Non-Banking Financial Companies (NBFC) tracker

October 2023

The NBFC sector continued its strong growth momentum in annual credit disbursal, with personal loans surging and credit extended to agriculture and industry sector growing.Non-banking financial companies have continued their growth trajectory in the first quarter of FY24, primarily driven by robust retail loan demand, especially in the unsecured lending segment, along with a resurgence in the rural and semi-urban economies.The demand from these regions has outpaced that of metros and urban areas, with used vehicle and home improvement loans driving incremental growth, considering the surge in prices of new vehicles and housing.Digital channels played a significant role in the growth, contributing to overall customer sourcing and revenue income for NBFCs. Adoption of digital channels has been on the rise, making it easier for customers to access financial services, further boosting the sector's performance. The sector is further expected to deliver a robust performance with upcoming festival season boosting credit offtake

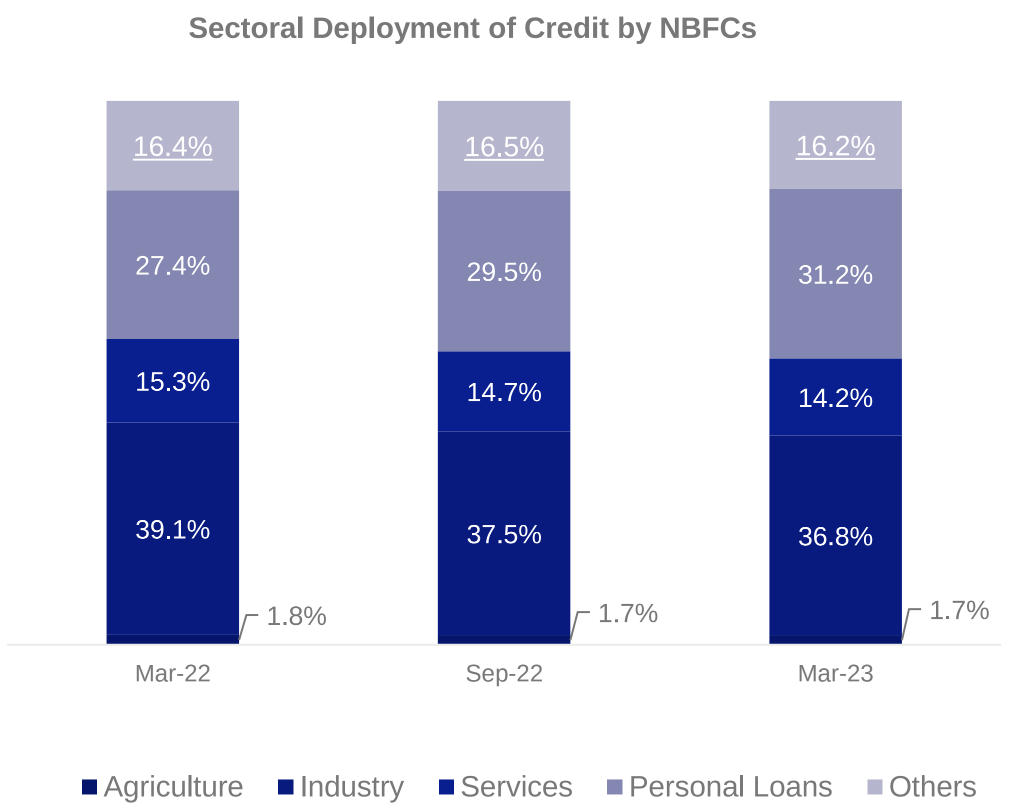
NBFC performance tracker

Sectoral deployment of credit by NBFCs

After recording a strong double-digit growth in September 2022, NBFCs in March 2023, continued their strong growth momentum in annual credit disbursal, with personal loans surging by 31.3% and credit extended to agriculture and industry sector growing by 13.4% and 12.7%, year-on-year in March 2023, respectively.

