Chapter 6.2: Non-Bank Financial Institutions

NBFIs showed accelerated growth during CY22 that was mainly driven by mutual funds, which contribute the major part of the sector's assets, while Real Estate Investment Trust (REIT) also witnessed significant activity. The conducive policy environment for housing and construction sectors in recent years supported the launch of new REIT schemes and operationalization of a few housing finance companies (HFCs). Due to the hike in interest rates and buildup of macroeconomic risks, money market and income funds witnessed significant sales in the mutual fund sector, which are relatively safer avenues. In the lending segment, the Non-Bank Microfinance Companies (NBMFCs), which mostly operate in rural areas, were affected by floods that led to an increase in their classified assets. Going forward, stressed macrofinancial conditions and geo-political uncertainties could burden the performance and growth of lending segment of NBFIs and influence the growth dynamics of mutual fund sector.

Despite uncertain economic conditions, the NBFI sector continued its growth trajectory ...

Pakistan has a bank-centric financial system where the share of Non-Bank Financial Institutions (NBFIs)[138] remains small and its contribution to financial intermediation is relatively limited. However, the sector is in growth phase, and during CY22 it witnessed acceleration in its growth trajectory. The NBFI sector's asset base grew by 26.7 percent during CY22 (compared to 19.0 percent in CY21) on the back of impressive growth demonstrated by the asset management segment, particularly mutual funds and REITs (**Chart 6.2.1**).

Table 6.2.1: Asset Profile of NBFIs

	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22
			PKR billion		
AMCs/IAs (own assets)	**44**	**45**	**46**	53	**48**
Mutual Funds	985	1,087	1,192	1,281	1,574
Pension Funds	36	40	40	42	44
Portfolios	314	338	374	356	358
Total AUMs	**1,335**	**1,465**	**1,605**	1,679	**1,976**
RMCs	6	7	8	8	9
REITS	54	54	67	98	168
PE & VC Firms	0	0	0	0	0
PE Funds	8	7	10	11	12
Modarabas	51	54	57	61	65
Leasing Companies	6	5	5	6	6
Housing Finance Cos.	-	-	0	0	1
IFCs	66	63	78	91	109
NBMFCs	129	137	146	163	168
Total Assets	**1,700**	**1,839**	**2,023**	2,171	**2,563**

Source: SECP

Asset Management (AM)[139] Segment

The AM segment dominates the NBFI sector with 86.4 percent market share in terms of assets. The segment posted a healthy 27.5 percent growth during the year under review.

[138] NBFIs for our analysis purpose include NBFCs, Real Estate Investment Trusts (REITs), and Modaraba Companies. As per section 282A of the repealed Companies Ordinance, 1984 (wherein Part VIIIA - consisting of sections 282A to 282N – does not stand repealed and is applicable to NBFCs), Non-banking finance companies (NBFCs) include companies licensed by the Commission to carry out any or more of the following forms of business, namely: Investment finance services, Leasing, Housing Finance Services, Venture Capital Investment, Discounting Services, Investment Advisory Services, Asset Management Services, and any other form of business which the Federal Government may, by notification in the official Gazette specify from time to time. Non-bank Microfinance Companies (NBMFCs) are also included in NBFCs.

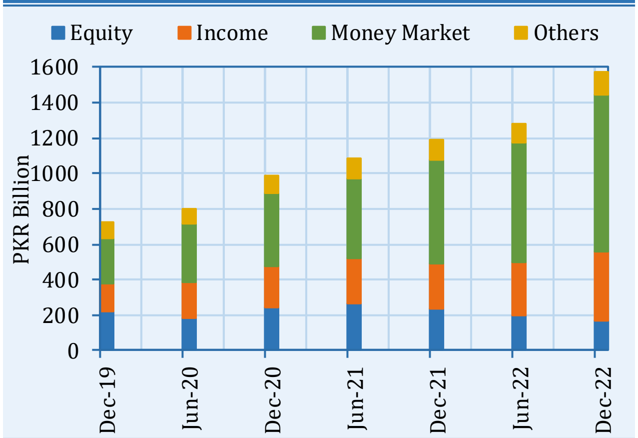
[139] The Asset Management (AM) segment includes: Asset Management Companies (AMCs), Investment Advisors (IAs), Real Estate Investment Trusts (REITs), Mutual Funds, Pension Funds, Private Equity (PE) Funds, and Discretionary/ Non-discretionary Portfolios.

Money market funds continued to dominate the growth of mutual funds sector ...

