



Non-Banking Financial Companies (NBFC) tracker

November 2022

mazars

Introduction

Historically, NBFCs have been an essential pillar of the Indian financial ecosystem, playing a key role as financial intermediaries in channeling savings and investments, especially for small-scale and retail sectors, underserved areas, and financially excluded sectors of the Indian economy.

The regulatory environment for NBFCs in India has undergone significant changes over the years, shifting from simple laws to strict and complex regulations, and even toward rationalization, as evidenced by the recently amended NBFC regulatory framework. Despite the stringent rules, non-bank financial companies (NBFCs) have risen to prominence as viable alternatives to banks when it comes to meeting customers' credit needs due to their lower operating costs.

India has the world's second-largest unbanked population, with an estimated 190 million adults lacking a bank account, a sizable proportion of whom are women. The problem is worsened in rural India, which is home to more than 65% of India's population and where most people are unable to obtain official credit. As of 2022, India is the world's sixth-largest economy, with a GDP of \$3.1 trillion. The 2021-22 Economic Survey predicts that India's GDP would expand by 8.5% in FY23 . Due to the government's focus on financial inclusion and rising demand for loans, NBFCs' role in financial inclusion has grown in recent years. According to the latest data for June 2022, credit inquiries with NBFCs were roughly 15 Mn . They offer personal, consumer, mortgage, auto, gold, and other loans. New-to-credit clients are NBFCs' biggest opportunity. This makes NBFC's a key driver of economic progress. In the past, NBFCs grew faster than banks between 2006 and 2013. The average annual growth was 22%. This shows how NBFC's contributes more each year to the economic progress of India.

With opportunities arising in this sector and bold challenges to overcome we hereby provide a sectoral review for FY23 of the NBFC sector in India.

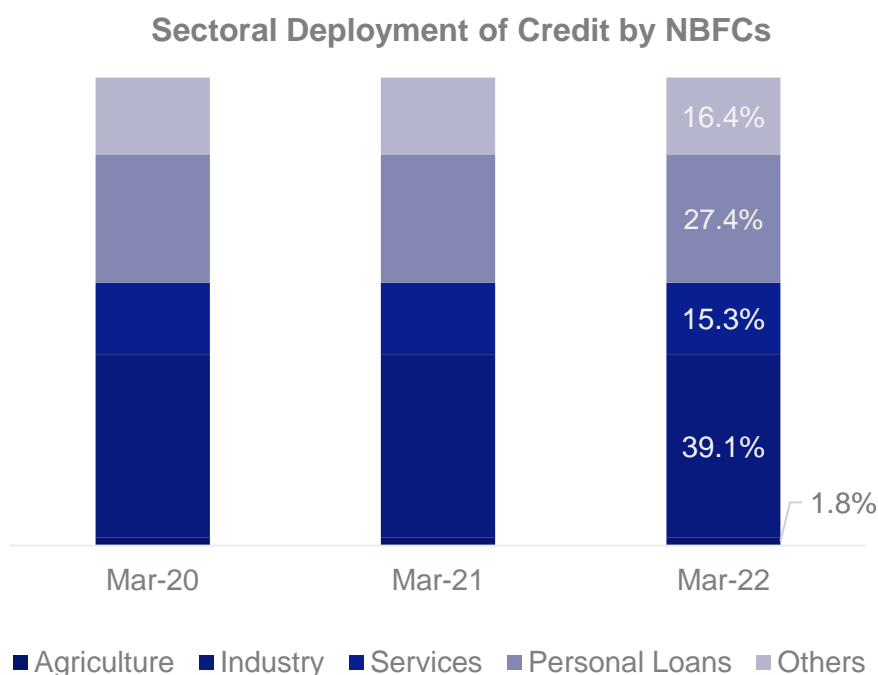


NBFC Performance Tracker

Sectoral Deployment of Credit by NBFCs

By the end of March 2022, the total credit extended by NBFCs was estimated at INR 28.5 lakh crores, up from INR 27.4 lakh crores in September 2021, registering a growth of approximately 4%. In terms of credit deployment, Industry sector was the biggest recipient of credit, representing 39.1% share of the overall credit extended by NBFCs. Followed by personal loans and services sector, with a share of 27.4% and 15.3% of the overall credit, respectively.

