

Business Standard

Number of NBFCs drops to lowest in 10 yrs in India as crackdown accelerates

RBI has also tightened regulations this year by putting in place rules requiring shadow lenders to appoint a chief risk officer and proposing stringent liquidity requirements

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India is stamping out shadow financiers at the fastest pace in recent years, in the latest blow to a beleaguered sector battling a prolonged funding crunch due to rising wariness toward it in the nation's credit markets.

The central bank canceled registrations of 1,851 non-bank finance companies in the year ended March 31, more than 8 times those in the previous year, according to data received from the Reserve Bank of India in response to a Right to Information request. The number of lenders dropped to about 9,700, the lowest in at least a decade, as a result. Firms may be failing to secure the minimum funds needed to operate due to the cash crunch.

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“RBI canceled permits of these NBFCs as they couldn’t raise even Rs 2 crore” to meet regulatory requirements, said Mahesh Thakkar, director general at Finance Industry Development Council. The lobbying body for the financiers had been demanding a liquidity window for NBFCs through banks as a lifeline.

The perils in the sector highlighted by missed repayments on dues by Dewan Housing Finance Corp and Reliance Home Finance Ltd in recent months have heightened risk-off sentiment and worsened the lenders’ access to domestic money markets. RBI has also tightened regulations this year by putting in place rules requiring shadow lenders to appoint a chief risk officer and proposing stringent liquidity requirements.

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The government plans to bolster the central bank’s authority over shadow lenders and has transferred the regulation of housing finance companies to the RBI from National Housing Bank last month. RBI is already working closely with shadow banks after detecting signs of fragility in some of the 50 housing finance and other non-bank lenders it’s monitoring.