

Comparative Analysis of Bank Vs NBFC Lending Practices in India

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Abstract—Purpose: Banks and Non-Banking Financial Companies (NBFCs) are the principal institutional sources of credit in India, playing a vital role in economic development and financial inclusion. Despite operating within the same financial ecosystem, their lending practices differ significantly in terms of regulation, procedures, cost of credit, and customer outreach. This study aims to comparatively examine the lending practices of banks and NBFCs in India with reference to regulatory frameworks, interest rate structures, loan processing procedures, risk management approaches, digital lending adoption, and financial inclusion efforts.

The study adopts a descriptive and comparative research design based primarily on secondary data collected from Reserve Bank of India reports, academic literature, industry publications, and annual reports of selected banks and NBFCs. Survey-based observations are also used to understand borrower perceptions regarding flexibility, transparency, and repayment structures. The findings reveal that banks benefit from strong regulatory oversight and low-cost deposit-based funding, enabling them to offer lower interest rates and long-term financing. In contrast, NBFCs exhibit greater operational flexibility, faster loan disbursement, simplified documentation, and innovative credit appraisal methods, allowing them to effectively serve MSMEs, self-employed individuals, and underserved borrowers. The study concludes that banks and NBFCs perform complementary roles, and increased collaboration can enhance credit accessibility and strengthen India's financial system.

Index Terms—Banks, Lending Practices, Financial Inclusion, Digital Lending, India

I. INTRODUCTION

The financial system of a country acts as the backbone of its economic growth and development. In India, an efficient and inclusive financial system is crucial for mobilizing savings, facilitating investment, promoting entrepreneurship, and ensuring balanced regional development. Among the various components of the financial system, lending institutions play a pivotal role by providing credit to individuals, businesses, and industries. Banks and Non-Banking Financial Companies (NBFCs) are the two most significant formal sources of credit in the Indian economy.

Banks have traditionally dominated the lending landscape due to their ability to accept deposits, access low-cost funds, and operate under a well-established regulatory framework. They cater primarily to salaried individuals, large corporations, and established businesses by offering structured loan products at relatively lower interest rates. However, stringent regulatory norms, extensive documentation requirements, and longer approval timelines often restrict banks from serving high-risk or underserved customer segments.

In contrast, NBFCs have emerged as flexible and innovative financial intermediaries, especially in the last two decades. NBFCs focus on niche markets such as Micro, Small and Medium Enterprises (MSMEs), self-employed individuals, rural borrowers, and customers with limited credit histories. Their simplified procedures, faster loan disbursement, and customized financial products have enabled them to bridge the credit gap left by traditional banks. As a result, NBFCs have become instrumental in enhancing

financial inclusion and supporting grassroots economic activities.

The evolution of India's lending ecosystem has been influenced by economic liberalization, technological advancements, regulatory reforms, and changing consumer expectations. The introduction of digital lending platforms, fintech partnerships, and data-driven credit assessment models has further transformed lending practices, particularly among NBFCs. At the same time, banks are also adapting by modernizing their systems and adopting co-lending and digital strategies to remain competitive.

Given the growing importance of both banks and NBFCs, a comparative analysis of their lending practices becomes essential to understand their strengths, limitations, and complementary roles. This study aims to analyze and compare the lending frameworks, interest rates, risk management practices, regulatory environment, and customer outreach strategies of banks and NBFCs in India. The research seeks to provide insights into how these institutions contribute to economic growth and financial inclusion.

II. RELATED WORKS

The Indian financial system has undergone significant transformation over the past few decades, with banks and Non-Banking Financial Companies (NBFCs) emerging as key institutional pillars of credit delivery. A growing body of literature has examined their regulatory frameworks, lending practices, and role in economic development, highlighting both differences and complementarities between these institutions.

Studies based on Reserve Bank of India (RBI) publications emphasize that banks operate under a stringent regulatory framework aimed at ensuring financial stability and depositor protection [1]. Capital adequacy norms, liquidity requirements, and asset quality standards influence bank lending behavior and promote a conservative approach to credit risk [2]. While such regulation strengthens the banking system, several studies indicate that it also limits banks' ability to extend credit to informal-sector borrowers, small enterprises, and individuals with weak credit histories [14].