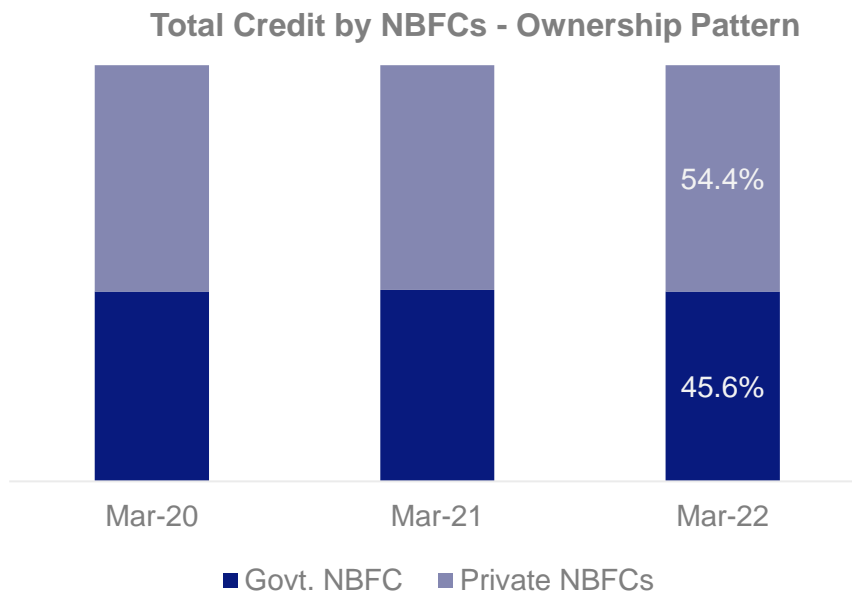
As compared to other sectors, the amount of credit extended to the agricultural industry was significantly modest. The share of Agriculture sector in the overall credit deployed by NBFCs was estimated at just 1.8% by the end of March 2022.



Source: RBI

NBFC Performance Tracker

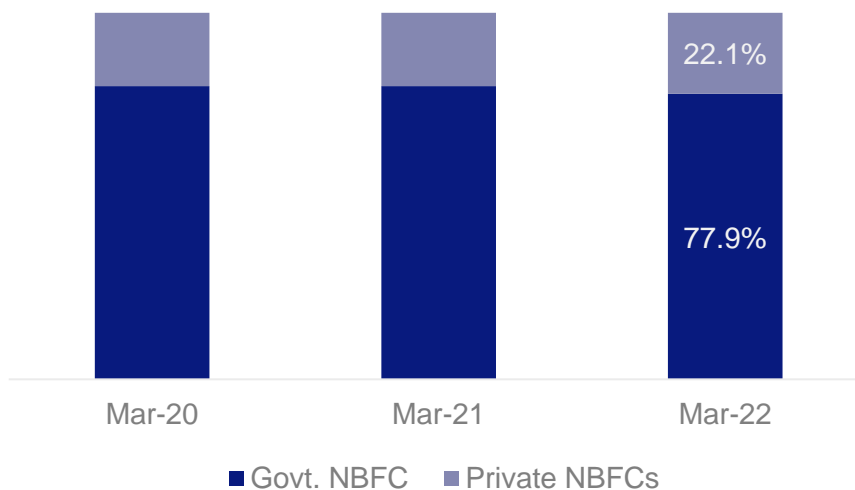
Total Credit by NBFCs - Ownership Pattern



Private lenders continued to dominate the lending in the NBFC space, accounted for 54.4% share of the overall NBFC loans amounting for approximately INR 15.5 lakh crore by the end of March 2022. While the government-owned NBFCs accounted for 45.6% share amounting to approximately INR 13 lakh crore during the same period.

However, in terms of industrial credit, share of government owned NBFCs of total credit extended by NBFCs is significantly higher than that of private NBFCs. Of the total credit of INR 11.1 lakh crore (39.1% share of the total credit by NBFCs) extended to Industry sector, government NBFCs accounted for 77.9% share amounting to approximately INR 8.7 lakh crore. While private NBFCs accounted for much smaller share of 22.1% by the end of March 2022.

