Non-banking financial companies
Navigating the pandemic

FIN INSIGHTS

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Key messages

- **Covid-19 has exposed non-banking financial companies (NBFCs) to twin challenges of asset quality and funding access**
  - Some green shoots visible now; should restore confidence if these sustain over the next few quarters

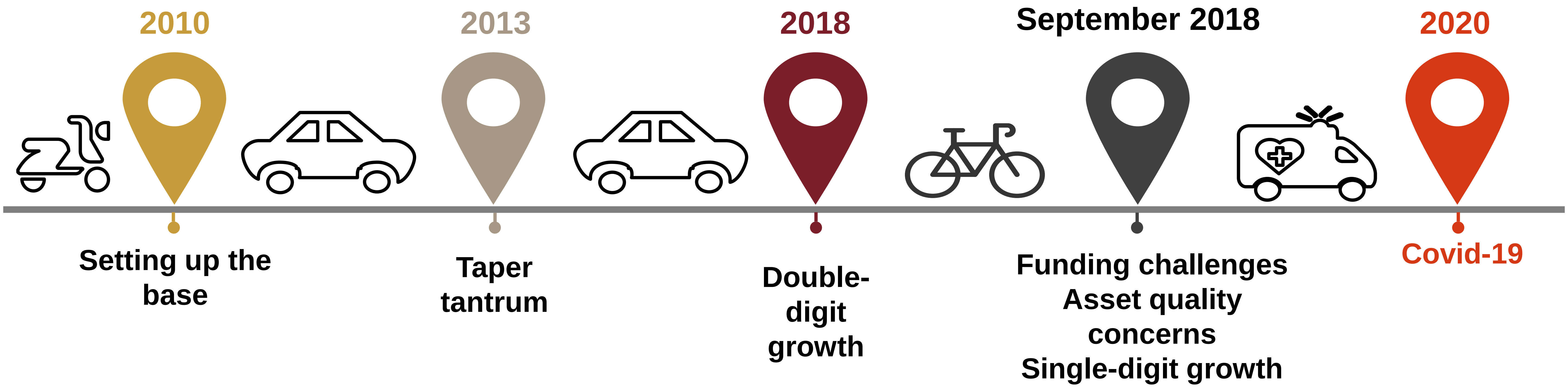
- **NBFC asset growth seen turning positive next fiscal, but will be muted at 5-6%**
  - Uncertainty on asset quality remains; hence, funding challenges will continue in the near term
  - Gold loans glitter, while growth of all other segments expected to be lower than that seen in the past

- **NBFCs to lose 1% share in fiscal 2022 after strong growth over much of the past decade**
  - Competition from banks intensifying with them gaining share in assets under management (AUM) in housing and vehicle loans

- **Confidence capital or strong parentage will be key support factors for NBFCs**

NBFCs have had mixed fortunes this decade

Heady growth followed by turbulence in the past 2 years



Pandemic has thrown a troika of challenges at NBFCs (1/3)

#1 Asset quality

#2 Funding

#3 Intensifying competition

Asset quality concerns started last year amidst economic slowdown

These were exacerbated by the pandemic, lockdown and slowdown in economy activity

Pandemic has thrown a troika of challenges at NBFCs (2/3)

#1	#2	#3
Asset quality	**Funding**	Intensifying competition

Access to capital market funding remains highly confidence-sensitive. Parent-backed entities relatively less hurt

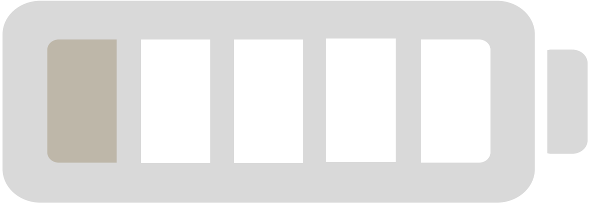
Debt mutual funds’ exposure to NBFCs is at a multi-year low

Green shoots seen due to the Government of India’s (GoI)/ Reserve Bank of India’s (RBI) measures over the past few months, but sustainability is key

