Non-Bank Finance Companies Criteria

Sector Specific Criteria

This sector-specific criteria report outlines the methodology used by India Ratings and Research (Ind-Ra) to analyse non-bank finance companies (NBFCs). This criteria report supplements analytical considerations included in the master criteria for financial institutions (FIs), “Financial Institutions Rating Criteria,” dated 1 December 2015, available on Ind-Ra’s web site at www.indiaratings.co.in (to be read in conjunction with this report).

These criteria identify key credit factors considered by Ind-Ra in assigning ratings to a particular entity or debt instrument within the scope of the criteria. Not all rating factors in this criteria report may apply to each individual rating or rating action. Each specific rating action commentary (RAC) or rating report will discuss those factors most relevant to the individual rating action.

Defining an NBFC: The term NBFCs, for the purposes of this report, include consumer finance, commercial finance, factoring, microfinance and leasing companies. Most NBFCs fall into one of two categories: independent; or subsidiary of a larger corporate entity. In many instances, these subsidiaries would be known as captives. Ratings on captives are generally linked to their respective parent’s issuer ratings.

For additional details on Ind-Ra’s rating methodology for parent and financial subsidiaries, see Ind-Ra’s criteria report, “Rating FI Subsidiaries and Holding Companies”, dated 1 December 2015 and available on Ind-Ra’s web site.

Key Rating Factors: The five key elements of Ind-Ra’s analysis of any FI, which are most frequently the main drivers of the rating decision, are discussed at length in the FI master criteria. The relative importance of each in the ultimate rating decision can vary from institution to institution and according to specific circumstances. Ind-Ra’s specific analysis of NBFCs may expand or emphasize a few factors highlighted in the FI master criteria report.

Ratings for NBFCs: Ratings assigned to NBFCs follow Ind-Ra’s FI master criteria and typically include long- and short- term issuer ratings and ratings assigned to debt instruments issued by the NBFCs.

Scope is Nation-wide: The criteria discussed herein apply to all NBFCs — from those with solely local and specialized operations in a small market to those with nation-wide operations and broad product ranges.

Ratings Limitations: These criteria incorporate the general rating limitations highlighted in Ind-Ra’s FI master criteria report and “Definitions of Ratings and Other Scales” pages under “Ratings Definition” on Ind-Ra’s web site at www.indiaratings.co.in.

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Industry Profile and Operating Environment

In many instances, NBFCs closely resemble banks, but they differ in several important ways. Unlike their banking brethren, NBFCs are often subject to less formal regulation. Where NBFCs are supervised or regulated by an effective regulatory body, Ind-Ra gains more confidence from the financial discipline, extra scrutiny, and limits on leverage/capital that such regulation can engender.

Even if not formally regulated, NBFCs typically must comply with various mandatory lending or licensing statutes, such as those pertaining to usury lending practices. In its ratings process, Ind-Ra places significant emphasis on an NBFC's compliance with relevant legislation and regulation.

Another key difference between a bank and an NBFC is that, on a comparable basis, banks have historically defaulted very infrequently, while a number of NBFCs have defaulted over the years. This reflects the wholesale funding orientation of NBFCs, as well as the usual lack of any sovereign support when NBFCs fail. Also, its customer base may often consist of individuals or businesses that may not be able to obtain a full range of traditional bank financing.

Risk Management

Credit risk (asset quality) and residual value risk are the key risks for most NBFCs and, thus, the areas where management trains its expertise and focus.

Credit Risk

Specific to its analysis of NBFCs, Ind-Ra assesses a firm's policies and procedures from origination through the servicing and collection process and ultimate resolution (e.g. full repayment or sale of charged-off debt to a third party). For microfinance companies, some of the critical aspects that Ind-Ra assesses include the group lending process under joint liability mechanism and quality of portfolio growth. For leasing companies, this involves understanding residual value setting, depreciation methodology, and asset disposal capabilities. Consistent with the FI Rating criteria report, indications of poor asset quality or credit risk management will typically result in lower ratings unless sufficiently remunerated through sustainably high margins, whereas strong asset quality and credit quality are positively factored into a rating decision, absent other material weaknesses.

