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A2 Non Banking Financial Companies or NBFCs are companies which provide finance to its clients, but are not registered as/ have banking license.

They are registered under the Companies Act, 1956.

They form a vital source of credit / loan for companies who could'nt get loans from banks.

They are specifically important, when banks are reeling under mounting NPAs & are unable to lend.

They take short term deposits & lend long term helping fund big & long gestation period projects, which banks are unwilling. Thus, they play key role in boosting economic growth, infrastructure creation & jobs generation.

⇒ However, they are facing Crisis —

→ Asset-Liability Mismatch :- As mentioned, they lend long term & accept short term. Ex. IL&FS crisis.

→ Poor Management :- Lack of professional management of NBFCs. Ex. IL&FC board was revamped.

→ Economic Reform & Slowdown :- Demonetisation & GST had disruptive effect on economy, affecting liquidity supply in the economy. Further, slowdown affected return on assets.

→ Role of Credit Rating Agencies :- CRAs giving high ratings to stressed NBFCs, which further ~~exaggerated~~ aggravated the situation. Ex. IL&FS before its problem (liquidity) was given positive ranking despite high outstanding debts.

NBFCs play pivotal role in economy. However some reforms are required in the sector. Professional management, changing the methodology adopted by CRAs to rank (currently the one ranked funds the CRA for rating), proper oversight by apt regulator (RBI, IRDAI, SEBI, NHB etc) is required.