Industrial Credit by NBFCs - Ownership Pattern



Source: RBI, Mazars Analysis

NBFC Performance Tracker

Share of Different NBFC Categories in Gross Advances

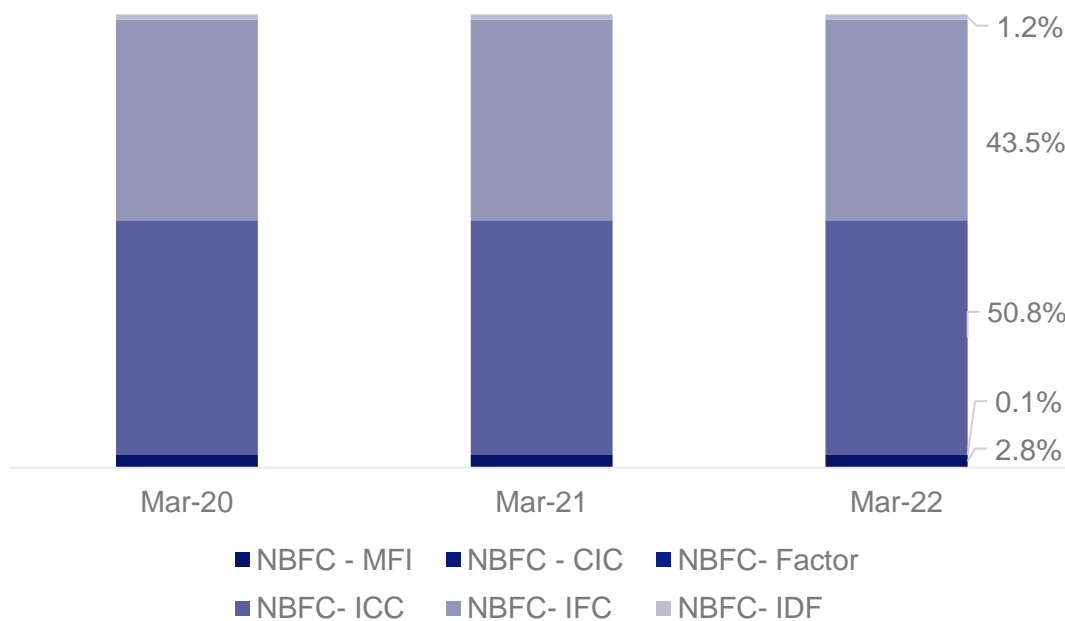


In terms of credit dispensation, NBFC – ICC (investment and credit companies) and NBFC – IFC (infrastructure and finance companies) dominated gross loans and advances in March 2022, with a combined share of 94.3%. While other categories accounted for just 5.7% of overall gross loans and advances during the same period.

More than half of the gross loans advances (50.8%) was dispensed by investment and credit companies. While infrastructure finance companies dispensed approximately 43.5% of the total gross loans and advances in March 2022.

Share of credit dispensed by MFI (microfinance institutions), CIC (Core investment companies) and IDF (infrastructure debt funds) was miniscule at 2.8%, 0.1% and 1.2% share in gross loans and advances, respectively.