In contrast, NBFCs have been widely recognized for their contribution to expanding credit access and promoting financial inclusion [3]. Previous studies highlight that NBFCs play a critical role in financing

Micro, Small and Medium Enterprises (MSMEs), self-employed individuals, and rural borrowers who often face difficulties in accessing bank credit. By adopting flexible lending models and alternative credit appraisal techniques, NBFCs are able to address information asymmetry and reach underserved customer segments more effectively [6].

Empirical research and industry reports further reveal notable differences in funding structure and cost of capital between banks and NBFCs [12]. Banks benefit from low-cost deposit-based funding, allowing them to offer loans at relatively lower interest rates, particularly for long-term and large-ticket financing [13]. NBFCs, on the other hand, rely largely on market borrowings and bank credit, resulting in higher funding costs and consequently higher lending rates [5]. Despite this, NBFCs remain competitive due to faster loan processing, simplified documentation, and greater flexibility in repayment structures.

The risk profile and stability of NBFCs have also been a major focus of recent literature, particularly following liquidity stress events in the sector [19]. Studies conducted after such episodes suggest that NBFCs are more vulnerable to liquidity shocks because of asset-liability mismatches and dependence on short-term funding. However, subsequent regulatory reforms have strengthened governance standards, disclosure requirements, and risk management practices within the NBFC sector. Banks, while comparatively more resilient to liquidity stress, face challenges related to non-performing assets and compliance costs, which also affect their lending decisions.

Digital transformation has emerged as another important theme in recent studies. Literature indicates that NBFCs have been early adopters of fintech innovations such as digital onboarding, automated credit scoring, and instant loan disbursement platforms. These technologies have enhanced operational efficiency and improved customer experience. Banks, although increasingly investing in digital infrastructure, face constraints arising from legacy systems, large organizational structures, and regulatory compliance requirements [7]. The differing pace of digital adoption has further accentuated the contrast between bank and NBFC lending practices.

Although existing studies provide valuable insights into the functioning of banks and NBFCs, most research examines these institutions independently or

focuses on specific dimensions such as regulation, financial inclusion, or digital lending. Limited studies offer a comprehensive comparative analysis of their lending practices within the current regulatory and technological environment in India. This study seeks to bridge this gap by systematically comparing banks and NBFCs across multiple dimensions of lending behavior, thereby contributing to a deeper understanding of India's evolving credit ecosystem.

III. METHODOLOGY

This study adopts a descriptive and comparative research design to examine and compare the lending practices of banks and Non-Banking Financial Companies (NBFCs) in India [8]. The descriptive approach is used to understand the existing regulatory framework, operational structures, and lending mechanisms of both institutions, while the comparative approach facilitates a systematic evaluation of similarities and differences across key dimensions of lending behavior.

The study relies primarily on secondary data collected from credible and publicly available sources. These include publications and reports issued by the Reserve Bank of India (RBI), academic journals, books, industry reports, and annual reports of selected banks and NBFCs [11][12]. Secondary data are considered appropriate for this study as they provide reliable, comprehensive, and cost-effective information required to achieve the research objectives [9]. In addition, limited survey-based data are utilized to capture borrower perceptions related to loan procedures, interest rates, documentation requirements, repayment flexibility, and service efficiency.

The key variables examined in the study include regulatory framework, lending procedures, interest rate structure, risk management practices, customer experience, digital lending adoption, and the role of banks and NBFCs in promoting financial inclusion. Comparative analysis is conducted using descriptive statistical techniques, supported by tables and interpretative analysis wherever appropriate. These methods enable clear identification of patterns and differences in lending practices between banks and NBFCs.

The study is subject to certain limitations. It is based largely on secondary data and therefore lacks

extensive primary insights from financial institutions. The analysis is not confined to a specific geographical region and reflects general trends at the national level. Additionally, the findings are dependent on the accuracy and availability of published sources. Despite these limitations, the methodology is considered suitable for achieving the objectives of the study and for providing meaningful comparative insights into the lending practices of banks and NBFCs in India.

IV. RESULTS AND DISCUSSION

4.1 COMPARATIVE ANALYSIS OF LENDING PRACTICES:

Banks are governed by the Banking Regulation Act, 1949, and must comply with CRR, SLR, and Basel III norms. NBFCs are regulated under the RBI Act, 1934, and operate with greater flexibility.

Banks offer lower interest rates due to deposit-based funding, while NBFCs charge higher rates to offset risk. NBFCs are faster in loan disbursement and documentation.