Due to the hike in interest rates and strained economic conditions, investments in both money market funds and income funds increased while equity funds witnessed redemptions due to the downward trend in the stock market. The fresh sales were mainly responsible for the growth in money market and income funds.

The mutual fund sector increased its assets under management (AUM) by 32.1 percent to PKR 1,574.2 billion in CY22. The total number of funds and plans increased from 285 to 313 while the total number of Asset Management Companies / Investment Advisors (AMCs/IAs) increased from 26 to 29 over the year. Accordingly, the own assets of AMCs/ IAs increased from PKR 45.7 billion to PKR 48.3 billion in CY22.

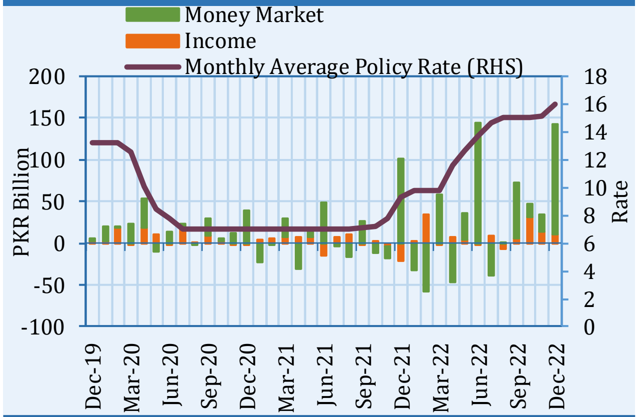
Chart 6.2.1: Composition of Mutual Funds



Source: SECP

Short-term and relatively low risk funds remained the preferred avenue for investors during CY22. Accordingly, money market funds grew at a stronger pace and their share in mutual fund sector further increased to 56.2 percent by end of CY22 (49.2 percent in CY21), while income funds and equity funds constituted 24.8 percent and 10.8 percent share, respectively (**Chart 6.2.1** and **Chart 6.2.2a**).

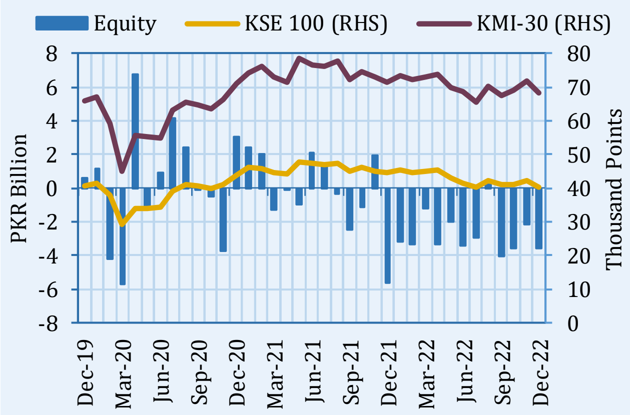
Chart 6.2.2a: Net Sales of money market and income funds



Source: MUFAP & SBP

The performance of KSE-100 index was lackluster during the year under review due to building macroeconomic stresses such as high inflation, floods, geopolitical issues, among others, which weighed heavily on the index's performance. With significant volatility during the year, benchmark KSE-100 index closed at 40,420 points at end-CY22 as against 44,596 points at end-CY21 (for further details, please see Chart 2.16). Accordingly, equity funds witnessed decline, as this segment was plagued with both redemptions and decline in Net Asset Value (NAV) (**Chart 6.2.2b**).

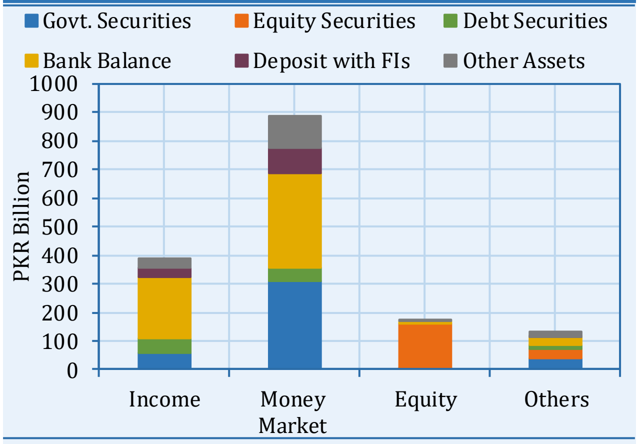
Chart 6.2.2b: Net Sales of equity funds



Source: MUFAP & PSX

In terms of asset quality, total classified assets of the industry stood at PKR 3.5 billion, which constituted 0.2 percent of assets under management (AUM)[140].