Share of Different NBFC Categories in Gross Advances



Source: RBI

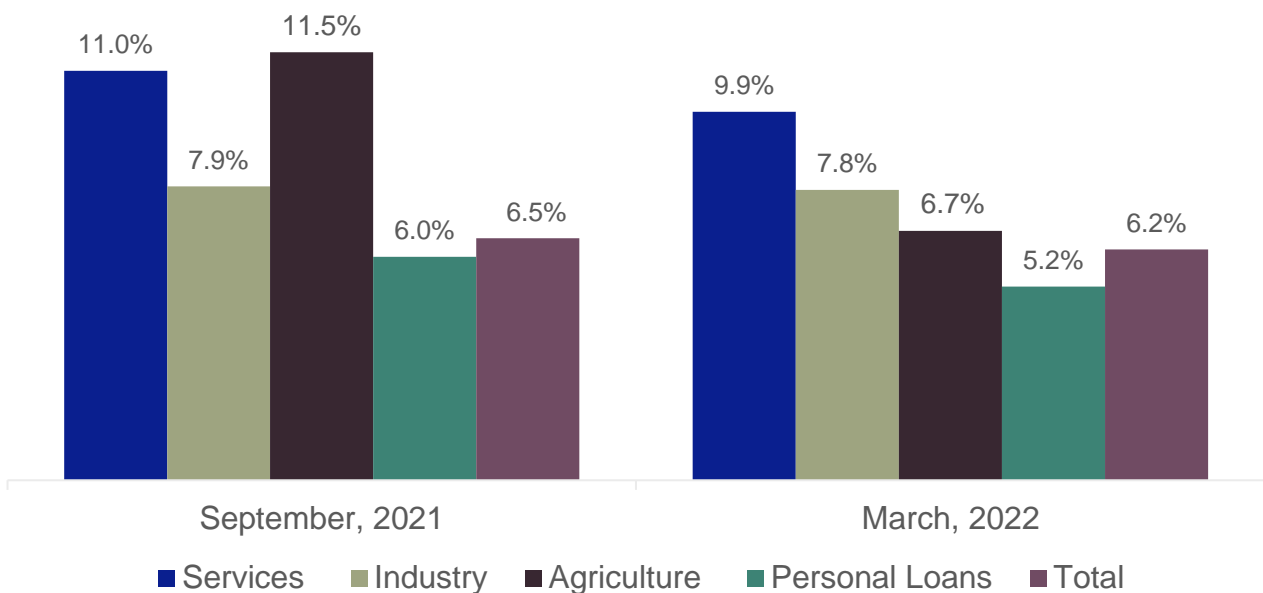
NBFC Performance Tracker

GNPA – Gross Non-Performing Assets

In March 2022, the GNPA ratio of NBFCs stood at 6.2% easing down from 6.5% in September 2021. This improvement in GNPA was observed in both public and private sector NBFCs.

This decline in GNPA was fuelled by a substantial improvement in GNPA in agriculture, services and personal loans sectors, where the GNPA improved to 6.7% from 11.5%, 9.9% from 11.0% and 5.2% from 6.0%, between September 2021 to March 2022, respectively.

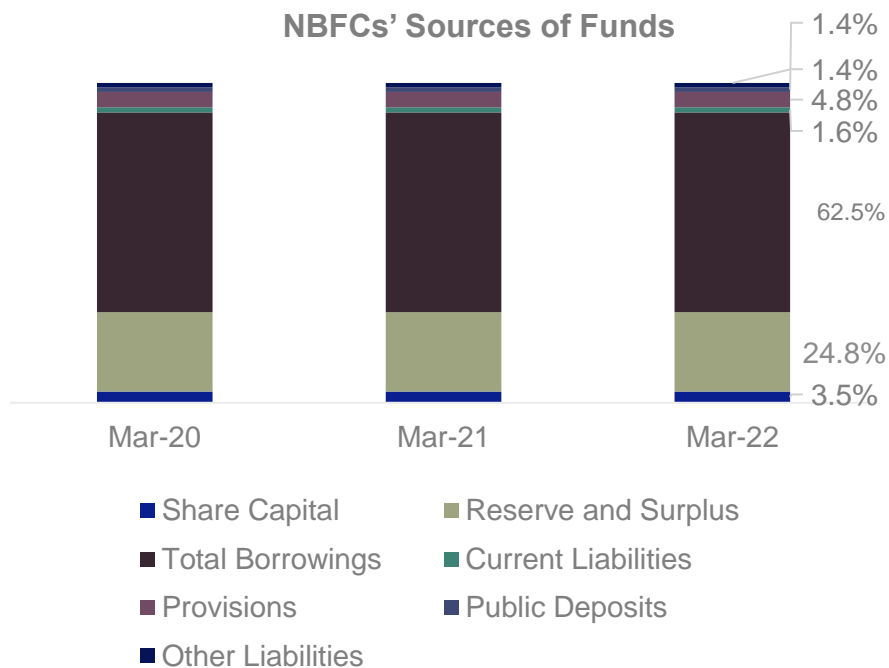
Sector-wise GNPA ratio of NBFCs from September 2021 to March 2022