The basis of a strong credit culture is the articulation of well-defined and consistently applied credit policies and procedures. As part of its evaluation, Ind-Ra may review internal management credit reports and variances from policy. NBFCs may have greater discretion than regulated banks in how problem loans are reported. For example, an NBFC may have more liberal account forbearance practices. However, while such practices are more prevalent for weaker quality borrowers, they are not uncommon even for prime quality borrowers. Ind-Ra reviews such policies, as well as how they are implemented, to ensure that an NBFC is not delaying the recognition of problem credits. Combined with a variety of depreciation, loss reserve, and charge off methodologies, these differing standards can result in misleading peer comparisons. Where possible, Ind-Ra will highlight inconsistencies in issuers' policies in its RACs or rating reports.

Ind-Ra believes that a robust servicing and collection platform is an integral part of asset quality, since it can have a significant influence on delinquency and charge off experience. For example, Ind-Ra considers an NBFC's collection strategies for delinquent accounts and the ability to improve upon expected roll rates. Ind-Ra does not take a "one size fits all" approach to servicing and collections, since many FLCs utilize various methods successfully.

Applicable Criteria

Financial Institutions Rating Criteria, December 2015

Rating of Bank Legacy Hybrids and Subordinated-Debt, December 2015

Rating FI Subsidiaries and Holding Companies, December 2015

Ind-Ra uses trend analysis to identify changes in portfolio composition and risk over time. In general, Ind-Ra positively views balanced receivable portfolios with growth rates consistent with internal capital generation and minimal borrower concentrations. Loan and lease portfolios with high growth or significant concentrations require closer scrutiny and may have a negative influence on ratings.

Ind-Ra often requests that NBFCs provide detailed data on their loan portfolio, such as the average balance per account and average yield, as well as variations from the mean. For consumer lenders, this may involve demographic data on the underlying portfolio or an internal or external credit score. For commercial lenders and lessors, this includes types of businesses or equipment financed, as well as any internal credit ranking. Since asset quality can be distorted by growth, where possible, Ind-Ra performs analysis on a static-pool basis to measure asset quality of different vintages. Static-pool or vintage analysis can provide an early warning of problems, such as rapid asset-quality deterioration, forcing accelerated charge offs, which may highlight loosening of underwriting policies.

Ind-Ra recognizes that seasonality can also play a role in distorting asset quality, and, to complement static-pool analysis, Ind-Ra may analyse other growth-adjusted asset-quality metrics, looking at delinquency and net charge off ratios on both a coincident (current) and lagged basis. In addition, portfolio shrinkage can also skew coincident and lagged credit metrics, so, in these instances, Ind-Ra will also track the relative absolute change in portfolio delinquencies and losses from one period to another.

Operational Risk

NBFCs are exposed to various operational risks. Operational risks are defined as all risks other than credit, market, and liquidity risk. This risk can weigh more heavily on NBFCs with high transaction volumes like asset financiers and microfinance companies.

Typically, issues that may be evaluated as part of Ind-Ra’s assessment of operational risk include ascertaining the entity’s definition of such risk, the quality of its organisational structure and operational risk culture, the development of its approach to the identification and assessment of key risks, data collection efforts, and overall approach to operational risk quantification and management controls. For microfinance institutions, Ind-Ra gives due weightage to operational systems, policies and processes, cash handling processes, automation and IT infrastructure and system audit findings, if available.

Where possible, Ind-Ra reviews external auditor statements to determine whether operational risks were detected. Scenarios where concerns have arisen from the external auditor’s report or a loss resulted from a shortcoming in the control environment may be the impetus for further exploration and determination of the extent of its operational risk liability. However, Ind-Ra does not audit the operational risk functions and may not be able to independently fully assess this risk.

Residual Value Risk

Leasing companies are also exposed to residual value risks. For companies offering operating leases, this arises systematically at the end of a lease contract when the asset is returned by the borrower to the leasing company. For leasing companies offering finance leases (where the leased asset becomes the property of the customer at the end of the lease contract), residual value risk only arises when a customer is in default on a lease and the leased assets are recovered (for re-lease or sale) by the leasing company.

Ind-Ra assesses an NBFC’s exposure to and management of residual value risk in a variety of ways, including by understanding the company’s pricing policies, its ability to monitor the condition of assets under lease, its flexibility to alter lease payments (e.g. additional charges for unfair wear and tear) or amend contracts, the relative market liquidity for used collateral, and the leasing company’s access to a variety of disposal channels. An NBFC in control of residual value risk will be able to demonstrate an ability to control residual value gains/losses effectively through a variety of asset cycles.

Financial Profile

The key elements in Ind-Ra’s evaluation of most NBFCs’ financial profile are profitability, funding and liquidity, and capitalization and leverage.