Chart 6.2.3: Asset Allocation of Mutual Funds in CY22

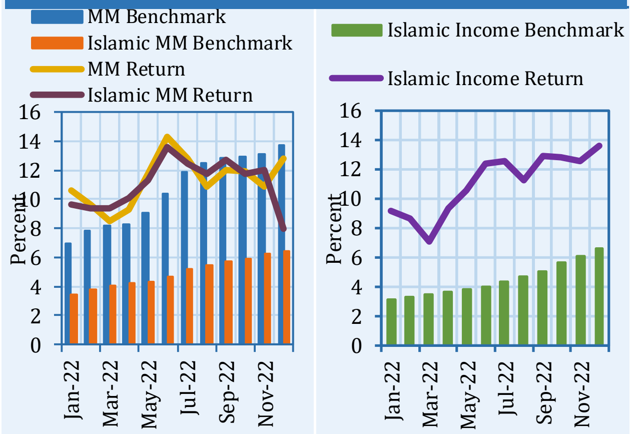


Source: SECP

The asset allocation of mutual funds sector further demonstrates the conservative investment strategy on the part of both fund managers and investors. Mutual funds had allocated most of their assets in bank balances (36.6 percent share of total assets) followed by government securities (25.7 percent) and equity securities (12.4 percent) demonstrating an overall conservative approach of the industry (**Chart 6.2.3**). This phenomenon also demonstrates the dearth of viable investment avenues for the mutual fund industry (e.g., private sector debt securities constitute only 7.1 percent of total asset allocation).

A review of select mutual funds against their associated benchmarks – that are published by the Mutual Funds Association of Pakistan (MUFAP)[141] - indicates that these funds outperformed their benchmarks in the first half of the year. In the second half, the money market fund return fell below the associated performance benchmark (**Chart 6.2.4a**).

Chart 6.2.4a: Monthly Return against MUFAP's Benchmark Return for Select Funds



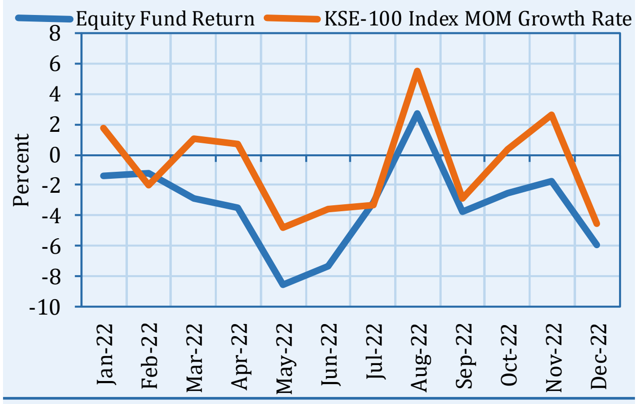
MM=Money Market; Source: MUFAP

However, equity funds consistently performed lower than the return of KSE-100 Index. The performance of underlying firms was impacted by the introduction of super-tax in some sectors, increase in interest rates, and slowdown in imports and economic activities. These factors worsened the operating environment and impacted profit margins by affecting the demand for output, increasing input and financing costs, and raising tax charges. Accordingly, returns on equity funds as well as the market index remained under pressure (**Chart 6.2.4b**).

[140] Assets Under Management (AUM) include assets of mutual funds, pension funds, and portfolios under management of AMCs/ IAs.

[141] The corresponding benchmarks are published by the Mutual Funds Association of Pakistan (MUFAP). As per SECP's Direction No. 27 of 2016, MUFAP publishes the deposit rates for different type of accounts of select banks for certain mutual funds. For example, for money market schemes, the average of deposit rates offered by three AA rated scheduled banks on some specific deposit accounts is taken as a performance benchmark.

Chart 6.2.4b: Equity Fund Return against KSE-100 Index



Source: MUFAP

Portfolios segment declined for the first time in recent years ...

Portfolio[142] segment slightly declined over the year from PKR 374.3 billion in Dec-21 to PKR 357.8 billion in Dec-22. There was an overall decline in portfolios by 4.3 percent as some clients with non-discretionary portfolios did not renew their contracts with investment advisors till the end of CY22.

Significant activity was witnessed in the REIT sector ...

Due to the conducive environment in terms of policy focus and support, REIT[143] sector witnessed significant activity during CY22.[144] On the operationalization of several REIT schemes during the year, the sector increased its asset base from PKR 67.1 billion in Dec-21 to PKR 167.6 billion in Dec-22.