Banks in India are governed by the Banking Regulation Act, 1949, and are required to strictly follow regulatory norms prescribed by the Reserve Bank of India [1]. These include maintaining Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), which ensure liquidity and financial stability in the banking system [2]. In addition, banks must comply with Basel III norms, which focus on capital adequacy, risk management, and financial resilience [10]. These regulatory requirements ensure safety and stability but also impose operational restrictions on banks.

In contrast, Non-Banking Financial Companies (NBFCs) are regulated under the Reserve Bank of India Act, 1934[10]. NBFCs are not required to maintain CRR and SLR like banks and are subject to relatively fewer regulatory constraints. This provides NBFCs with greater operational flexibility [4], enabling them to design customized financial products and reach customers who may not meet traditional banking requirements.

Banks are generally able to offer lower interest rates on loans because they primarily depend on deposit-based funding [12], which is a low-cost source of finance. Public deposits and savings accounts provide banks with stable and affordable funds, allowing them

to lend at competitive rates. On the other hand, NBFCs rely on market borrowings, bank loans, or debentures for funding, which are relatively expensive. To compensate for higher funding costs and increased credit risk, NBFCs charge higher interest rates compared to banks [6].

However, NBFCs are known for their quick loan disbursement process and simplified documentation. Their flexible credit appraisal systems, use of technology, and customer-focused approach enable faster processing and approval of loans, especially for small businesses, self-employed individuals, and borrowers with limited credit history.

4.2 Data Analysis, Interpretation and Presentation

Table 1.

Sr. No	Response Category	Number Of Response
1	Bank	23
2	NBFC	29
3	Both equally	17
4	None	28

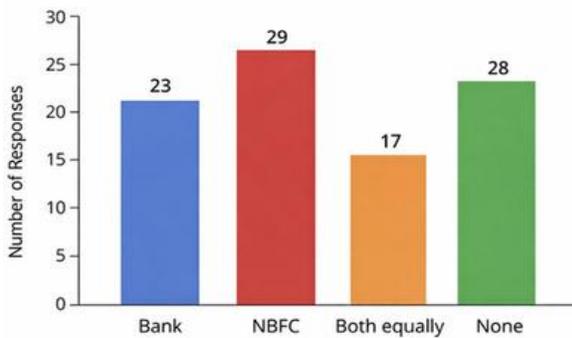


Figure 1. Flexible repayment preference

Interpretation:

As shown in Figure 1. survey of 97 responses, the chart reveals that NBFCs are perceived as offering more flexible repayment plans than banks. The largest share of respondents, 29.9%, selected the NBFC as the institution with the more flexible plan. The Bank was chosen by a smaller 23.7%. This suggests that NBFCs hold a competitive edge in terms of customizing repayment structures to meet borrower needs. Furthermore, 17.5% felt that Both institutions were equally flexible. A significant portion of the responses,

28.9%, chose "None," indicating either a large group of non-borrowers or a general dissatisfaction with the flexibility offered by both types of institutions.

Table 2.

Sr No	Response Category	Number Of Response
1	Yes, from bank	25
2	Yes, from NBFC	18
3	Yes, from both	20
4	No hidden charge	35

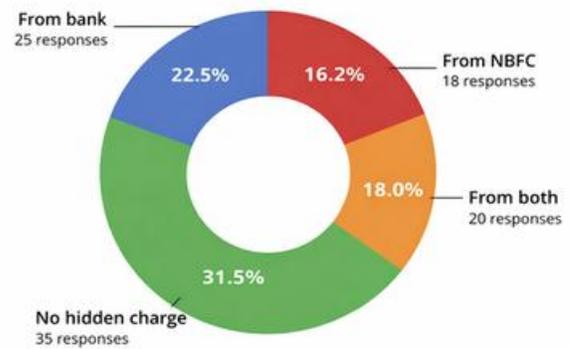


Figure 2. Hidden charge or unexpected fees

Interpretation:

As shown in Figure 2. data confirms that Banks are the significantly more utilized loan provider, with 45% of respondents having taken a bank loan, compared to only 28% for an NBFC. Banks also led marginally in efficiency perception, with 32% of customers citing the Bank for a faster loan approval process, versus 22.7% for the NBFC. However, this advantage is countered by customer dissatisfaction in two key operational areas. First, a significant 44.3% of respondents found the Bank's documentation process to be "Complicated" or "Very complicated," indicating a major friction point. Second, customers who faced hidden charges or unexpected fees most frequently cited the Bank (25.5%) over the NBFC (18.4%). In summary, while banks have the user base and a slight edge in perceived speed, they must address complexity in both documentation and fee transparency to improve overall customer experience.