Profitability

As with other FIs, an NBFC’s earnings are often a meaningful ratings driver. The absolute level, quality of earnings, and volatility of results are all factors in Ind-Ra’s analysis and are highlighted in the FI master criteria report. In addition to traditional performance competencies for FIs that may be evaluated by Ind-Ra, for NBFCs, Ind-Ra may conduct additional historical assessments of each issuer’s earnings quality over time. This primarily reflects a review of recurring cash-based earnings, principally net interest and lease and fee income, as opposed to nonrecurring gains/losses, noncash gains, or mark-to-market gains on derivatives or investments.

While depreciation expense is a significant noncash item for leasing companies, Ind-Ra views it as an important cost, since such companies typically need to continually replace equipment involved in operating leases and stay within certain age parameters. To the extent an NBFC reports a material amount of noncash income, Ind-Ra may request a reconciliation of reported earnings to operating cash flows. Ind-Ra views significant noncash items as lowering the quality of earnings.

Ind-Ra generally expects that an NBFC predominantly earns spread income, supplemented by fee and other income. To the extent an NBFC earns a good portion of its income from fee-type sources, Ind-Ra evaluates the reliability and variability of these fees over a cycle. Additionally, Ind-Ra may also review accruals for fee-type services, such as rewards for credit card usage or fee suppression policies for unearned income.

Ind-Ra places emphasis on margin analysis, including risk-adjusted margins, which measures the level of profitability for the risk taken, since it deducts provision expense and interest expense from total net operating revenue. As with other metrics, Ind-Ra emphasizes stability and predictability of earnings over a period rather than a position at a particular point in time. Ind-Ra also looks at operating expenses relative to loans or leases, including the mix of variable and fixed costs. Ind-Ra recognizes that NBFCs may have very different cost structures. For example, an NBFC with a large branch network is likely to have a higher level of operating expenses versus one that relies on centralized functions, but this may be offset by other factors, such as lower credit losses.

To the extent an NBFC securitizes receivables and removes them from its balance sheet, Ind-Ra focuses on managed measures of profitability, which consider reported profits and expenses relative to the company’s serviced portfolio of loans or leases. This provides a truer picture of the underlying profitability of an NBFC’s book of business, since an NBFC typically earns a fee for servicing the assets in the securitization vehicle.

Funding and Liquidity

NBFCs typically finance themselves in the wholesale capital markets, which are more confidence sensitive. In Ind-Ra’s experience, when NBFCs default, it is typically due to poor liquidity rather than insufficient capital. Broadly, Ind-Ra views diverse sources of funding, in terms of markets, investors, and geography, as well as funding stability, to be critical elements in its analysis. In this regard, Ind-Ra reviews an NBFC’s detailed funding plans and policies, as well as its contingency funding plan. Policies should provide insight into the targeted mix of debt (short term versus long term, fixed rate versus floating rate, and secured versus unsecured), match-funding variance, hedging strategies, and permitted derivative counterparties.

An NBFC's funding plans should also provide insight into how funding decisions are made within the organization (e.g. through an asset/liability committee). Generally, Ind-Ra views the pre-funding of assets favourably when assets mature faster than liabilities, particularly if the NBFC has put interest rate hedges in place to help limit interest rate risk. Some NBFCs do this as a matter of policy, while others may act on a more opportunistic basis to take advantage of low long-term interest rate expectations. Conversely, Ind-Ra is concerned where liabilities mature faster than assets, since this can expose an NBFC to refinancing risk.

Contingency funding plans should be reasonably accessible during times of financial duress, free of material adverse change (MAC) clauses, and should not rely on an NBFC to maintain covenant compliance. However, the presence of an MAC clause does not render the backup facility invalid, as it may be viewed as a negotiating tool more than an "escape clause." Ind-Ra may request an NBFC to hypothetically demonstrate its ability to fund operations over a certain period without access to unsecured debt markets. For example, this period could be 12 months or longer, depending on the funding needs of an institution. Additionally, Ind-Ra may request a wind-down or liquidation scenario (i.e. to determine how rapidly an NBFC unwinds its balance sheet and pays off debt), regardless of an NBFC's ratings.

Ind-Ra pays special attention to covenants in credit agreements to understand covenant and security features, as these can have a bearing on an issuer's ability to conduct its business. Although technical defaults, such as a financial covenant violation, may often be waived, this usually comes at considerable expense. Therefore, Ind-Ra may take a negative rating action following a covenant breach.