This sector is relatively in its nascent stage, as there are around 16 REIT Management Companies (RMCs) in the sector, however, the existing 11 schemes are being offered by only three RMCs while others are yet to offer their schemes to investors (**Table 6.2.2**).

Table 6.2.2: Two Major heads of REIT Earnings*

Description	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22
	PKR Billion					
Total Assets (Stocks)	52.0	54.4	58.1	60.0	68.9	69.6
Rental Income (HY)	1.1	1.4	1.5	1.7	1.9	2.1
Profit b/f change in fair value of Investment property (HY)	1.1	1.3	1.4	1.5	2.2	2.3
Change in fair value of property (HY Flows)	3.0	2.1	3.8	1.8	4.7	0.5

Source: Financial Statements of two REIT Schemes

*Other REIT schemes have not yet published their financials

Rental income rebounded since 2020 justifying the REITs' approach to retain tenants by providing rental waivers during the pandemic.[145]

Lending NBFIs[146]

The asset base of lending NBFI segment increased from PKR 287.2 billion to PKR 349.3 billion in CY22.

A comparison of key balance sheet items as a proportion of total assets for different FIs over last two years showed that barring banks, MFBs and Modarabas, most other FIs continued to rely only on borrowings and equity to fund their asset base. This provides a competitive advantage to banks (and to a lesser extent to MFBs) in terms of low-cost funding as they are able to raise deposits from the general public (**Chart 6.2.5**).

[142] Portfolios (Under Management) are investments of eligible investors (person offering a minimum of PKR 3 million investment) managed by Investment Advisors. Under "Discretionary Portfolios", investment decisions are made and executed by the Investment Advisor on behalf of clients. While under a "Non-Discretionary Portfolio", investment decisions are executed as per the written instructions of the clients.

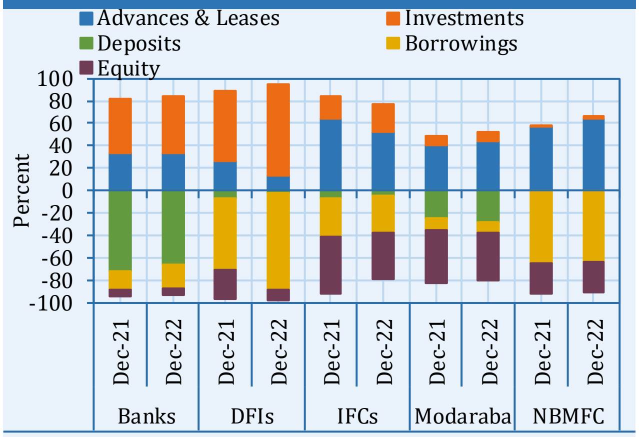
[143] REITs are investment schemes that own and most often actively manage income-producing real estate. Through such schemes, investors may own, operate or finance income-generating property across various categories of real estate. (For further details, please see: https://invest.gov.pk/sites/default/files/2020-08/REITS%20FAQs.pdf)

[144] SECP issued the Real Estate Investment Trust Regulations, 2022 to promote real estate activity in the organized sector (For further details, please see: https://www.secp.gov.pk/document/real-estate-investment-trust-regulations-2022/).
SBP made amendments to Prudential Regulations and capital adequacy-related risk weights to encourage enhanced participation and investment of banks/DFIs in REITs. (For further details, please see: https://www.sbp.org.pk/press/2021/Pr-22-Mar-21.pdf; https://www.sbp.org.pk/press/2021/Pr-02-Jun-2021.pdf)

[145] Based on the data of two REIT schemes. Other REIT schemes have yet to publish their financials.

[146] Lending NBFIs (also referred to as the non-AM segment) include Leasing Companies, Modarabas, IFCs, HFCs, NBMFCs, etc.