Pandemic has thrown a troika of challenges at NBFCs (3/3)z

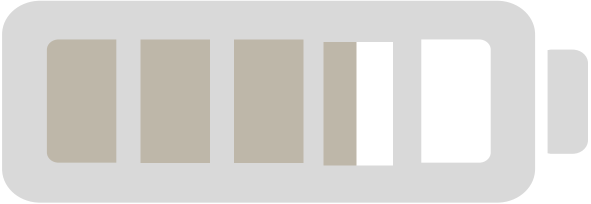
#1

Asset quality



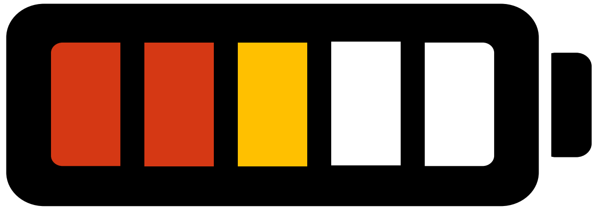
#2

Funding



#3

Intensifying competition

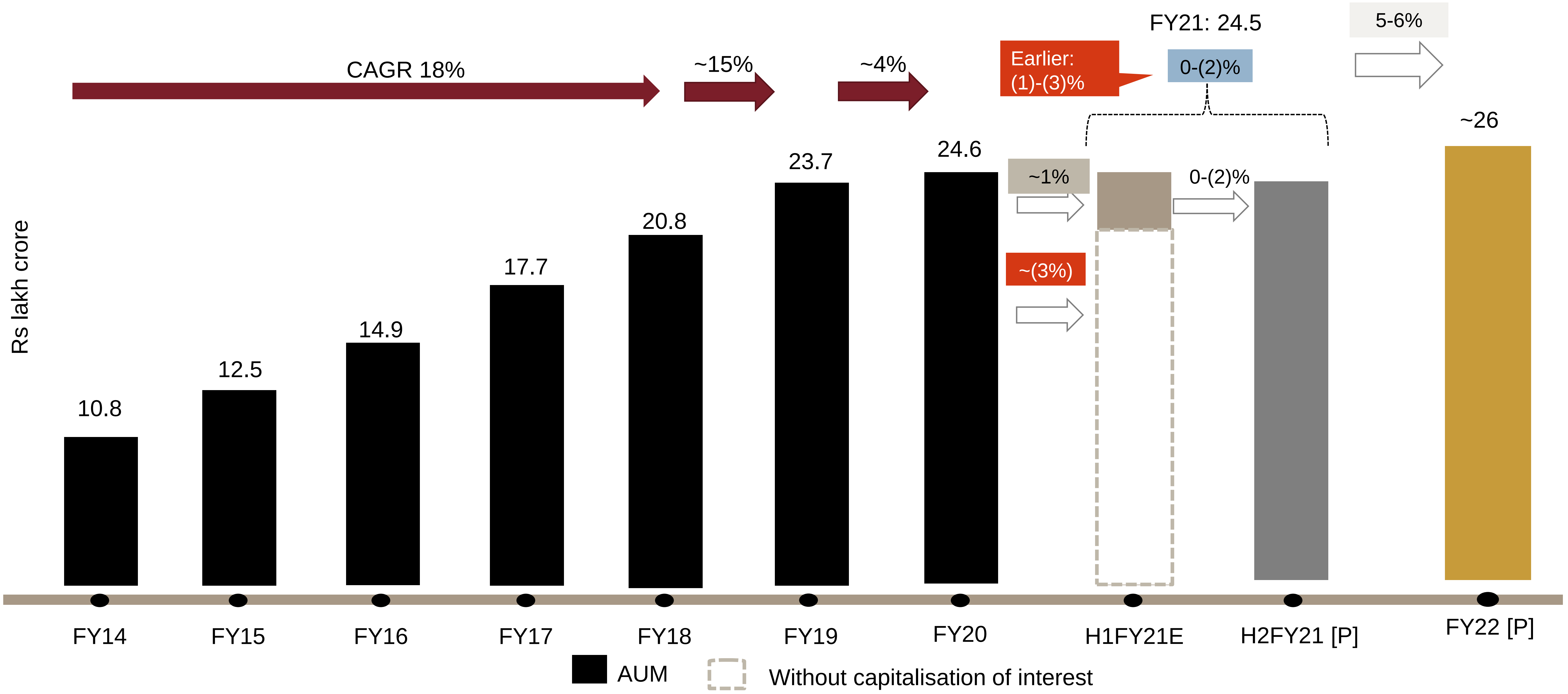


With low-cost funding access, banks will be aggressive in the retail segments, especially housing and new vehicle finance