Ind-Ra looks at the portion of credit facilities that is committed versus uncommitted and the composition of the credit providers. Ind-Ra looks at the length of the relationship, as well as other business flows (such as cash management or securities underwriting), that an NBFC maintains with its credit providers, since this may have a material impact on whether an NBFC's lenders accommodate it in financial duress. Ind-Ra may only take account of available liquidity from an NBFC's backup lines of credit from highly rated banks and/or banks rated the same or higher than the NBFC itself. To the extent a bank has demonstrated an unwillingness to meet its contractual obligation to fund when requested, Ind-Ra will discount that potential availability from the issuer's assumed backup capacity.

Some NBFCs maintain a liquidity portfolio of high-grade government securities, which can be readily sold or financed via collateralized loans (repurchase agreement) to provide immediate liquidity. To the extent a NBFC establishes a liquidity portfolio, Ind-Ra evaluates the quality and liquidity of these securities, free and clear of any encumbrances. Moreover, Ind-Ra assumes that appropriate policies are in place to govern the amount and composition of the liquidity portfolio.

Ind-Ra understands that NBFCs may be motivated to fund themselves with short-term debt, since these are often less costly; however, it is Ind-Ra's view that an over-reliance on short-term financing can be very problematic, especially during times of market duress, as was proven during the credit crisis of 2008–2009. In thinking about short-term financing, Ind-Ra focuses on asset maturities. For example, a NBFC with very short-dated assets — short-term business loans, capital market lending or certain consumer loans — may be better able to support a reasonable component of short-term financing than an NBFC with long-dated assets, such as mortgages, student loans, or heavy commercial vehicle/equipment loans (or aircrafts).

Nonetheless, even when asset maturities are very short term, a minimum amount of longer-term financing should be in place to finance the book of business. Ind-Ra maintains its guidance of 100% committed backup for commercial paper issuance, which is discussed in more detail in Ind-Ra's FI master criteria.

Ind-Ra does not have prescribed limits on the amount of secured financing, such as asset-backed securitization, or secured bank loans, which are prevalent in the liability structure of an FLC, but, rather, incorporates them into its view of the funding strategy, which forms a part of the overall rating. That said, Ind-Ra believes an over-reliance on secured financing may constrain the ratings, as a high proportion of assets is encumbered, financial flexibility is reduced, and potential recoveries for unsecured creditors, in the event of liquidation, may be lower than average. This, in turn, could result in a lower rating assigned to an unsecured senior debt issue versus the issuer ratings.

In addition, when there is a significant portion of securitization activity, Ind-Ra often compares the quality of securitized receivables to those remaining unencumbered to ensure that no “cherry picking” or adverse selection has occurred. Ind-Ra believes that securitized receivables should reflect a cross-section of an NBFC’s originated loans or leases. As a result, strategies that rely on either selling the weakest or strongest credits may be viewed negatively by Ind-Ra. Moreover, Ind-Ra believes an NBFC should be able to demonstrate liquidity in all the asset types it originates. For example, if an NBFC cannot demonstrate secondary market liquidity for a particular asset class, Ind-Ra may assign additional capital to support that particular asset.

Capitalization and Leverage

For NBFCs, Ind-Ra’s assessment of capital encompasses many views, not just point-in-time measures, but also management’s leverage targets encapsulated in capital management plans. Ind-Ra also assesses an NBFC’s capitalization in the context of asset risk, as assets with very low risk may be leveraged higher than those with higher risk. While a review of both standard and Ind-Ra capital metrics is important, Ind-Ra also considers the quality of an NBFC’s capital base, dividend policies, internal capital-generation rates, and asset growth rates.

While Ind-Ra calculates traditional leverage measures, such as debt to tangible equity and debt to Ind-Ra’s core or eligible capital, for finance companies, it prefers (but does not always calculate) risk-adjusted measures of capital, since these better align capital with risk. For those NBFCs that have developed proprietary risk-adjusted capital frameworks (or are required to comply with risk-adjusted capital measures by regulation), Ind-Ra discusses the process with management to understand how the results of such a framework are used in decision making. Ind-Ra takes more comfort in such analysis when it forms a basis for management decision making, not just to illustrate a point.

For leasing companies, Ind-Ra’s analysis of leverage and capitalization may take a corporate approach, in which the focus is on cash flow coverage and debt service, rather than balance sheet analysis. Ind-Ra uses earnings before interest, taxes, depreciation, and amortization (EBITDA) as a proxy for cash flow and calculates coverage metrics, such as debt to EBITDA and EBITDA to interest expense. Ind-Ra may make adjustments to its EBITDA calculation to exclude depreciation expense if it is believed to be a recurring operating expense and no significant change in leased asset levels is expected. However, in that case, Ind-Ra would look to add back proceeds from the sale of leased assets to its calculation of cash flow, as it would likely be deemed a significant source of debt repayment.