Chart 6.2.5: FIs' Key Variables as Percent of Assets



Assets	PKR Billion				
Dec-21	30,058	539	78	57	146
Dec-22	35,796	1,431	109	65	168

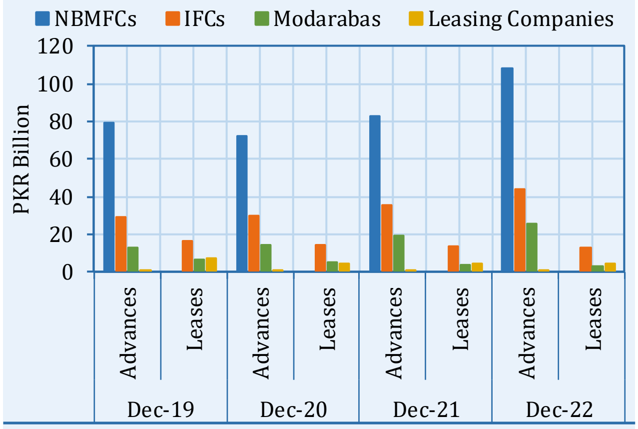
Source: SECP

Particularly, the hike in interest rates in CY22 increased the cost of borrowing for lending NBFIs. While the NBFIs have generally been able to remain profitable for the year under review, any long-term elevation in funding costs may put pressure on profit margins in the medium term.

In addition, banks increased their lending to DFIs and IFCs to improve their ADR in light of the ADR-linked tax policy (for further details, please see Chapter 6.1). This led to a significant increase in borrowing for these FIs, which, in turn, invested most of the additional funds in government securities due to their attractive rates.

In addition, while there had been an increase in advances and leases in absolute terms across all FIs in CY22, their proportion in terms of assets fell across banks, DFIs and IFCs. Only NBMFCs and Modarabas[147] increased their proportion of advances and leases in CY22. With more than 60 percent of assets in the form of advances, NBMFCs continued to play a key role in credit intermediation, albeit on a small scale.[148]

Chart 6.2.6: Advances and Leases of Lending NBFIs



Source: Karandaaz and SECP

At a more granular level, while the leasing portfolio has been steadily decreasing for lending NBFIs, the advances portfolio has been increasing, largely driven by the NBMFCs (**Chart 6.2.6**).

Modaraba sector's operating performance improved ...

The Modaraba[149] sector registered impressive growth in its advances portfolio, which increased by 32.7 percent to PKR 25.8 billion in CY22 (growth of 37.6 percent in CY21) mainly driven by the increase in the consumer auto finance portfolio. The rise in advances portfolio was partly financed through deposits which increased by 31.8 percent to PKR 18.3 billion over the same period (growth of 33.5 percent in CY21).

Profitability for the sector remained stable at PKR 2.5 billion for CY22 (similar for CY21).

[147] The combined proportion of advances and investment as a percent of assets for Modarabas is smaller compared to other FIs as they have a larger share of operating fixed assets and some Modarabas are also involved in Shariah-compliant non-financial activities such as manufacturing.
[148] MFBs also continued to play a key role in credit intermediation.
[149] The Modarabas are Islamic institutions, which are allowed to conduct any business, provided it is Shariah-compliant and approved by the Religious Board of Modarabas. For example, Modarabas can undertake Ijarah (leasing), Murabahah (cost-plus sale), Musharakah (partnership), Diminishing Musharakah, Salam (deferred delivery sale) and Istisna financing activities; invest in the stock market; trade halal commodities; conduct project financing activities; manufacture items; among other activities.

Table 6.2.3: Key Financial Soundness Indicators of Modaraba sector

Description	Jun-20	Jun-21	Jun-22
	Percent		
Equity to Assets	34.6	47.9	43.1
Return on Asset (BT)	-3.9	2.6	3.8
Return on Equity (BT)	-10.8	6.3	8.5
Net Profit Margin	-14.0	7.5	6.6
Current Ratio	68.2	94.6	76.0
Debt to Equity Ratio	188.2	107.7	132.2

Source: Financial Statements of Modarabas

However, the deposit to asset ratio remained low for the Modaraba sector compared to other institutions involved in financing/ lending business e.g., Islamic banks, as only banks have the mandate to raise demand deposits while outreach of capital market is limited. Consequently, the sector relied heavily on equity to fund its financing portfolio. The equity to assets ratio of 39.6 percent in Dec-22 indicated that the sector had ample cushion to absorb losses, if any, as well as potential to expand its business in line with any pickup in economic activities in future (**Table 6.2.3**).

Furthermore, the sector posted improvement in infection ratio, as the classified assets to outstanding portfolio ratio lowered to 9.3 percent in Dec-22 compared to 11.7 percent in Dec-21, which exhibited better asset quality management including strenuous recovery efforts against a significant portion of legacy portfolio during the year under review.

The conducive environment in the housing sector encouraged the operationalization of HFCs ...