Growth of NBFCs will be impacted going forward

Capitalisation of interest limits de-growth

Growth to return next fiscal, but at a slower pace than in the previous years



Ratings

Note: Growth numbers for H1FY21 and H2FY21 are annualised
Source: Company reports, CRISIL estimates

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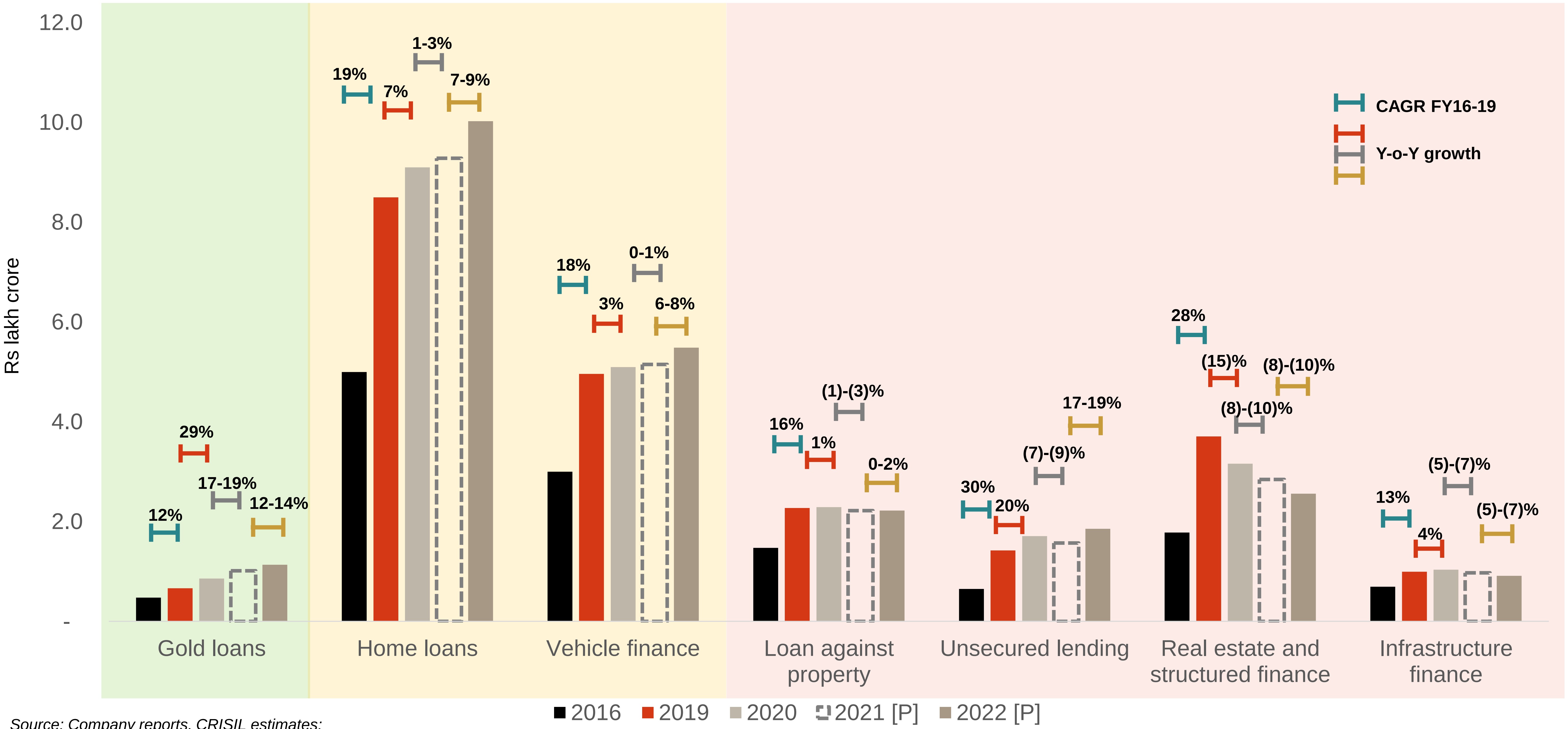
Only gold loans seem to be glittering