In assessing creditor protections, when information is available, Ind-Ra will focus on unencumbered assets relative to unsecured debt. This encompasses not only an amount, but also the relative quality of assets supporting unsecured debt obligations. In considering unencumbered assets, Ind-Ra makes adjustments based on seniority of liens that may exist in financing agreements and for pledged assets. Although a calculation of unencumbered assets is a point-in-time measure and may not be precise, it provides a useful gauge in terms of what protections creditors may have in a default scenario. Moreover, Ind-Ra looks at the trend in this metric over time.

Ind-Ra believes an evaluation of capital management should also consider an NBFC's asset growth objectives. Ind-Ra often compares internal capital-generation rates to asset growth. If the internal capital-generation rate is well below asset growth, an NBFC will become more leveraged and may experience negative rating actions unless new equity is raised or deleveraging takes place. As with the bulk of Ind-Ra's analysis, these measures are viewed over time and incorporate management's intentions; thus, Ind-Ra expects some variability from period to period. However, over time, Ind-Ra does not believe that an NBFC could prudently outgrow its internal capital-generation rate.

Most NBFCs pay out some portion of earnings either to a parent company or to public/private shareholders. For payout ratios, Ind-Ra focuses on combined measures, which include both dividends and net share repurchases, since both represent a use of the company's cash. A combined payout ratio provides better insight into an NBFC's capital management and internal capital generation. As such, Ind-Ra calculates measures of internal capital generation and payout ratios that incorporate the effect of net share repurchases.

Where relevant, Ind-Ra also looks at double leverage, which reflects debt issued at the parent company level that has been downstreamed as equity into any subsidiary. While a small amount of double leverage can be expected, Ind-Ra is concerned when double leverage is high (i.e. above 120% or more of a parent company's common equity). A high degree of double leverage can result in increased rating differentials between a parent company and its subsidiary's ratings, particularly if regulated subsidiaries are involved, since capital may be "trapped" in these entities. When feasible, Ind-Ra will review a regulated subsidiary's dividend capacity relative to the holding company's fixed costs and dividends.

Corporate Governance and Ownership

Ownership can be an important influence of an NBFC's ratings, since this can be a crucial determination of its ability to access additional capital or liquidity. An NBFC's ownership structure will also have a bearing on how governance is implemented. Most NBFCs fall into one of two categories: independent (public or private); or subsidiary of a larger corporate entity. For independent NBFCs, ownership is often fairly diffused across a broad spectrum of shareholders, and, therefore, control of the company rests primarily with management and the board of directors.

Conversely, an NBFC subsidiary typically only has one shareholder, the parent company. As a result, control can be more concentrated. In such cases, the NBFC's ratings are likely to be closely linked to those of its parent. *(For additional details, see Ind-Ra's criteria report on "Rating Fi Subsidiaries and Holding Companies," available on Ind-Ra's web site at* www.indiaratings.co.in*).*

Weighting in Final Rating

In any discussion of how various credit factors affect ratings, one logical question would be to determine how various areas of analysis are ultimately weighed in arriving at a final rating. In practice, ratings are derived by Ind-Ra rating committees via judgment based on a review of all relevant credit factors highlighted in all applicable criteria reports. Neither Ind-Ra's analysts nor rating committees employ any formal quantitative weighting mechanism, nor is the final weighting of the various elements explicitly documented in committee materials.

Rather, the rating is determined after the committee considers all the risk elements deemed material to the rating analysis. The rationale setting the rating, including identification of key strengths and weaknesses, expectations, and sensitivities of the rating, is documented in a manner consistent with the rationale described in published research reports.

Appendix A

Ind-Ra uses a variety of ratios to assess the asset quality, profitability, capitalization/leverage, and funding of NBFCs. The table below provides a list of ratios that may be used. However, the list is not exhaustive, and the ratios are not relevant to all NBFCs.