Moreover, the share of personal loans category in overall outstanding credit, on the back of a massive 31.3% growth in credit disbursed, increased significantly during the last year, reached 31.2% in March 2023, up from 27.4% in March 2022.

Between March 2022 and March 2023, the industry sector experienced significant growth in credit disbursed, with an increase of 12.7%. However, during the same period, its share in overall deployment of credit declined from 39.1% to 36.8%



Source: RBI

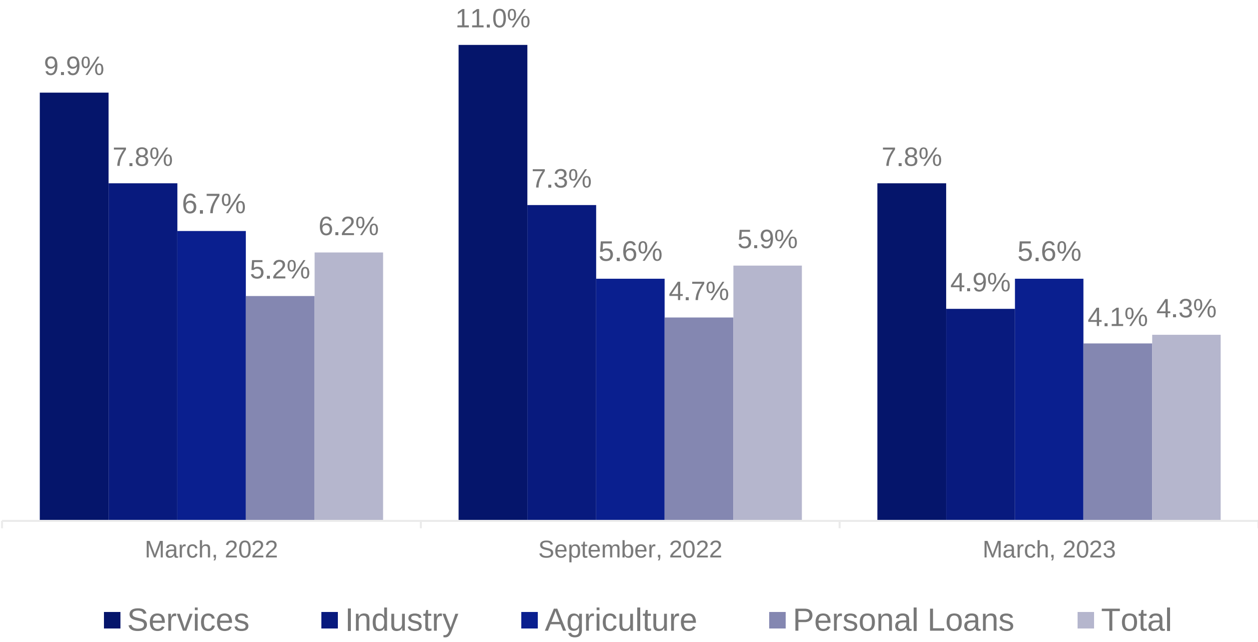
NBFC performance tracker

GNPA – Gross Non-Performing Assets

The GNPA ratio continued their downward trajectory, the overall GNPA ratio of NBFCs in March 2023 slid to 4.3%, from 6.2% at end of March 2022. Public sector NBFCs, which accounts for approximately 44% share of the total outstanding credit, had a relatively low GNPA ratio of 2.8%, as compared to private NBFCs, which accounts for 56% share and a GNPA ratio of 5.5%.

This decline in GNPA ratio was fuelled by a substantial improvement in GNPA in all the sectors. Industry sector witnessed the most significant improvement during the period, declined to 4.9% (down 2.9%) in March 2023 from 7.8% a year ago. Followed by the services sector, which witnessed a decline of 2.1% in its GNPA ratio, and personal loans and agriculture sector, where the GNPA improved by 1.1% between March 2022 and March 2023, respectively.