Source: Company reports, CRISIL estimates;

NBFCs have taken steps to navigate the situation

Collection processes, risk management frameworks strengthened

Stricter and **strengthened** underwriting norms;
use of multiple alternate data sources for **underwriting**

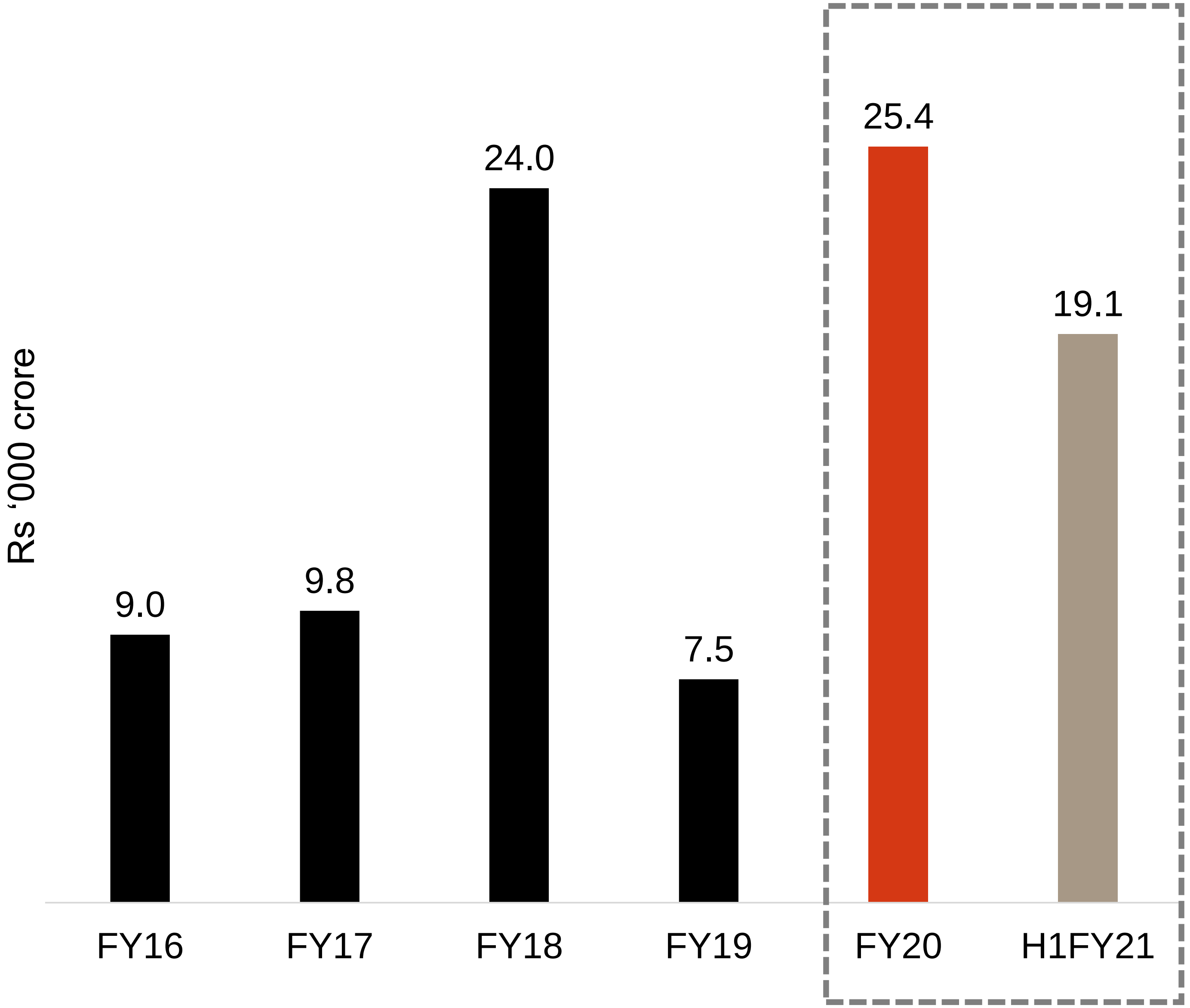
Embracing Digitisation:
New modes of payments embraced: UPI handles initiated; WhatsApp bots,
general reminders to borrowers before due date via Interactive Voice Response System or IVRS