Pakistan has high housing needs – as of 2021, there was an estimated shortage of 12 million residential units in the country[150] - indicating that the housing finance business has enormous potential to help in meeting this need and earn lucrative returns for investors. However, the housing finance sector of NBFIs had remained almost non-existent due to multiple issues e.g., information asymmetries, issues in foreclosure and recovery laws and procedures, dearth of long-term funding due to limited outreach of capital market, among others.

In the last few years, the government prioritized housing and construction sector as a tool to both meet the housing needs of the society and support balanced economic growth. For this purpose, support measures were introduced including a mark-up subsidy scheme to support the provision of affordable housing finance to the low and middle income segments of society.[151] This policy environment encouraged some HFCs to enter the market.

While four companies are operating in the housing finance sector, they have only recently begun their operations. This can be gauged by the fact that asset base of this sector remained small and a significant portion (31.0 percent) of the assets were in the form of cash, bank balances and placements with financial institutions.

The advances of the sector stood at PKR 238.6 million as of Dec-22 while major part of the asset base was funded by equity.

Leasing companies witnessed a revival in their growth on the back of auto loans ...

Leasing companies had been on a downward trajectory for years, especially hampered by higher cost of funds, which affected their competitiveness compared to other financial institutions like banks in the leasing business. Their asset base declined from PKR 44.6 billion in

[150] Promoting Housing and Construction Finance - https://www.sbp.org.pk/hcf/index.html.

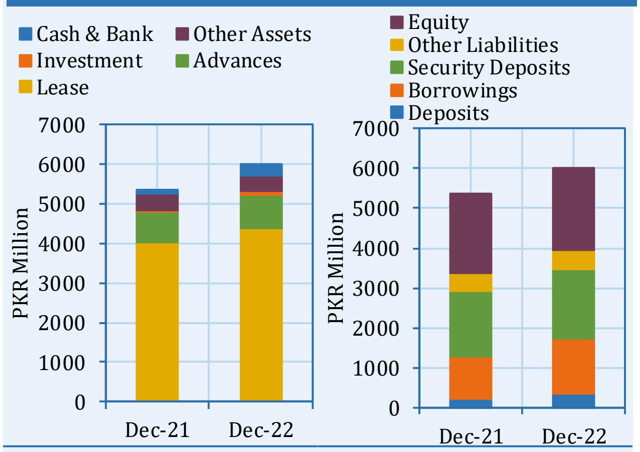
[151] In late 2020, the government introduced the mark-up subsidy scheme on housing finance. However, the scheme was suspended in CY22. In addition, SBP took a number of measures (such as the introduction of mandatory targets) to promote housing finance. In 2021, SBP allowed counting of investments in REITs, bonds or Sukuk of PMRC, and financing to MFBs for housing finance by banks or DFIs towards achievement of their housing and construction finance targets. In addition, the terms and conditions for housing finance have been simplified such as the acceptance of liquid securities or other property as collateral.

Dec-17 to PKR 5.4 billion in Dec-21 as various companies exited the sector.

However, leasing sector's asset base posted a growth of 12.0 percent in CY22, as the sector was able to expand its auto financing portfolio due, in part, to the tightening of macroprudential measures of SBP in respect of banks' auto financing. This change in prudential standards for banks provided some room to NBFIs to meet the auto financing needs of the borrowers.

While assets of leasing firms were mainly in the form of earning assets (87.0 percent of total assets), for funding they were heavily reliant on equity, followed by security deposits and borrowing (**Chart 6.2.7**).

Chart 6.2.7: Balance Sheet Items of Leasing Sector



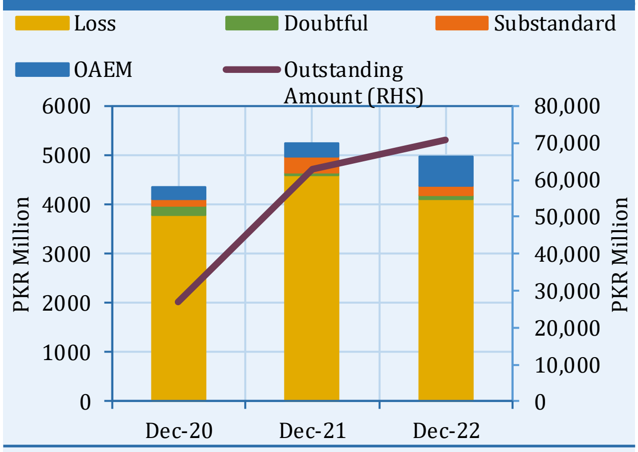
Source: SECP

Investment finance company (IFC) sector posted strong growth mainly driven by existing firms...

