



A Study on the Growth of Non-Banking Financial Companies (NBFCs) in India

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Abstract

This research paper evaluates the trajectory of Non-Banking Financial Companies (NBFCs) within the Indian financial ecosystem. By leveraging a customer-centric model and technological integration, NBFCs have significantly bridged the credit gap for underserved sectors. This study explores their growth drivers, the strategic implementation of Artificial Intelligence (AI), and the prevailing liquidity and regulatory challenges. The findings underscore the systemic importance of NBFCs in fostering financial inclusion and supporting India's goal of a \$7 trillion economy by 2030.

Keywords: NBFCs; Financial Inclusion; Artificial Intelligence; Liquidity Risk; Digital Lending

1. Introduction

Non-Banking Financial Companies (NBFCs) have emerged as critical intermediaries in India, facilitating credit flow to the MSME, agricultural, and retail sectors. Unlike traditional banks, NBFCs operate with a high degree of operational flexibility, allowing them to serve high-risk or low-income segments. Regulated under the Reserve Bank of India (RBI) Act, 1934, these institutions provide a diversified range of services, including asset financing, micro-lending, and infrastructure investment, making them indispensable to the nation's economic fabric.

2. Competitive Landscape & Key Aspects

The fundamental differentiator for NBFCs is their agility. While traditional banks often grapple with legacy systems and stringent collateral requirements, NBFCs focus on:

- * Customized Product Suites: Tailoring financial solutions to specific regional and demographic needs.
- * Operational Velocity: Leveraging digital onboarding to reduce loan turnaround time (TAT) from days to minutes.

* Last-Mile Connectivity: Utilizing deep-rooted physical networks and digital "Super Apps" to reach the unbanked population.

3. The Digital Frontier: Impact of AI and GenAI

The sector is currently undergoing a "FinAI" transformation. In 2025, the adoption of Generative AI (GenAI) has moved from experimental pilots to core production.

- * Predictive Underwriting: Using machine learning to analyze alternative data (UPI transactions, utility bills) for credit scoring.
- * Risk Mitigation: AI-driven fraud detection systems now identify suspicious patterns in real-time, significantly lowering Gross NPAs (Non-Performing Assets).
- * Enhanced Productivity: Estimates suggest that AI integration will boost operational productivity by 34% to 40% by 2030.

4. Statement of Problem

Despite robust growth, the sector faces structural vulnerabilities:

- * Liquidity Risk: Dependence on market-linked borrowings rather than demand deposits creates exposure to interest rate volatility.
- * Regulatory Tightening: The RBI's Scale-Based Regulation (SBR) and stricter norms on "unsecured lending" have increased compliance costs.
- * Intense Competition: The rise of aggressive Fintech startups and digital-first neo-banks is challenging the market share of traditional NBFCs.

5. Survey and Data Analysis

A descriptive analysis of consumer behavior indicates a strong preference for NBFC services due to ease of access, though cost remains a barrier.

Key Metric	Observation	Analysis
Awareness Level	80%	High market penetration of NBFC brands.
Service Usage	64%	Strong conversion from awareness to active credit usage
Primary Preference	56%	Majority choose NBFCs for speed over traditional banks.
Interest Sensitivity	70%	High interest rates remain the primary consumer concern

6. Case Study: Bajaj Finance Limited (FY2025)

As of the 2024-25 fiscal year, Bajaj Finance exemplifies the potential of the sector.

- * AUM Growth: Achieved a 26% increase in Assets Under Management (AUM), reaching ₹416,661 crore.
- * Digital Adoption: Successfully digitized 95% of KYC processes and 92% of mandates, drastically reducing physical overhead.

* Inclusion: Expanded its customer franchise to over 101 million, proving that a technology-first approach scales faster than traditional brick-and-mortar models.

7. Conclusion

NBFCs have evolved from "shadow banks" into mainstream financial powerhouses. While regulatory pressures and liquidity management remain ongoing hurdles, their role in credit democratization is undeniable. For sustained growth, the sector must continue to balance aggressive digital expansion with the RBI's evolving risk management frameworks.

Declaration of Conflicting Interests

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