Non-Banking Financial Companies (NBFC) tracker

February 2024

mazars

NBFC performance tracker

The year 2023 stood out as a landmark period of regulatory actions, with the RBI introducing measures to curtail the growth of unsecured lending, raising risk weights, and imposing stricter guidelines on lending practices. These changes, notably the increase in risk weights for unsecured loans and heightened supervision, have necessitated a strategic recalibration within the sector. NBFCs have been compelled to reassess their capital allocation strategies, navigate the complexities of capital raising in a cautious investment climate, and adapt to the evolving interest rate scenario amid geopolitical uncertainties.

Furthermore, the Reserve Bank of India's new IT governance directions encompassing both banks and NBFCs, indicating a comprehensive approach to enhancing IT practices across the financial sector will come into effect on 1 April 2024. These directives ensure that NBFCs, alongside banks adopt robust IT service management frameworks for improved operational resilience, data integrity, and cybersecurity. By including NBFCs, the RBI aims to standardise IT governance, risk management, and assurance practices across a wider spectrum of financial entities, addressing strategic IT alignment, risk and resource management, and the need for strong cryptographic controls and audit trails. This move underscores the importance of safeguarding financial operations against IT and cyber risks in an increasingly digital financial ecosystem.

As we navigate the complexities of 2024, the NBFC sector is expected to witness a blend of challenges and growth opportunities. The drive towards digital transformation, the quest for innovative funding mechanisms, and the strategic focus on sectors that fuel economic growth will define the trajectory of the sector. The emphasis on strong risk and governance frameworks, coupled with the sector's ability to adapt to regulatory changes, will be critical in shaping a resilient and vibrant NBFC ecosystem.

NBFC performance tracker

Sectoral deployment of credit by NBFCs

The NBFC sector has continued to witness an upward trend in credit growth, between September 2022 and September 2023, the gross advances by NBFCs grew significantly by 20.8%, a substantial increase from 10.8% a year ago. This growth was predominantly fuelled by strong increase in personal loans (32.5% growth) and lending to agriculture (43.7% growth) industry. In fact, over the past four years, personal loans category surged by a CAGR of 33%, significantly outpacing the overall credit growth CAGR of nearly 15%. However, the recent adjustments in risk weights for certain categories of retail loans are likely to impact the trajectory of credit growth within the NBFC sector, both at the general level and more granularly within specific sectors and sub-sectors.

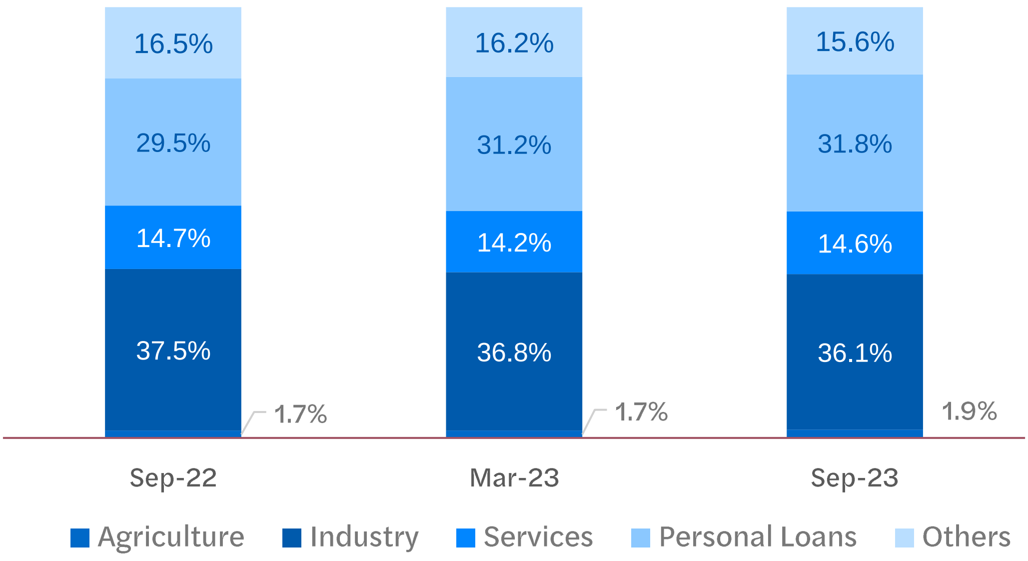
In terms of share, the personal and agricultural sectors saw an improvement. While the share of personal category increased by 2.3% year-over-year at the end of September 2023, the share of agriculture sector in the overall outstanding loans by NBFC increased to 1.9% in September 2023, as compared to 1.7% a year ago.