The asset base of IFC sector increased by PKR 30.8 billion over the year under review to PKR 109.0 billion mainly due to the growth posed by existing IFCs.

In the wake of significant increase in interest rates and other stresses in macrofinancial conditions such as exchange rate devaluation during CY22, IFCs focused on investments which increased by PKR 10.5 billion to PKR 26.1 billion. Despite the hike in interest rates, the increase in vehicle prices and tightening of prudential standards for banks' auto financing contributed to the rise in auto finance portfolio of IFCs. This partially supported the growth in advances of IFCs, which increased by PKR 8.4 billion to PKR 44.0 billion. Furthermore, as one major IFC started to diversify its operations with an emphasis on expanding its loan business, it diverted some of its lease business towards its loan portfolio. This development contributed to the shift in financing portfolio of the IFCs sector from leasing to loans.

Chart 6.2.8: Classified Assets of IFC Sector



Source: SECP

Barring a couple of firms, the sector in general showed improvement in asset quality indicators, as its classified asset declined and infection ratio lowered to 7.0 percent at end Dec-22 (**Chart 6.2.8**).

Since most of the classified assets of sector were in loss category and accordingly provided for, the sector faced relatively contained risks to solvency from the existing classified portfolio. However, the increase in financing costs and slowdown in economic activity could impair the repayment capacities of borrowers and raise asset quality concerns going forward.

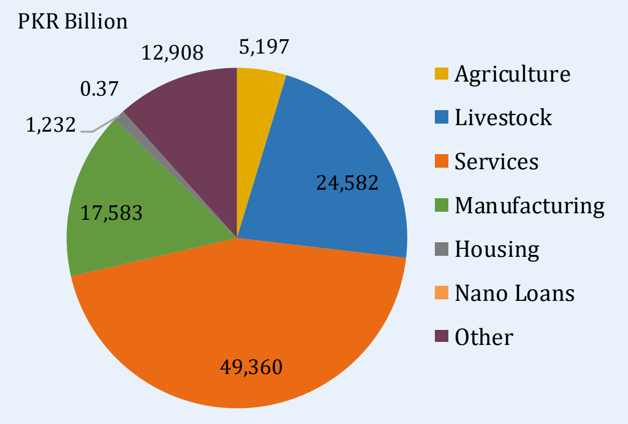
It is important to note that from early 2022, SECP allowed NBFIs to operate as peer-to-peer (P2P) service providers. P2P lending connects borrowers directly to lenders. Here, most of the default risk is assumed by the lenders rather than the NBFIs providing the platform. Usually, the higher interest rates (compared to traditional savings accounts) incentivize lenders to open accounts on P2P lending platforms. Investors and lenders need to remain aware that, globally, the default rates are higher in P2P lending compared to conventional financial institutions' lending options. In addition, borrowers - who may have limited financial literacy - and lenders need to remain vigilant of all fees charged by such platforms.

Recent floods impacted the microcredit portfolio of NBMFCs ...

Non-bank microfinance companies (NBMFCs) are the largest sector within lending NBFIs. During the year under review, microcredit loans offered by NBMFCs increased to PKR 108.4 billion in CY22 (PKR 83.1 billion in CY21). The increase in loans was mainly funded by an increase in borrowings from PKR 93.5 billion to PKR 106.6 billion.

In 2022, a large part of the country faced torrential rains and consequent flooding that caused heavy human and economic losses. Since NBMFCs operate in rural areas that were badly hit by flooding, this natural catastrophe adversely affected the lives and livelihood of NBMFCs' borrowers.

Chart 6.2.9: NBMFCs' Gross Loan Portfolio - Jan-23



Source: Pakistan Microfinance Network (PMN)

The exposure of NBMFCs to extreme weather events can also be gauged by the fact that 26.9 percent of the loan portfolio is placed in the livestock and agriculture segments, which are directly affected by torrential rains, flooding, and drought (**Chart 6.2.9**).

According to the UNDP Post Disaster Needs Assessment Report, NPLs were expected to increase by PKR 24.3 billion due to the floods, which would form a significant amount of the overall portfolio. However, the latest data indicated that classified assets of NBMFCs increased by 19.8 percent over H2CY22 – from PKR 2.7 billion in Jun-22 to PKR 3.2 billion in Dec-22, which was below the UNDP estimate. However, estimates suggest that the portfolio could come under significant stress in the coming 1 to 2 years, particularly if inflation remains elevated, eroding the purchasing power of end-consumers. This continued strain could have implications for asset quality and earnings of NBMFC sector in the near term. Accordingly, the subdued outlook and prevailing macrofinancial challenges highlight the need for continual support from NBMFCs' sponsors and financiers.