Source: RBI

NBFC Performance Tracker

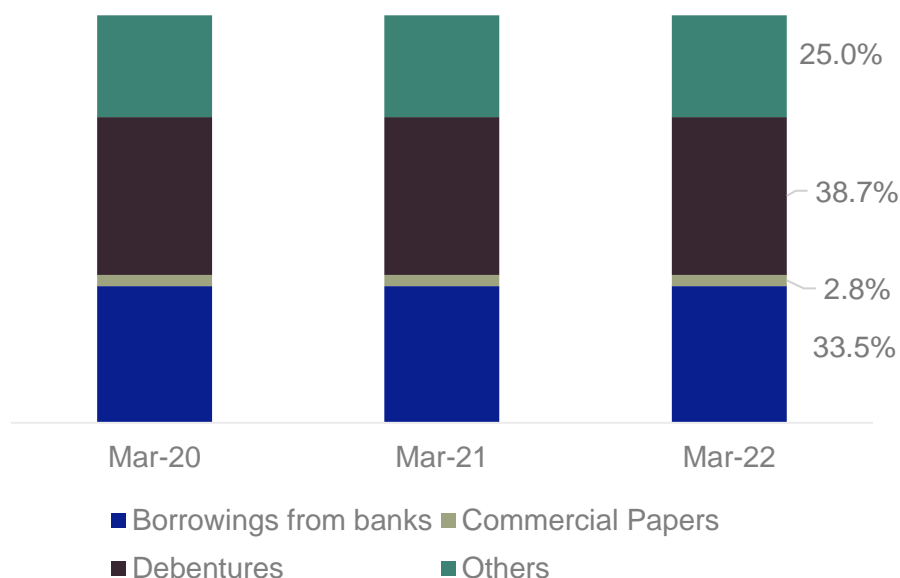
NBFCs' Sources of Funds



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Borrowings by NBFCs



Source: RBI

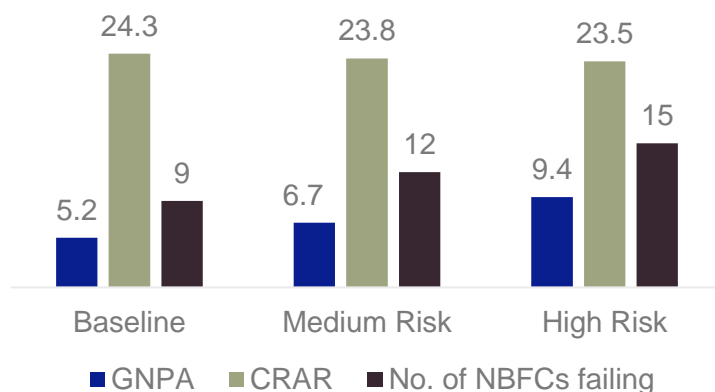
NBFC Performance Tracker

Credit Risk in NBFCs

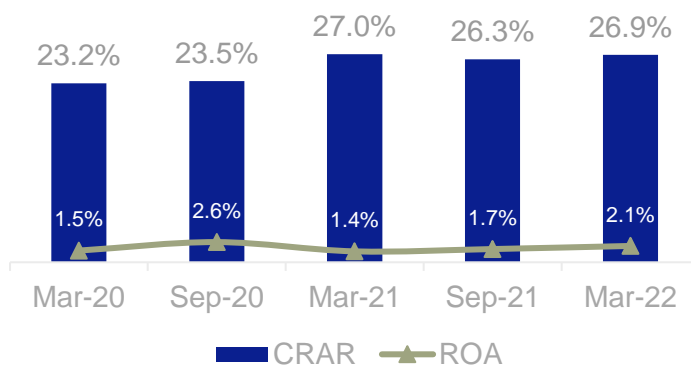
A sample of 155 NBFCs were evaluated for the NBFC sector's resistance to credit risk shocks under two stress scenarios, medium and high risk, with increases in the slippage ratio of 1 SD and 2 SD, respectively. In March 2022, the capital adequacy ratio of sample NBFCs reached 26.7% and their GNPA ratio was estimated at 4.6%. Based on the presumption that business will proceed as usual, the baseline scenario holds for the year following this reference date.

GNPA of NBFCs falling under the category of baseline, medium risk, and high risk stood at 5.2%, 6.7%, and 9.4% respectively. Similarly, CRAR stood at 24.3%, 23.8%, and 23.5% for baseline, medium risk, and high risk. The number of NBFCs failing to maintain the minimum regulatory standard of 15% was at 9 (as compared to 10 in September 2021) for the category of baseline, 12 (as compared to 17 in September 2021) for the category of medium risk and 15 (as compared to 19 in September 2021) for the category of high risk.