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



Source: RBI

NBFC performance tracker

NBFCs’ sources of funds

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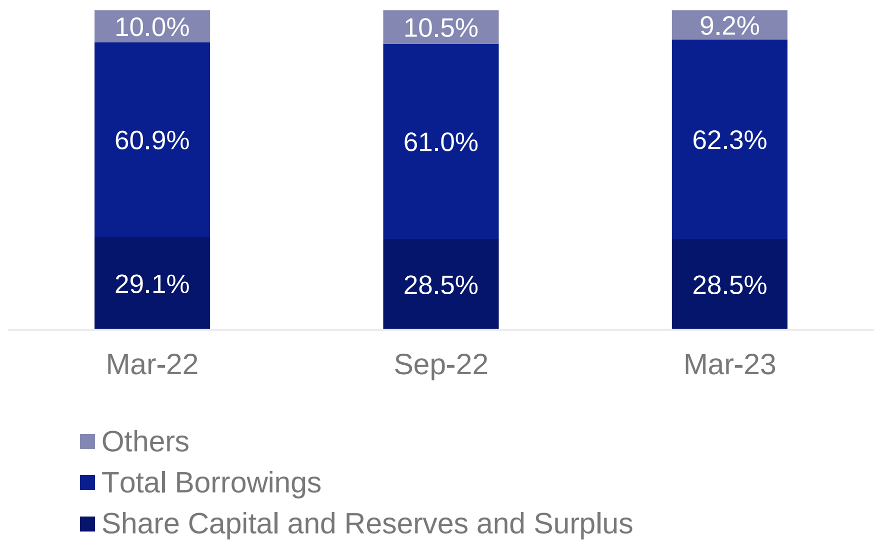
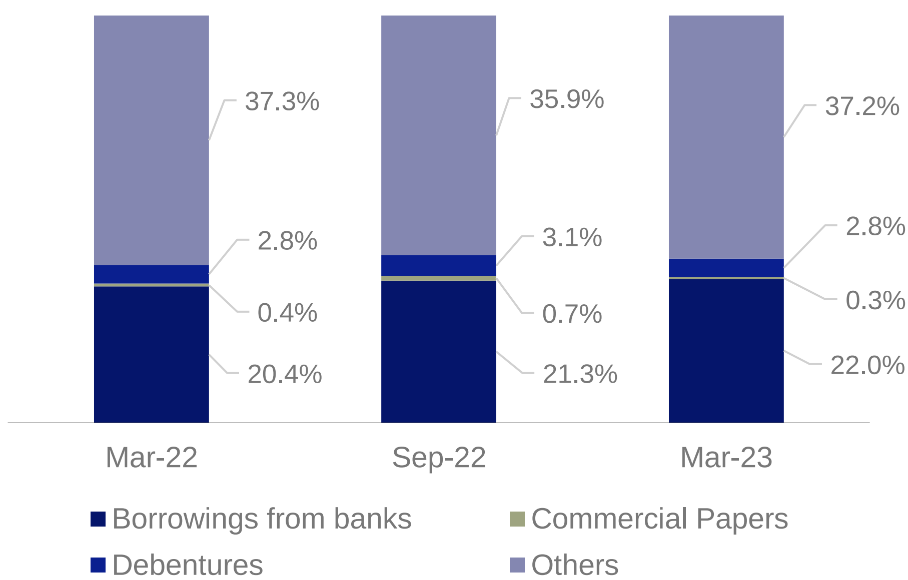


In terms of funding, NBFCs mainly rely on borrowings to fund their operations. Furthermore, during the last one year, NBFCs dependency on borrowing increased by 1.4% to 62.3% in March 2023, while the share of share capital and reserve and surplus declined slightly to 28.5% in March 2023, down from 29.1% in March 2022. Of the overall sources of funds, ~25.2% were raised through borrowing from banks, commercial papers and debentures subscribed by banks.