Table 3.

Sr. No	Response Category	Number Of Response
1	Below 10%	32
2	10%-20%	31
3	12%-15%	22
4	Above the 15%	10

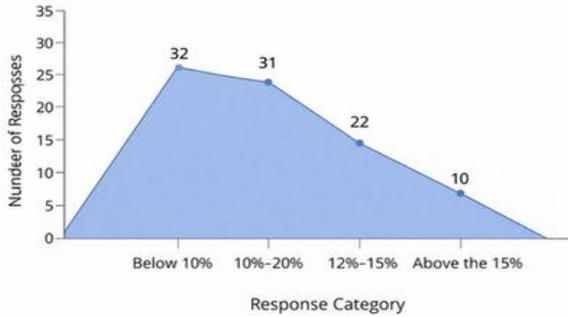


Figure 3. The average loan interest rate offered by the institution

Interpretation:

As shown in Figure 3. the average loan interest rate chart, based on all responses, indicates that the market is highly concentrated in the lower rate brackets. The vast majority of loans, 66.3%, are found at or below 12% interest, with the largest single segment being Below 10% at 33.7%, closely followed by the 10% - 12% range at 32.6%. Only a small minority of borrowers (10.5%) reported facing rates Above 15%.

Table 4.

Sr. No	Response Category	Number Of Response
1	Interest rates	24
2	Documentation & approval	29
3	Flexibility in repayment	24
4	Customer service	15

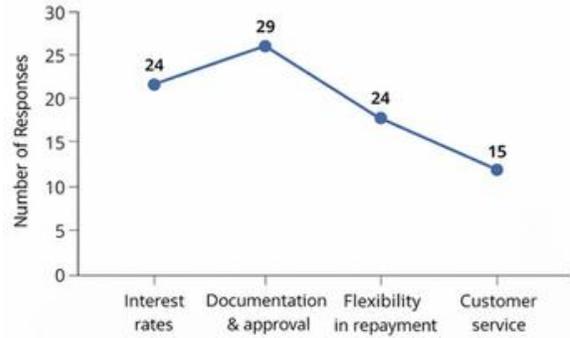


Figure 4. The biggest difference in lending practices between Banks & NBFC's

Interpretation:

As shown in Figure 4. the chart on the biggest difference in lending practices between Banks and NBFCs, based on 95 responses, shows that the process of getting a loan is the main differentiator. The largest segment, 30.5%, points to Documentation & approval as the key difference. The other major differences, Interest rates and Flexibility in repayment, were tied at 25.3% each. This clearly indicates that borrowers see the main distinction between the two institutions in terms of ease of processing and repayment terms, more so than in customer service or the basic cost of the loan.

4.3 FINANCIAL INCLUSION:

Financial inclusion is a central objective of India's financial policy framework [9], aimed at providing affordable and timely access to financial services for all segments of society. Banks and Non-Banking Financial Companies (NBFCs) play complementary roles in advancing this objective through distinct institutional mechanisms and lending strategies. Banks contribute to financial inclusion primarily through regulatory mandates such as priority sector lending, branch expansion in rural and semi-urban areas, and participation in government-sponsored schemes [1] including credit-linked subsidy programs and social security initiatives. These measures enable banks to extend formal credit to agriculture, small enterprises, and economically weaker sections. However, stringent documentation requirements, standardized credit appraisal procedures, and risk-averse lending practices often limit banks' ability to serve informal and first-time borrowers effectively.

NBFCs, in contrast, have emerged as significant enablers of financial inclusion by addressing gaps in the formal banking system. By adopting flexible lending policies and alternative credit assessment techniques, NBFCs extend credit to Micro, Small and Medium Enterprises (MSMEs), self-employed individuals, and low-income households that may lack formal income proof or credit histories. Their localized presence and relationship-based lending models improve outreach and credit penetration in underserved regions [4].

The analysis indicates that NBFCs complement banks' inclusion efforts by providing last-mile credit delivery and customized financial products. While banks ensure stability and scale, NBFCs enhance accessibility and responsiveness. Together, these institutions strengthen the overall financial inclusion framework. The findings suggest that collaborative approaches such as co-lending arrangements and digital partnerships can further improve credit access while maintaining financial stability [20].