Collections team strengthened:
post Covid-19, NBFCs have migrated their employees to collections team

Focus on **safer asset classes**; incremental disbursements largely for gold and home loans

Proactive equity-raising helps, as do moves by the Centre and the RBI

Equity capital raise by NBFCs



Support from the government and the RBI

TLTRO and PCG

Refinance - AIFIs

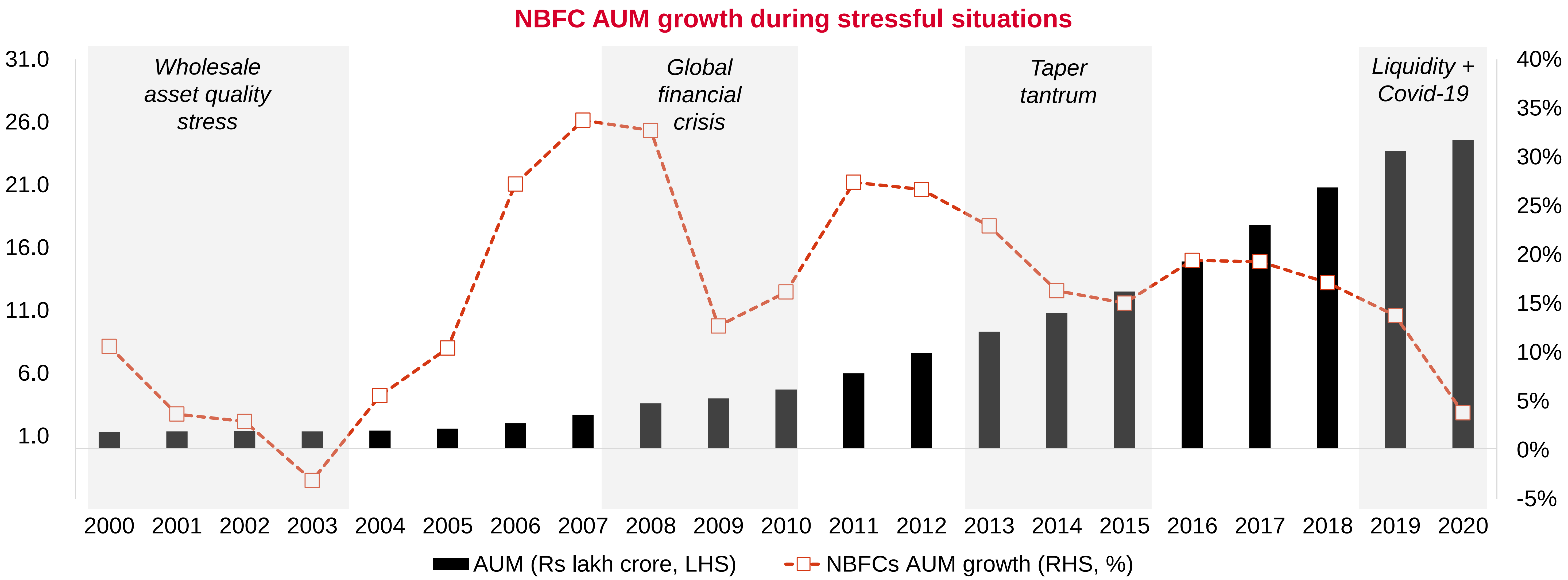
Special liquidity facility for NBFCs

Moratorium

Note: Based on a CRISIL representative set of the top 70 NBFCs; TLTRO: targeted long-term repo operations, PCG: partial credit guarantee; AIFI: all India financial institutions
Source: Company reports, CRISIL estimates