Borrowings by NBFCs



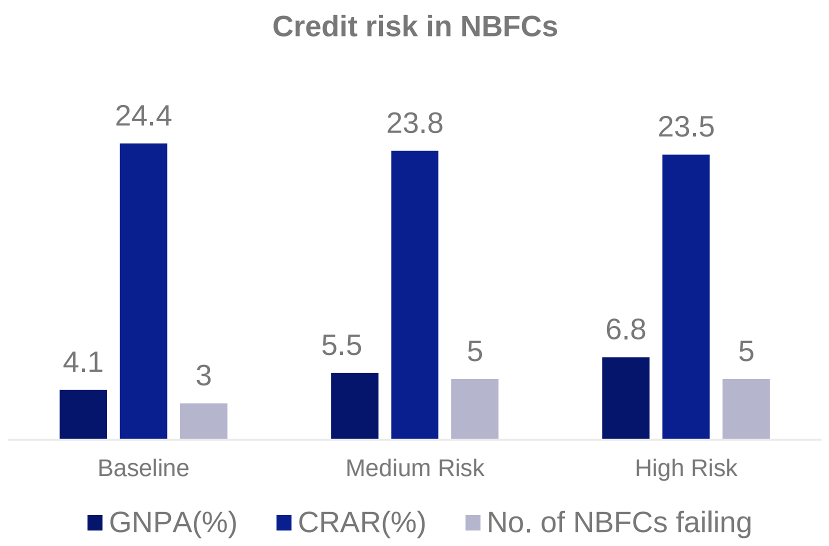
Source: RBI

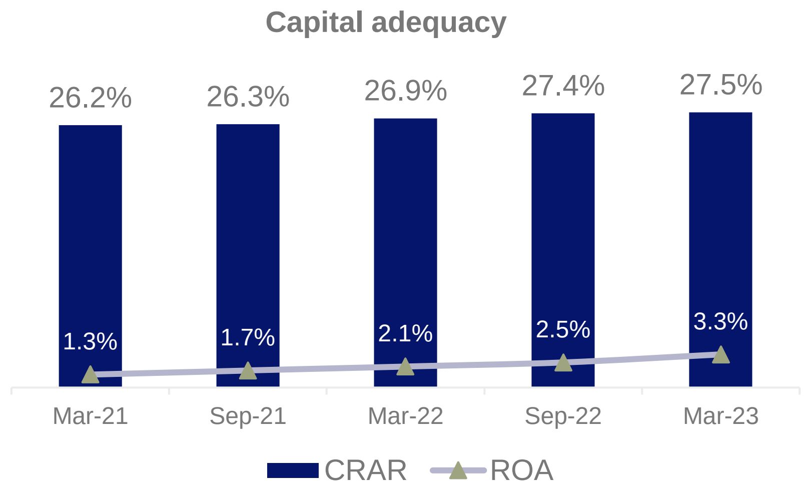
NBFC performance tracker

Credit risk in NBFCs

The RBI conducted stress tests on 135 large NBFCs to assess their resilience to credit risk. These NBFCs were tested under three scenarios: a baseline scenario and two stress scenarios (medium and high risk) with slippage ratio increased of 1 SD and 2 SDs. As of March 2023, the sample NBFCs had a 25.0% capital adequacy ratio and a 3.4% GNPA ratio. The baseline scenario projects one year ahead under normal business conditions.

GNPA of NBFCs falling under the category of baseline, medium risk, and high risk stood at 4.1%, 5.5%, and 6.8% respectively. Similarly, CRAR stood at 24.4%, 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 3 (as compared to 9 in March 2022) for the category of baseline, 5 (as compared to 12 in March 2022) for the category of medium risk and 5 (as compared to 15 in March 2022) for the category of high risk.





