs need liquidity to provide fresh lending to MSMEs and other individuals especially who are low on credit rating. Removal of such rating restrictions on the NBFCs will certainly help smaller and new NBFCs to raise debt from other various financial institutions in our country which will indeed generate capital creation in our economy.

• The existing “Partial Credit Guarantee Scheme" which was issued on mid December, 2019 that offered a extreme guarantee of up to 10 percent of the primary loss to the Public Sector Banks (PSBs) for purchasing pooled assets above worth up to rupees 1,00,000 crore or worth rated BBB+ from the NBFCs who are financially sound and that could have an extension to cover borrowings such as primary issuance of Bonds or Commercial Papers (CPs) of such organization where the first 20 percent of the loss will be borne by the Guarantor i.e., our Government (Sharma, 2020). Low rated NBFCs will get benefited a lot which can strike out the liquidity crisis that the economy is facing right now.

• The existing “Partial Credit Guarantee Scheme” also highlighted that the AA rated paper and below unrated paper that will be allowed for investment which is relevant for many financial institutions in our country. This scheme will provide liquidity of rupees 45,000 crores for low-rated NBFCs which were short of liquid cash because of the aversion of credit risk by investors in the midst of the economic crisis.

• The Non Banking Financial Institutions (NBFIs) which has been dealing with severe liquidity challenges since the repayments of loans by the borrowers have been lowered just because of the pandemic effected lockdown took place and the sector is going through a situation of liquidity crisis but the allotment of rupees 75,000 crore of the “Aatma Nirbhar Package” to the Non Banking Financial Institutions came as a life saving liquidity booster to them which can uplift the socio-economic livelihood in the economy.

• Since the conditions of our economy will take a bit time to get back to normality, the self reliant package will certainly provide a slightest of head start to our economy. The liquidity schemes will indeed go toward a long way in future to bring the economic situation back in track. The adequate measures will actually instill confidence between the financial institutions and the investors which will indeed support the major businesses that will actually need helping hands.

• The systematic focus to generate a larger market for the NBFCs via linkages of virtual market and local procurement will leap in the correct direction which is certainly critical as public attainment will give a huge boost up in the economy. Hence, the financial and regulatory measures offered by the Central Government will meet up the demand.

• Targeted Long Term Repo Operations (TLTRO) of rupees 50,000 crore will certainly be given under the scheme for investing in commercial papers, non convertible debentures and investment grade bonds of the NBFCs and MFIs (Kumar, 2020a). Such measures taken by the RBI will help in implementing cash liquidity in the market which is very much needed in a liquidity crisis situation due to the pandemic in our economy.

• The innovative self reliant schemes will give access to capital formation in the economy which will allow the smaller businesses and the NBFC sectors to accelerate manufacturing. The schemes will not only give access to capital formation but also the broader market can help the NBFCs to perform better in the tough phase. The timely measures taken by our government will definitely improve the NBFC sector as they were suffering from a significant liquidity stress and a larger business impact due to the Covid-19 outbreak. It was also observed that the collection efficiency, reflecting the repayment behaviour of the NBFC customers has improved since April 2020 with easing of lockdown restrictions and because of the various self reliant schemes.

CONCLUSION

The Covid-19 created lockdown and social distancing has been an obstacle in many sectors in our current socio-economic setup and it effected normal livelihood of individuals causing it a global crisis. Based on the extensive analysis, it was observed that the nationwide NBFCs got effected in the pandemic causing it a serious liquidity and financial crisis in the economy as the NBFC sector were facing severe liquidity problems. Because of these serious crises, “Atma Nirbhar Bharat Abhiyan Prakalpa” came as a booster dose to revive the sector and the economy as a whole such that liquidity will flow in the ecosystem and positive systematic changes will take place. The Government of our country has initiated several string measures to improve liquidity in the market which will set our economy rolling to a consequent boost in demand which will help the NBFCs to get them back in their feet and will respond to the crisis. The partial credit guarantee scheme taken on the edge of the pandemic will motivate lenders to look at the NBFC sector favourably and a large section of enterprises can reep the advantages of the financing options and improved credit lines. The stimulus package initiated because of the pandemic will help to generate a effort to the new and low rated NBFCs since support was given towards them but fundamentals of the economy still remains a concern. Support given to the NBFCs will certainly play a major role in giving credit to the rural corners and remote areas of our economy which will in turn restore good credit channels. It can be concluded that the schemes will give social upliftment in the economy if utilised judiciously by the NBFC sector such that it will definitely concur this tough phase and compensate its losses that will sustain well in future.

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