Figure 1

Key Non-Bank Finance Company Metrics

Key metrics	Definitions
Asset quality	
Delinquent loans/Period-End loans or leases	Loans or leases classified as past due at least 30 days relative to period-end gross loans or leases
Impaired or nonperforming loans/Period-end loans or leases	Loans or leases where income has either stopped accruing or the receivable is deemed otherwise impaired to period-end loans or leases
Gross chargeoffs/Average loans	Gross loan chargeoff versus average loans during the period
Net chargeoffs/Average loans	Gross principal losses less recoveries versus average loans during the period
Reserves/Nonperforming assets	Loan loss reserves to nonperforming assets
Impairment charges/Average loans	Impairment charges on loans or lease/average loans or leases
Gain/(loss) on residual asset sales/Book value of assets[c]	Gain or loss on sale of residual vehicle/equipment versus depreciated value of the assets sold
Profitability	
Return on average assets[a]	Reported net income to average assets
Operating return on average assets[a]	Operating profit to average assets
Return on average equity	Reported net income to average common equity
Operating return on average equity	Operating return to average common equity
Risk-Adjusted revenue margin	Net interest income less provision expense less operating expenses to average interest-earning assets
Net interest margin	Net interest income to average interest-earning assets
Efficiency ratio	Operating expenses to net operating income
EBITDA margin[c]	Earnings before interest, taxes, depreciation, and amortization to revenues plus depreciation
Gross revenue-producing equipment/Equipment depreciation[c]	Gross revenue-producing equipment to annualized depreciation expense
Operating expenses/Loans[b]	Operating expenses to average loans
Fixed-Charge coverage	Pre-tax income less interest expense and other fixed charges divided by sum of interest expense and other fixed charges
EBITDA/Interest expense[c]	Earnings before interest, tax, depreciation, and amortization to interest expense
Capitalization and leverage	
Tangible equity/Assets[a]	Total shareholders' equity less goodwill and intangibles to managed assets
Core capital/Tangible assets[a]	Core capital to period-end assets less goodwill and intangibles
Core capital plus reserves/Tangible assets[a]	Core capital plus loan loss reserves to period-end tangible assets
Debt/core capital[b]	Reported interest-bearing liabilities plus off-balance sheet funding to core capital
Debt/Tangible equity	Reported interest-bearing liabilities to tangible equity
Combined payout ratio	Dividends plus net share repurchases as a percentage of reported net income
Internal capital generation	Net income less dividends and net share repurchases to prior-period equity
Debt/EBITDA[c]	Interest-bearing liabilities to earnings before interest, tax, depreciation, and amortization
Funding	
Short-Term debt/Total interest-bearing liabilities	Debt with an original maturity of less than one year to total interest-bearing liabilities
Short-Term debt plus CPLTD/Total interest-bearing liabilities	Short-term debt plus current portion of long-term debt to total interest-bearing liabilities
Secured debt/Total interest-bearing liabilities	Debt secured by corporate assets to total interest-bearing liabilities
Committed funding facilities/Total funding	Committed and undrawn funding facilities to total interest-bearing liabilities
Available credit facilities/Outstanding commercial paper	Committed and undrawn funding facilities to outstanding commercial paper
Unencumbered assets/Unsecured debt	Amount of assets free and clear of any encumbrance relative to unsecured debt
Managed assets[a]	Reported balance sheet assets plus off-balance sheet securitized receivables. This figure will be used for FLCs that actively securitize assets that are off-balance sheet
Nonperforming assets	Loans where income has stopped accruing, loan has been restructured, or collectability has been impaired
Operating income	Pre-tax revenues and expenses adjusted for nonrecurring gains and losses
Core capital	Reported equity less hybrid capital less non-loss-absorbing, non-controlling interests less net deferred tax assets related to net operating losses brought forward (if available and at a minimum value of zero), otherwise net deferred tax assets in its entirety (at a minimum value of zero) less goodwill and other intangibles (including mortgage servicing rights) less first-loss tranches of securitizations on- and off-balance sheet less the credit component of the fair value changes on an FI's own debt less net asset value of insurance companies held less the embedded value of insurance businesses
Short-Term debt	Debt with an original maturity of less than one year

[a] For NBFCs that actively securitize assets that are off-balance sheet, managed assets (defined as reported balance sheet assets less goodwill and intangibles plus off-balance sheet securitized receivables) may be used to replace reported balance sheet figures
[b] For NBFCs that actively securitize assets that are off-balance sheet, managed loans (reported balance sheet loans plus off-balance sheet loans) may be used to replace reported balance sheet figures. Additionally, managed debt (reported balance sheet debt plus off-balance sheet debt) may be used to replace reported balance sheet figures
[c] Leasing companies only
Source: Ind-Ra

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