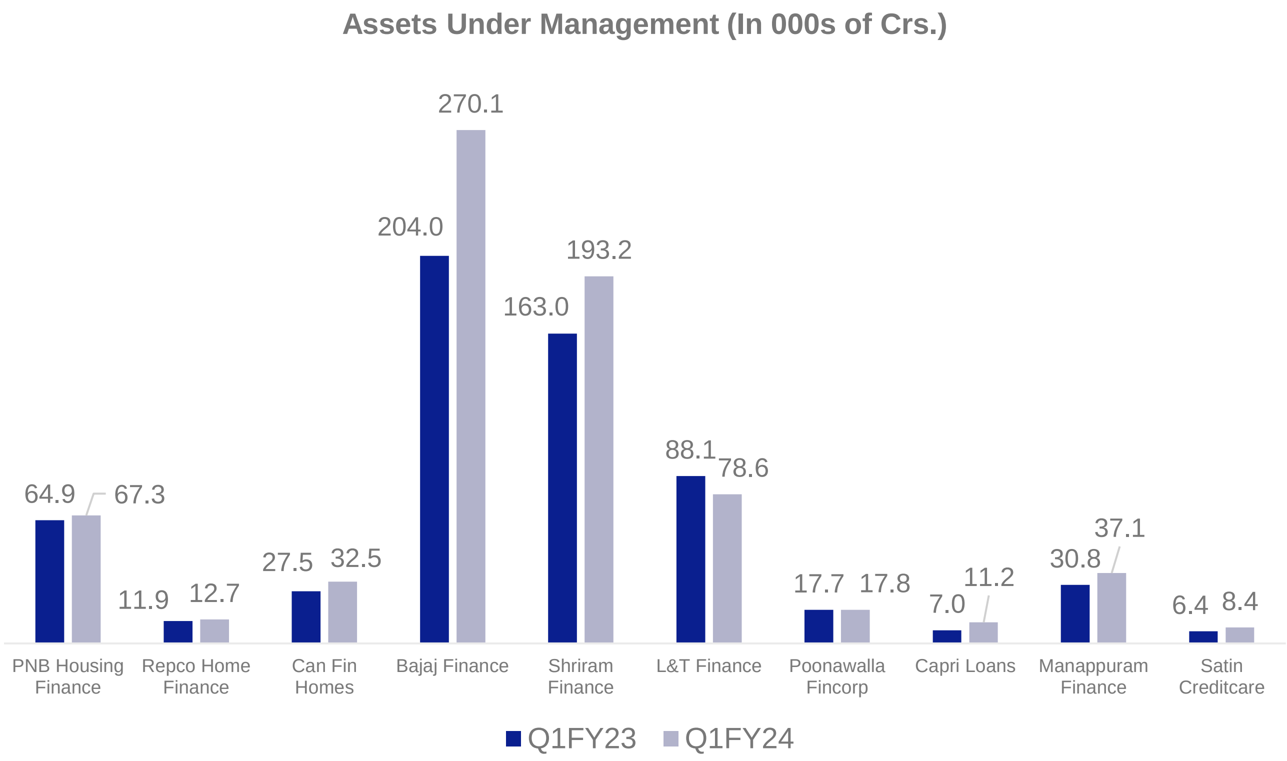
Source: RBI, Mazars Analysis

NBFC performance tracker

Top NBFCs and a track of their performance

The total assets under management (AUM) by top NBFCs under analysis totalled INR ~7,28,847 crores during Q1 FY24, up from INR ~6,21,141 crores in Q1 FY23, an increase of INR ~1,07,706 crores, witnessing an overall growth of 17.3% during the period.

Between Q1 of FY23 and Q1 of FY24, Capri Loans witnessed the most significant growth in AUM, of approximately 60.9%, to INR 11,226.2 crores from INR 6,976.5 crores. Followed by Bajaj Finance and Satin Creditcare, experiencing an overall growth of 32.4% and 31.0% in AUM, respectively.