Interconnectedness between banking and mutual fund industry remained manageable in CY22...

The interconnectedness between the banking sector and mutual funds (which form the largest portion of NBFI sector) exists along different dimensions such as deposits, borrowings and investment in banks' share from the banks' funding perspective, and advances and investments in funds from the banks' asset perspective. While banking sector's investment in mutual funds remained miniscule in terms of its capital and asset base, another aspect of interconnectedness remained significant as bank-owned AMCs/ IAs were managing around 79.5 percent of the total AUM at end CY22. This phenomenon highlights the banking sector's sensitivity to the performance of mutual fund sector especially in terms of reputational implications that banks may face with regard to the soundness and performance of their respective AMCs/ IAs and their managed funds (**Table 6.2.4**).

On the other hand, mutual funds' investments in banking products e.g., deposits and securities also remained significant, indicating the importance of banking sector's performance and stability for the mutual fund sector. On a net basis, the banking sector was a receiver of funds from the AM segment.

In terms of concentration, certain banks featured among the top 20 investors of some mutual funds and this concentration signified that these funds were partially dependent on the performance and business strategy of their respective investing banks as any abrupt redemptions of mutual funds by these banks (e.g., due to liquidity constraints) could have implications for the performance of these funds.

Another form of transmission may be through common customer groups as some firms or business groups which are leading borrowers of banks were among the top 20 unit holders of mutual funds.

Nevertheless, any risks and concerns related to interconnectedness between banks and mutual fund industry remained manageable during the year under review given the banks' ample liquidity cushions and relative asset size.

Table 6.2.4: Asset Management segment's flow of funds & exposure to the banking sector

Description	Dec-20			Dec-21			Dec-22		
	Total Value (i)	Banks share (ii)	Banks share in Total* (iii= ii/i)	Total Value (iv)	Banks share (v)	Banks share in Total* (vi= v/iv)	Total Value (vii)	Banks share (viii)	Banks share in Total* (ix= viii/vii)
	PKR billion		Percent	PKR billion		Percent	PKR billion		Percent
1. Equity of AMCs/ IAs	31.9	17.0	53.36	32.9	17.4	53.00	33.0	18.2	55.38
2. Assets Under Management of AMCs/ IAs	1,334.7	1,026.4	76.90	1,605.5	1,256.7	78.28	1,932.0	1,536.5	79.53
3. Mutual Funds size	985.2	15.5	1.58	1,191.6	21.7	1.82	1,574.2	14.6	0.93
4. Mutual Fund exposure in Financial Institutions	541.0	510.2	94.31	724.4	673.1	92.92	749.3	589.3	78.65
5. Mutual Funds exposure in top 20 equity securities	76.5	9.2	12.07	74.6	9.4	12.54	61.5	5.2	8.44
6. Mutual Funds exposure in top 10 debt securities	20.3	6.0	29.62	20.3	7.5	36.65	63.6	9.4	14.75
7. Top 20 holders of mutual fund units	359.0	205.4	57.22	193.8	13.7	7.08	343.7	27.2	7.91

Source: SECP

*Banks share for the respective head means:

1.Equity of Bank-owned AMCs /IAs

2.Mutual/Pension Funds and Portfolios being managed by bank-owned AMCs /IAs

3.Banks' investments in mutual fund units

4.Mutual Funds' investments in deposits, COD/TDR/COI and money at call/placements with banks

5.Mutual Fund investments in ordinary shares of banks

6.Mutual Funds investments in TFCs/Commercial Paper/Sukuk etc. issued by banks

7.Banks(investment value) in the top 20 holders of mutual fund units

Ongoing stress in macroeconomic environment could have implications for NBFI sector in the near term …

Going forward, stressful macro-financial conditions such as elevated interest rates, slowdown in economic growth, and domestic and geo-political uncertainties could affect the performance and growth prospects of the NBFI sector. The high interest rates and slowdown in economic activities can impact both repayment capacity of borrowers of lending segment as well as demand for further credit. Moreover, NBMFCs could face stress in their asset quality due to floods. On the other hand, these macrofinancial conditions and consequent pressure on earnings of corporate firms may influence the growth dynamics of mutual fund sector with money market and income funds remaining preferred investment avenues.