The gross advances by NBFCs grew by

20.8%

a substantial increase from 10.8% a year ago.

Sectoral deployment of credit by NBFCs



Source: RBI

NBFC performance tracker
GNPA – Gross Non-Performing Assets

The GNPA ratio of NBFCs continued to trend down during the first half of FY24, showing signs of improvement across all sectors. The total GNPA ratio of NBFCs improved to 4.6% in September 2023, down from 5.9% in September 2022. Notably, the personal loans segment, which experienced rapid growth in recent years, reported the lowest GNPA ratio at 3.6% as of September 2023. Although, the GNPA ratio for both the government and private NBFCs have moderated during the period, the GNPA ratio for industrial advances made by private NBFCs still remains relatively high at 12.5%, representing 21.6% of the overall GNPA of the NBFC sector.

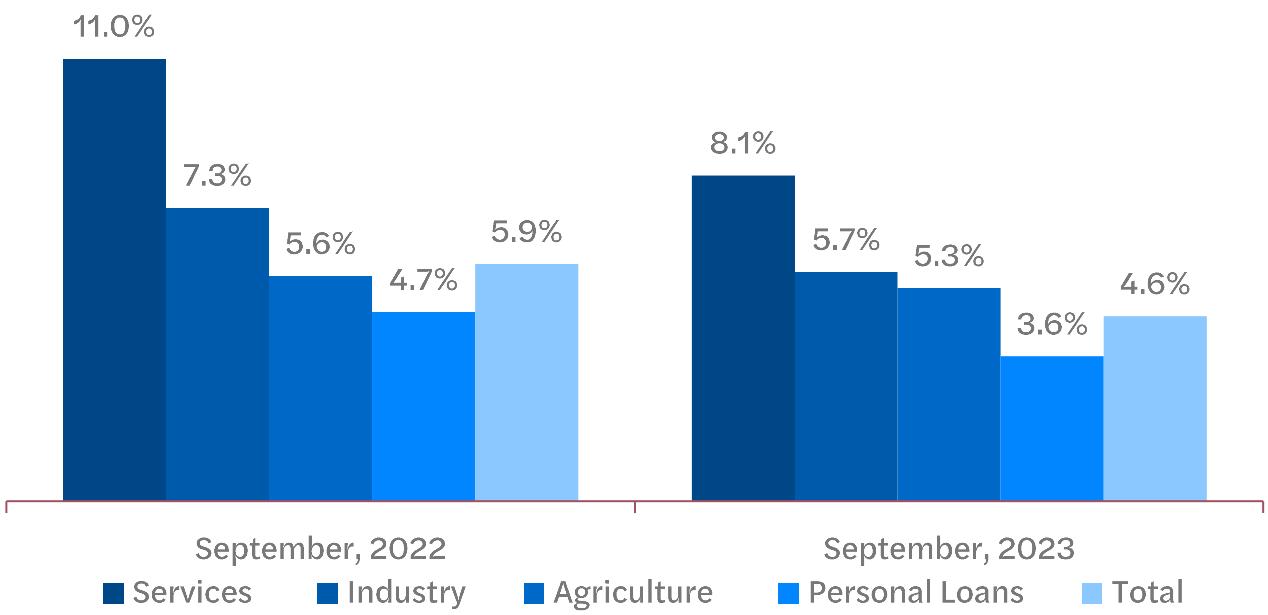
Furthermore, as compared to September 2022, all the sectors marked improvement in their GNPA ratio by the end of September 2023. Services sector witnessed the biggest improvement in GNPA, declined by 2.9% to 8.1% by September 2023, followed by industry and personal loans sector, recording an improvement of 1.6% and 1.1%, respectively.