Credit Risk in NBFCs



Capital Adequacy



Source: RBI, Mazars Analysis

NBFC Performance Tracker

Top NBFCs and a track of their performance

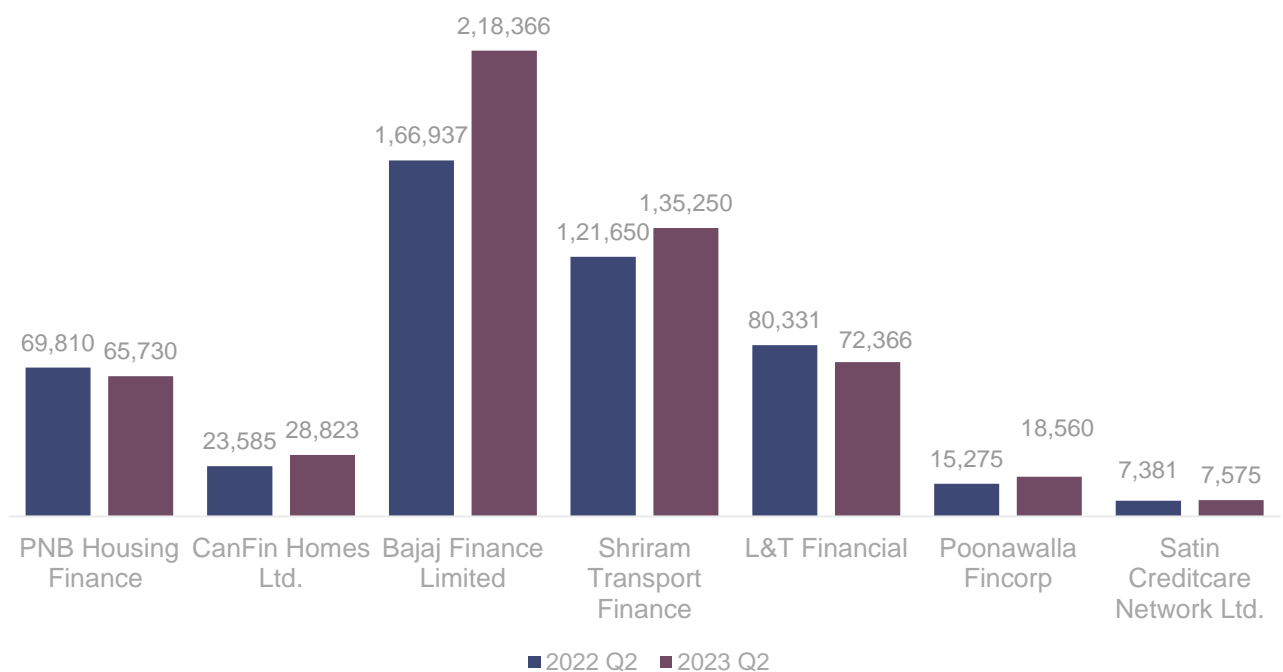


The total assets under management by top NBFCs under analysis totalled INR 5,46,670 crores during Q2 FY 23, up from INR 4,84,969 crores in Q2 FY 22. A substantial increase of INR 61,701 crores, witnessing an overall growth of 12.7% during the period.

Between Q2 of FY22 and Q2 of FY23, Bajaj Finance witnessed the most significant growth in AUM, grew by approximately 31.0%, to INR 2,18,366 crores from INR 1,66,937 crores. Followed by CanFin Homes and Poonawalla Fincorp, experiencing an overall growth of 22.2% and 21.5% in AUM, respectively.

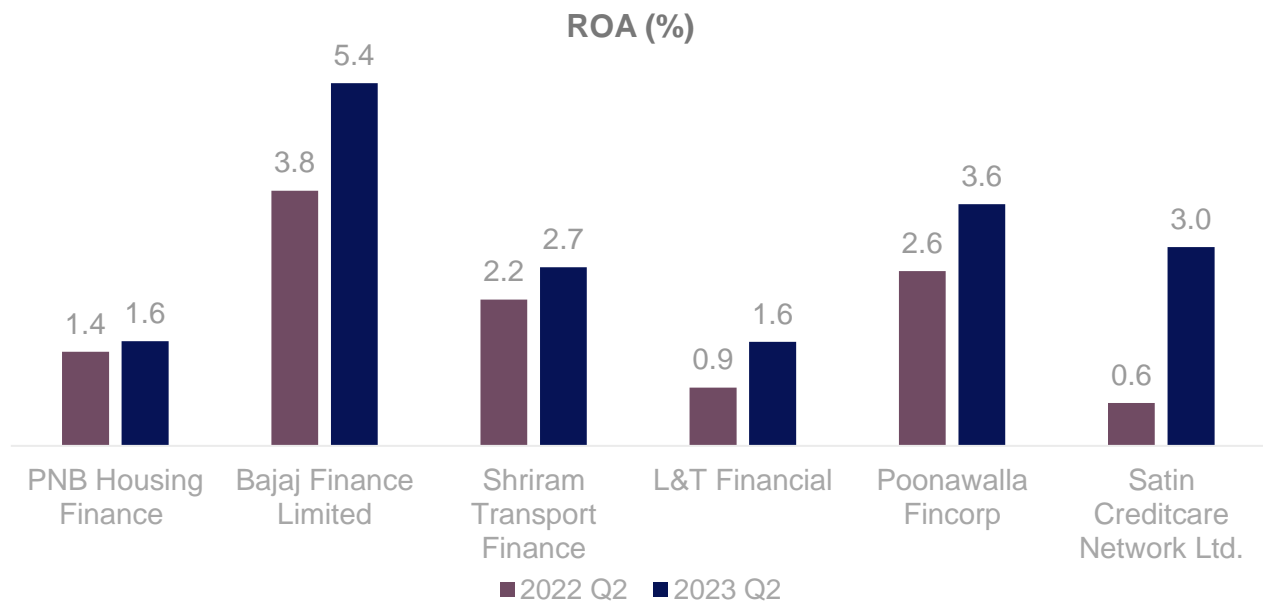


Assets Under Management (AUM) (Crs)