4.4 DIGITAL LENDING AND FINTECH:

Digital transformation has brought a fundamental shift in lending practices by integrating technology into every stage of the loan lifecycle, from customer onboarding to credit assessment and loan disbursement. The adoption of fintech solutions has reduced manual intervention, minimized paperwork, and enhanced transparency, thereby improving customer convenience and operational efficiency [6]. Digital platforms, mobile applications, cloud computing, and data analytics have enabled financial institutions to offer faster and more accessible credit, especially to tech-savvy customers and small borrowers who prefer instant and paperless services.

In this rapidly evolving digital environment, Non-Banking Financial Companies (NBFCs) have taken the lead in adopting fintech innovations due to their agile business models and fewer legacy constraints. NBFCs extensively use artificial intelligence and machine learning-based credit scoring models that analyze alternative data such as transaction history, mobile usage, and digital footprints to evaluate borrower creditworthiness. This approach allows NBFCs to extend credit to individuals and small businesses with limited or no formal credit history. Additionally, NBFCs provide instant digital loans through mobile apps and online platforms, enabling

quick approvals and same-day disbursement, which significantly enhances customer experience and financial inclusion.

Banks are also undergoing digital transformation by modernizing their legacy systems and integrating fintech solutions into their traditional operations. However, the pace of digital adoption in banks is comparatively slower due to complex organizational structures, regulatory compliance requirements, and the need to ensure data security across large customer bases. While banks have introduced online loan applications, digital KYC, and automated processing systems, many processes still involve manual verification and multiple approval layers. Despite these challenges, banks possess strong advantages such as established customer trust, access to large volumes of data, and robust risk management frameworks.

Overall, digital lending and fintech have transformed the financial ecosystem by creating a more competitive, efficient, and customer-centric lending environment. NBFCs continue to drive innovation and speed in digital lending, while banks are gradually strengthening their technological capabilities through system upgrades and fintech partnerships. The combined efforts of banks and NBFCs are expected to accelerate digital financial inclusion and improve access to credit across diverse segments of the economy.

4.5 FINDINGS:

The empirical and qualitative analysis reveals several consistent and meaningful patterns in the functioning of banks and Non-Banking Financial Companies (NBFCs). Firstly, banks and NBFCs cater to different borrower segments based on risk profile, loan size, and purpose. Banks largely dominate large-ticket, long-tenor, and relatively lower-risk lending, such as corporate loans, home loans, and infrastructure financing, where stable cash flows and strong credit histories are present. In contrast, NBFCs primarily focus on smaller-ticket, short-tenor, and higher-risk lending, catering to MSMEs, self-employed individuals, and informal-sector borrowers who often lack formal documentation or credit records. This segmentation highlights the complementary roles played by banks and NBFCs within the financial system.

Secondly, the analysis indicates a persistent interest-rate differential between banks and NBFCs. NBFCs generally charge higher interest rates compared to banks due to their higher cost of funds, reliance on market borrowings, and increased exposure to credit risk. Banks, on the other hand, benefit from low-cost deposit-based funding, allowing them to offer loans at more competitive rates, particularly for long-term financing. This difference in pricing reflects structural and regulatory variations rather than inefficiency [5].

Thirdly, operational performance metrics show that NBFCs achieve faster loan turnaround times owing to simplified documentation, flexible credit appraisal processes, and the extensive use of automated credit assessment tools. Banks, while comparatively slower in processing, excel in offering longer repayment tenures, lower interest rates, and greater financial stability, making them suitable for borrowers seeking affordability and long-term financing. This trade-off between speed and cost is a key differentiating factor between the two institutions.

Fourthly, NBFCs have rapidly adopted digital underwriting techniques and alternative data sources, such as transaction patterns and digital footprints, which have significantly improved credit access for underserved segments. However, this rapid digital expansion has also raised concerns related to data privacy, customer protection, and responsible lending practices, necessitating stronger regulatory oversight and ethical frameworks.

Banks have been more cautious in adopting such technologies due to stricter compliance requirements and reputational risks.

Finally, the analysis shows an increasing convergence between banks and NBFCs [20] through co-lending arrangements, strategic partnerships, and technology sharing. These collaborations combine the low-cost funding and regulatory strength of banks with the agility and customer reach of NBFCs. Despite this convergence, differences in governance standards, liquidity management, and regulatory frameworks continue to remain important distinguishing factors.

