

## NBFCs

The NBFC sector has a key role to play in financial inclusion as a lot of loans that NBFCs give are to sectors like small road transport operators, agriculture, etc which are critical sectors and where banking sector lending is still not much. On a macro basis NBFCs supplement the role of banks and in most cases are working in partnership with them. Some of the lending segments for these companies include commercial vehicle loans, construction equipment loans, car loans, loan against gold, loan against property, loans against shares, personal loans, corporate loans, promoter funding, infrastructure loans etc.

NBFCs are regulated by the Reserve Bank of India (RBI) and are classified based on their business into four categories:

1. Asset Finance Company (AFC) – Companies financing real/physical assets for productive/economic activities. At least 60% of the income and assets of the NBFC should be towards asset financing for getting classified as an AFC. AFCs have certain advantages over Loan or Investment NBFCs in terms of regulatory requirements.
2. Infrastructure Finance Company (IFC) – Companies that focus on the infrastructure sector are classified as IFC. At least 75% of assets and income should be from infrastructure financing assets. IFCs have advantages in terms of raising resources and exposure norms over other NBFCs.
3. Loan Company (LC) – Companies that provide loans and advances which do not get classified as asset financing business.

4. Investment Company (IC) – Companies with primary objective of making investments.

Based on the source of funding NBFCs are also classified as Deposit Accepting and Non-Deposit Accepting. Non-Deposit accepting NBFCs are further divided into systematically important (NBFC-ND-SI) with assets of more than or equal to Rs.100 crore and non-systematically important with assets of less than Rs.100 crore.

CARE's rating of NBFCs involve rating of various long-term and short-term debt obligations including bank loan facilities, NCDs, CPs, Tier II, Upper Tier II, Perpetual debt instruments.

CARE's evaluation of NBFCs involves comprehensive analysis of the NBFC's financial parameters such as its profitability, capital adequacy, asset quality, asset-liability management, interest rate sensitivity analysis etc. Stress-case scenarios are also worked out for evaluating the impact of change in key factors such as interest rate movements, deterioration in asset quality parameters etc. Qualitative factors examined by CARE include the management's track record, size of operations and market presence, risk management systems etc. An inter-firm comparison is also done to track the relative performance of the bank in relation to its peers.

### **The Benefits**

An issuer may derive multiple advantages from rating of its debt instruments like lowering of cost of funds, access to new markets and investors on the strength of a higher rating, broad-basing of funding profile etc.