Source: Investor Presentations, Mazars Analysis

NBFC performance tracker

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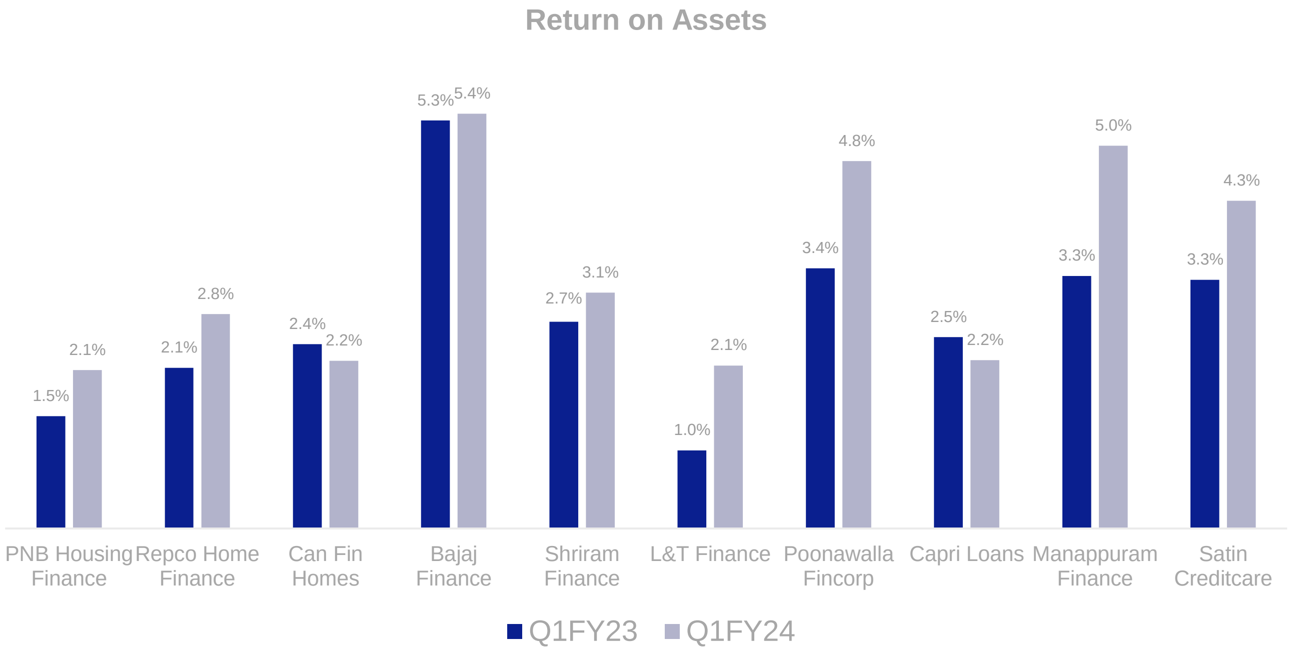
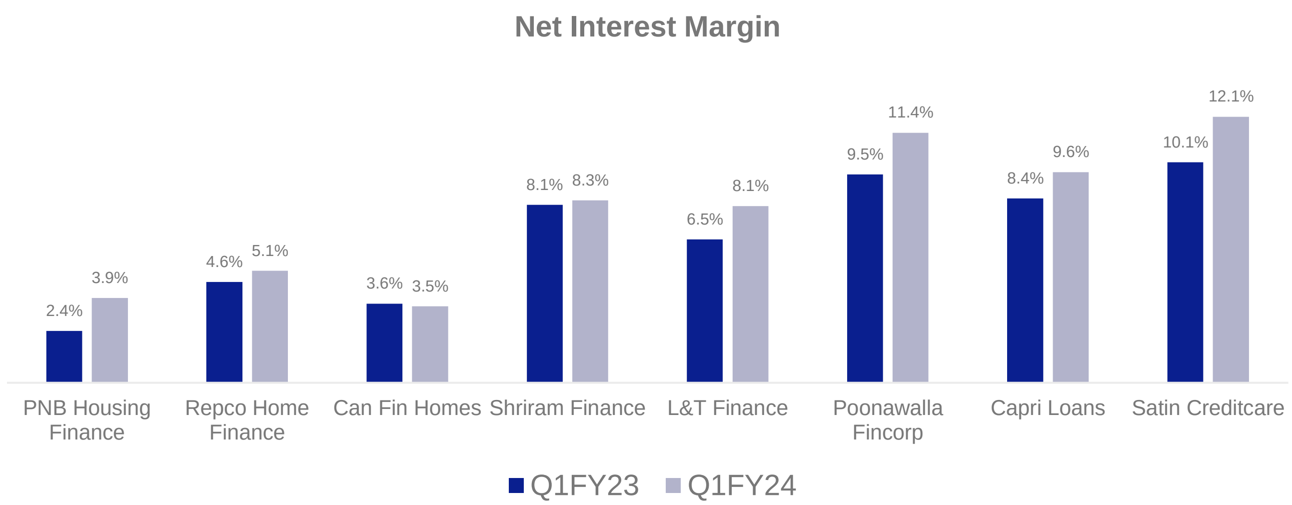