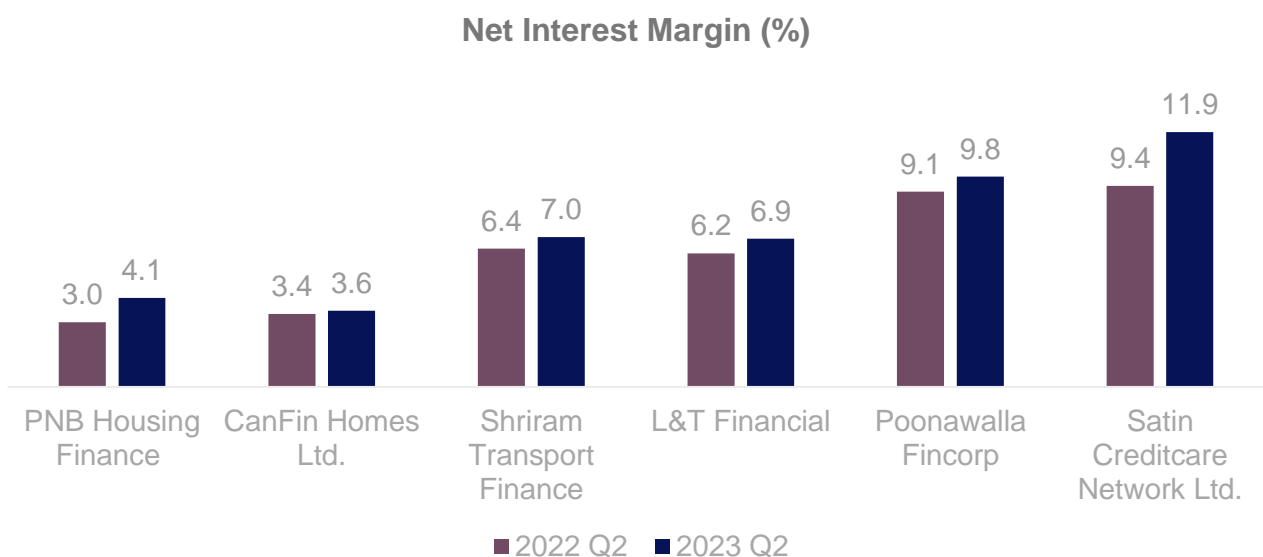


NBFC Performance Tracker

Top NBFCs and a track of their performance



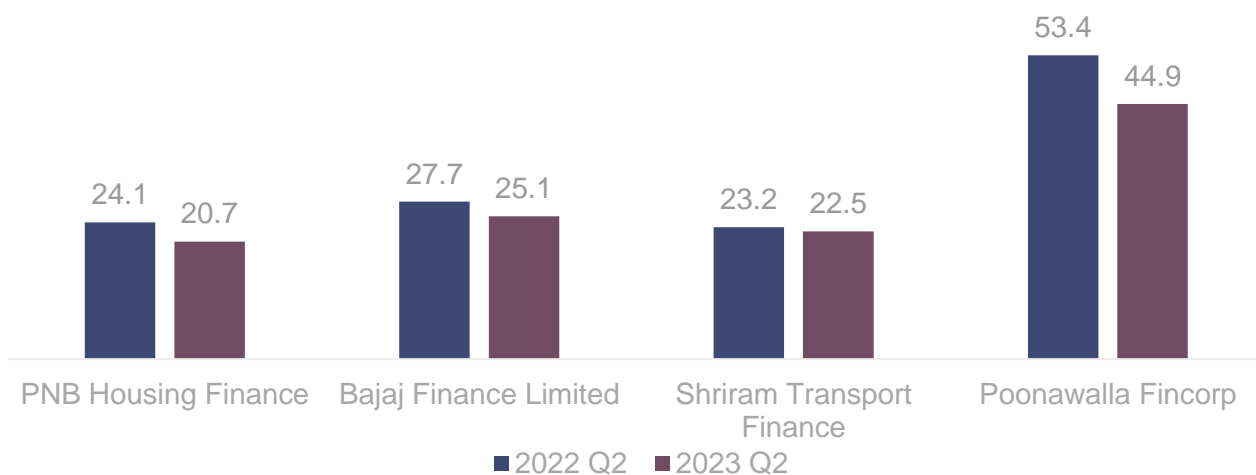
- The top NBFCs under analysis saw a boost in their average ROA between Q2 FY 22 and Q2 FY 23. During the period, the ROA of NBFCs witnessed one percentage point increase, reached 3% in Q2 FY 23, up from 1.9% in Q2 FY 22. All the NBFCs experienced an increase in ROA during the period, with Satin Creditcare Network leading the charge with 2.3%.
- Similarly, the Net Interest Margin of top companies analysed grew by one percentage point and averaged 7.2% in Q2 FY 23, as compared to 6.3% in Q2 FY 22. Satin Creditcare Network experienced the greatest increase of 2.5% among the top NBFCs, followed by 1.1% for PNB Housing Finance and 0.6% for L&T Financial.