4.6 SUGGESTIONS

Based on the comparative analysis of lending practices of banks and Non-Banking Financial Companies

(NBFCs) in India, the following suggestions are proposed to enhance efficiency, accessibility, and sustainability within the lending ecosystem.

First, greater collaboration between banks and NBFCs should be encouraged through structured co-lending models. Such partnerships can combine the low-cost funding and regulatory strength of banks with the operational flexibility and customer outreach capabilities of NBFCs, thereby improving credit access for MSMEs and underserved borrowers.

Second, regulatory policies should continue to adopt a proportionate and risk-based approach, particularly for NBFCs. While financial stability must remain a priority, excessive regulatory constraints may limit innovation and credit flow to high-need segments. Balanced regulation can support responsible growth without undermining systemic stability.

Third, both banks and NBFCs should strengthen their digital infrastructure and data analytics capabilities. Wider adoption of fintech solutions, alternative credit scoring models, and digital onboarding processes can improve credit appraisal efficiency, reduce processing time, and enhance customer experience.

Fourth, transparency in interest rate determination, fee structures, and repayment terms should be enhanced to protect borrowers and promote informed financial decision-making. Clear communication can reduce information asymmetry and strengthen trust in formal lending institutions.

Finally, focused financial literacy initiatives should be undertaken to educate borrowers, particularly in rural and semi-urban areas, about formal credit options, repayment obligations, and digital financial services. Improved financial awareness can enhance credit utilization efficiency and reduce default risk.

V. CONCLUSION

This study has examined and compared the lending practices of banks and Non-Banking Financial Companies (NBFCs) in India with respect to regulatory frameworks, lending procedures, interest rate structures, customer experience, digital adoption, and financial inclusion. The analysis reveals that

banks and NBFCs operate under distinct institutional and regulatory environments, resulting in differentiated lending models that cater to diverse borrower segments.

Banks benefit from strong regulatory oversight, access to low-cost deposit-based funding, and systemic stability, enabling them to provide affordable and long-term credit, particularly to established borrowers and large enterprises. However, rigid procedures and extensive documentation requirements often limit their ability to serve informal and high-risk segments. In contrast, NBFCs demonstrate greater operational flexibility, faster loan processing, and innovative credit appraisal practices, allowing them to effectively reach MSMEs, self-employed individuals, and first-time borrowers, albeit at relatively higher borrowing costs.

The findings further indicate that digital lending and fintech adoption have enhanced the efficiency and outreach of NBFCs, while banks are gradually adapting to technological changes within regulatory constraints. In terms of financial inclusion, the

complementary roles of banks and NBFCs contribute significantly to expanding access to formal credit across the economy [3].

Overall, the study concludes that a balanced and collaborative approach involving banks, NBFCs, regulators, and fintech firms can strengthen India’s lending ecosystem. Promoting co-lending models, proportionate regulation, responsible digital lending, and financial literacy can improve credit accessibility while ensuring financial stability. Future research may focus on institution-specific empirical analysis or regional variations in lending practices.

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AUTHOR CONTRIBUTIONS STATEMENT

Name of author	C	M	So	Va	Fo	I	R	D	O	E	Vi	Su	P	Fu
Prof. Saroj Jha	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Ghanshyam Ratawa	✓	✓	✓		✓	✓		✓	✓		✓			
Ashish Verma	✓		✓	✓	✓	✓		✓	✓		✓			
Sachin Yadav	✓		✓	✓	✓	✓		✓	✓		✓			
Faizan Khan	✓		✓		✓	✓		✓	✓		✓			
Sumit Pandey	✓		✓		✓	✓		✓	✓		✓			

Key to Contributions

- C: Conceptualization
- M: Methodology
- So: Software
- Va: Validation
- Fo: Formal analysis
- I: Investigation
- R: Resources
- D: Data Curation
- O: Writing – Original Draft
- E: Writing – Review & Editing
- Vi: Visualization
- Su: Supervision
- P: Project administration
- Fu: Funding acquisition

CONFLICT OF INTEREST STATEMENT

The authors declare no conflict of interest.

INFORMED CONSENT

Informed consent was obtained from all participants involved in the study.

ETHICAL APPROVAL

The study adhered to standard ethical research guidelines.

DATA AVAILABILITY

The data supporting the findings of this study are available from the corresponding author upon reasonable request.

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