The top NBFCs under analysis saw a boost in their average return on assets (ROA) between Q1 FY23 and Q1 FY24. During the period, the ROA of NBFCs examined, witnessed a ~0.6% increase, reaching 3.4% in Q1 FY24, up from 2.7% in Q1 FY23. All the NBFCs experienced an increase in ROA during the period except for Can Fin Homes and Capri Loans, which experienced a decline of 0.2% and 0.3%, respectively.

The Net Interest Margin (NIM) of the NBFCs analysed, improved by 0.9% and averaged 6.2% in Q1 FY24, as compared to 5.3% in Q1 FY23. Satin Creditcare recorded the greatest increase of 2.1% among the top NBFCs, followed by a 1.9% increase for Poonawalla Fincorp and a 1.5% increase for L&T Finance. While CanFin Homes was the only player to witness a decline in its NIM, NIM for the lender declined by 0.1% during the same period.



Source: Investor Presentations, Mazars Analysis

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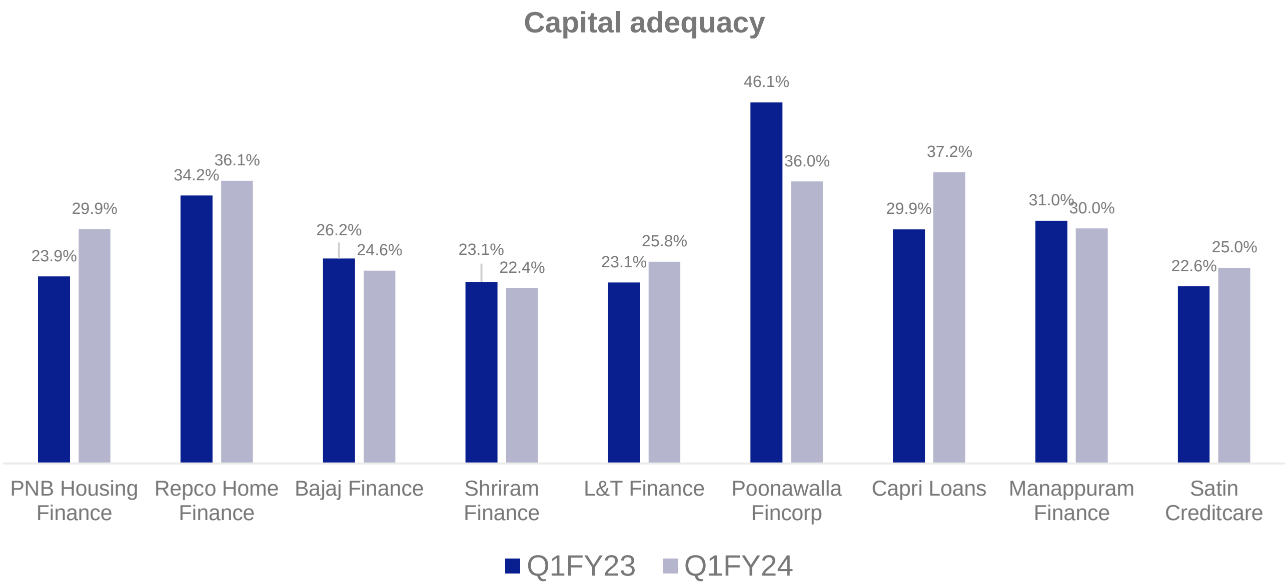
