

Press Release

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Non-bank assets growth to halve to ~9-10% in second half

Asset quality of retail loans resilient; non-retail book to be a monitorable with NPAs edging up

Growth in assets under management (AUM) of non-banks (non-banking financial companies and housing finance companies) is expected to halve to ~9-10% in the second half of fiscal 2019 because of funding-access constraints, after clocking a robust 20% increase in the first half. While the quality of retail assets should remain steady, segments such as loan against property (LAP), and loans to small and medium enterprises (SME) and real estate developers would be the key monitorables. As for liabilities management, non-banks are expected to strengthen their policies and practices to improve resilience to liquidity shocks.

While the recent liquidity crunch they faced is easing slowly, it is not business as usual yet for non-banks. In October and November, non-banks curtailed disbursements by 20-40%, especially in the non-retail segments, compared with steady-state disbursements in the first half.

A subdued second half will lower AUM growth this fiscal to ~15%, compared with a compound annual growth rate of 18% seen in the past five fiscals. Since March 2014, the share of non-banks in financial system credit has increased ~500 basis points (bps), reaching 18% in March 2018. The share is unlikely to change this fiscal given the expected moderation in growth.

On the liabilities front, with liquidity improving gradually, the rollover rate of commercial papers for 50 large CRISIL-rated non-banks has increased to ~75% in November compared with just 40% in October.

Additionally, their granular retail loan book – with steady asset quality – has afforded access to the securitisation market. Retail bonds, too, are coming back in favour. These funding options have given non-banks the opportunity to re-calibrate and strengthen their liability structure in the road ahead.

According to Krishnan Sitaraman, Senior Director, CRISIL Ratings, “Over the medium term, as non-banks’ access to funding improves, retail asset classes – especially, home loans and vehicle finance, which together account for over 50% of overall non-bank credit – should exhibit relatively steady growth and asset quality. That said, competition will remain intense, especially from private sector banks and potentially from some large public sector banks.”

However, wholesale lending – primarily, real estate developer financing and structured credit – which has been one of the growth engines in recent times, will decelerate. The wholesale book is typically characterised by concentration risks, with the top 5 exposures accounting for 15-20% of the book. Delinquencies could increase given that credit flow to the sector is slowing down.

CRISIL also remains watchful of the asset quality in SME financing, especially the LAP segment, because of the sensitivity of borrowers to prolonged funding crunch. Consequently, NPAs in LAP could rise and cross 3% levels in the medium term.

The current situation is not unprecedented, though. Non-banks have navigated a few cycles of stress over the past two decades, which have led to structural changes and periods of adjustment. These have made the sector stronger and more resilient, as underscored by their growth in the past five fiscals.

Non-banks are also expected to take steps to re-orient their funding mix and reduce reliance on short-term borrowings.

According to Ajit Velonie, Director, CRISIL Ratings, “Going forward, non-banks are expected to improve their liabilities management by increasing on-balance sheet liquidity buffers. That, along with the implementation of stronger liquidity policies – akin to measures like liquidity coverage ratio and net stable funding ratio mandated for banks – and closer monitoring of asset-liability maturity positions, can make non-banks more resilient to short-term liquidity shocks, and structurally strengthen the sector.”

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