NBFCs have become critical to credit delivery

AUM reaches Rs 25 lakh crore from Rs 2 lakh crore two decades back

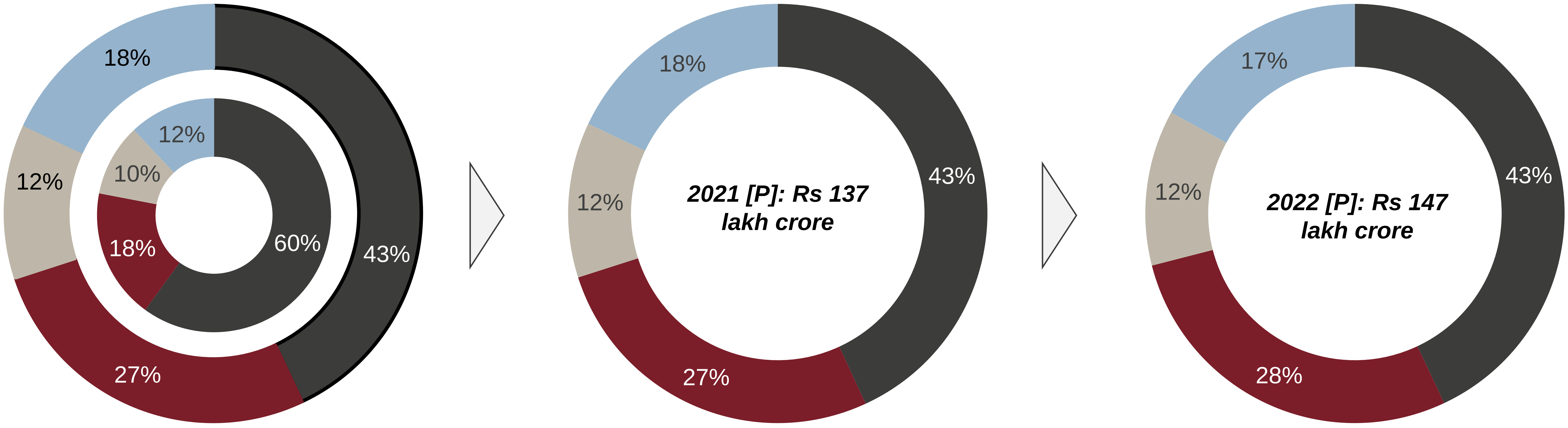


Number of entities with AUM greater than	> ~Rs 1 lakh crore	> ~Rs 0.5 lakh crore
September 2020	5	14
March 2014	1	2

Source: Company reports, CRISIL estimates

NBFCs share to come down marginally in FY22 after over a decade

Composition of total credit in Indian credit ecosystem



2008 **(Inner circle) Rs 30 lakh crore**

2020 **(Outer circle) Rs 136 lakh crore**

Public sector banks

Private banks including foreign banks and SFBs

Non-banks= NBFCs (excluding government owned NBFCs) + HFCs

FIs = All-India financial institutions + government-owned NBFCs

Note: *Total AUM in financial sector, Bank credit is of scheduled commercial banks and excludes exposure to financial sector*

Source: RBI, Company reports, CRISIL estimates

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Way forward for NBFCs

Asset side

- Retailisation trend to firm up
- Co-lending and partnerships to be the next growth drivers
- Focus on asset quality to strengthen
- Digitisation across customer life cycle to grow

Funding

- NBFCs with strong parentage to continue to have better funding access
- High on-balance sheet liquidity to instill confidence among stakeholders
- Effective utilisation of retail bonds, securitisation and offshore borrowings
- Strengthening capital base and operate at lower leverage levels

Thank you

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