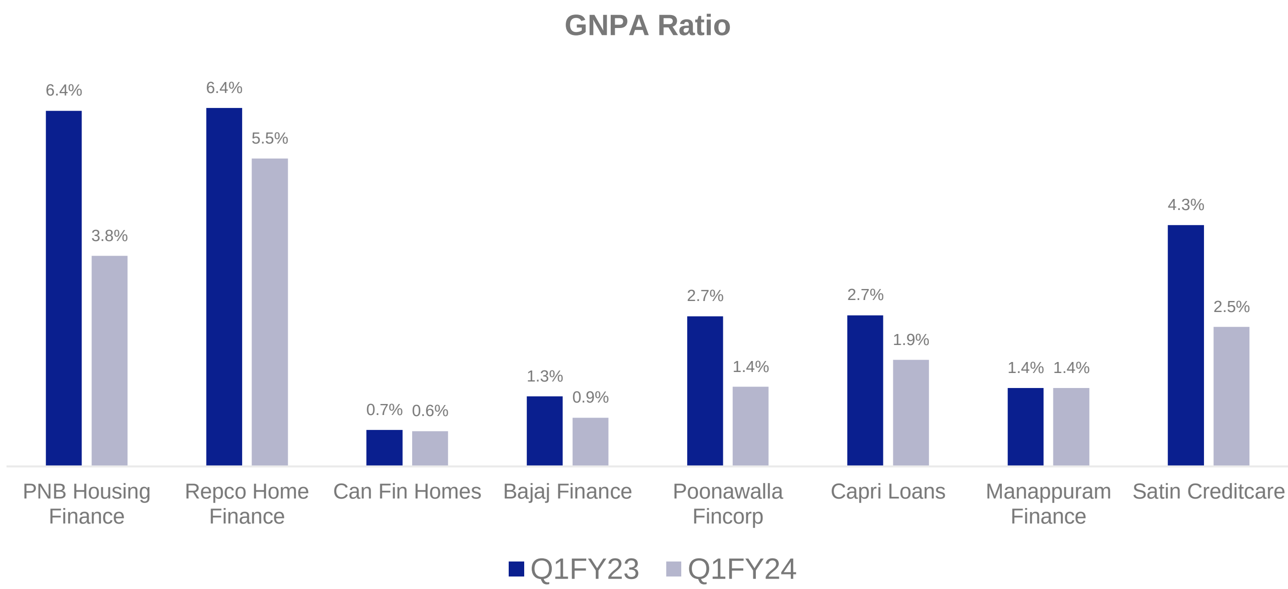


During Q1 FY24, the average capital adequacy ratio for the top NBFCs under examination experienced a 0.7% improvement and reached 26.7% as compared to ~26.0% in Q1 FY23. Capri Loans experienced the most significant increase in its capital adequacy ratio, increasing by 7.3% to reach 37.2% in Q1 FY24, followed by PNB Housing Finance, which witnessed an improvement of 6.0%, during the same period. While Poonawalla Fincorp experienced a decline of 10.1% during the same period.

Furthermore, all the NBFCs under examination witnessed an improvement in their GNPA ratio during Q1 FY24, with PNB Housing Finance experiencing the most significant improvement of 2.6% as compared to Q1 FY23. Followed by Satin Creditcare witnessing an improvement of 1.8% during the same period.



Source: Investor Presentations, Mazars Analysis

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