NBFC Performance Tracker

Top NBFCs and a track of their performance

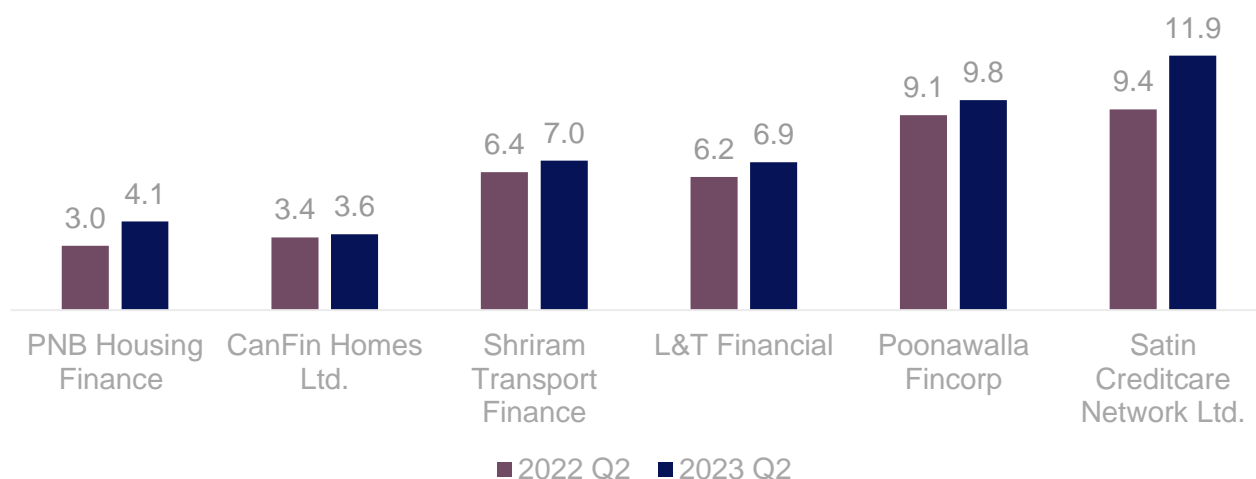
Capital to Risk (Weighted) Asset Ratio (%)



During Q2 FY 22 and Q2 FY 23, the average capital adequacy ratio for the top NBFCs under examination fell by 3.8%. Within this, Poonawalla Fincorp experienced the most significant decline, its Capital to Risk (Weighted) Asset Ratio fell by 8.5% to 44.9% in Q2 FY 23. While PNB Housing Finance and Bajaj Finance witnessed a decline of 3.3% and 2.6%, respectively.

However, in terms of GNPA, PNB Housing Finance was the only major NBFC that experienced an increase between Q2 FY 22 and Q2 FY 23. While the GNPA of every other NBFC witnessed an improvement over Q2 FY 22. Satin Creditcare Network witnessed the most significant improvement, the GNPA for the NBFC fell by 4.7% during the period, while Poonawalla Fincorp and Bajaj Finance witnessed an improvement of 2.6% and 1.2%, respectively.

Net Interest Margin (%)



Latest Developments – NBFC's

Key Trends

Recently the NBFC sector is facing a lot of changes due to its competition with Banks. However, with the new Fin-tech and NBFC a new sphere could be operated in the Indian Banking Sector. The introduction of Co-lending, P2P lending etc. are proving to be a boost for the NBFC sector as well as paving the way for novel ideas to operate in the segment.

M&A Activity in the NBFC sector

In recent times, there have been a few key M&A transactions in the NBFC Sector of the Banking and Financial Services Industry:

- Shriram Group's consumer financing business, Shriram City Union Finance, and its commercial vehicle finance arm, Shriram Transport Finance, will merge. The total AUM of the two companies would be more than INR 1,50,000 Crore.
- The Indian wealth management company IIFL stated on March 31, 2022, that Bain Capital has bought a 24.98% equity holding in IIFL management for about Rs 3679.95 crore.



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