The total GNPA ratio of NBFCs improved to

4.6%

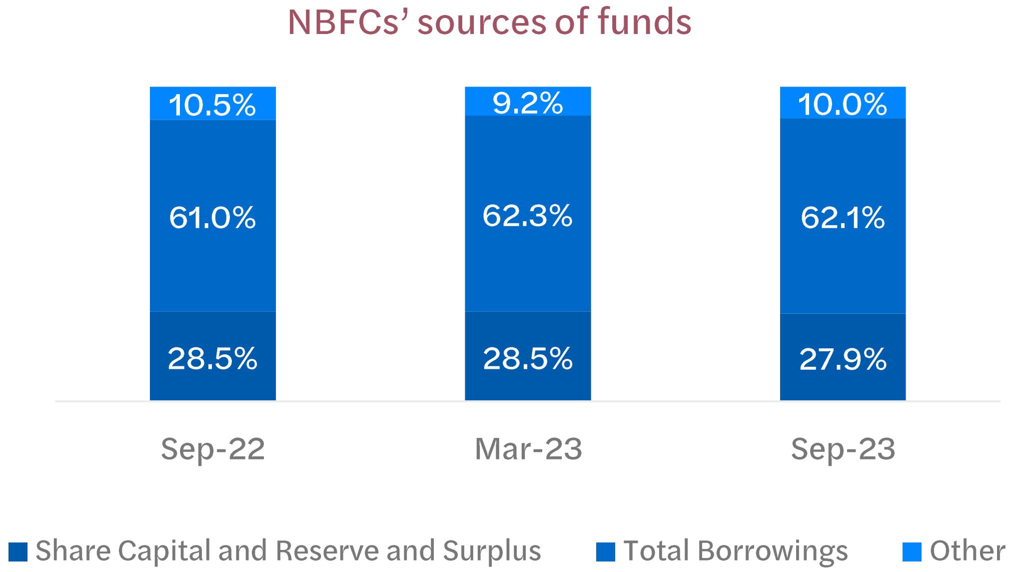
in September 2023.

Sector-wise GNPA ratio of NBFCs

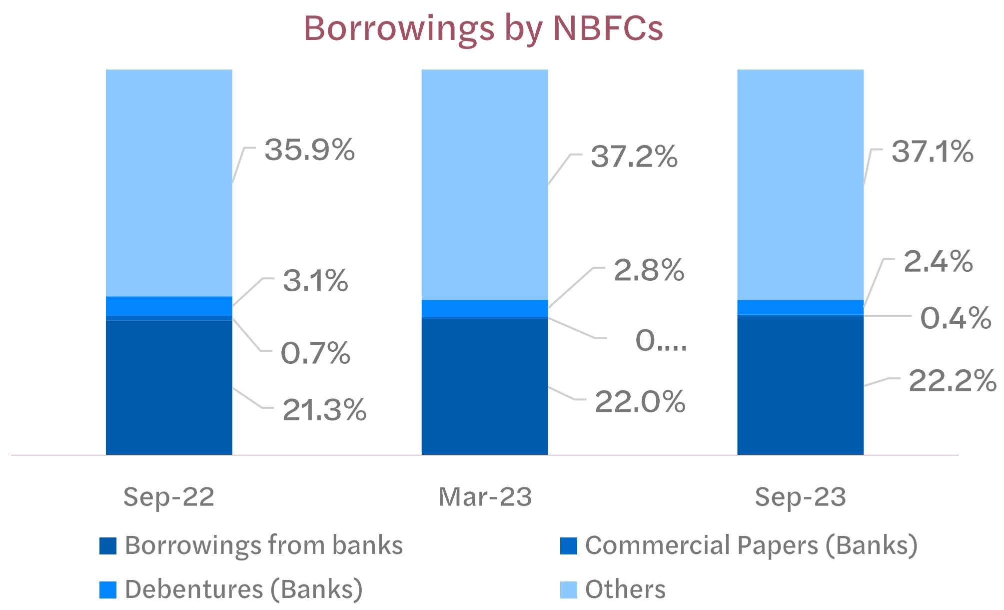


Source: RBI

NBFC performance tracker
NBFCs' sources of funds



As of September 2023, borrowings remained the biggest source of funding for NBFCs. Furthermore, as compared to September 2022, NBFC's dependency on borrowing increased by 1.1% to 62.1% in September 2023, while the share of share capital and reserve and surplus declined slightly to 27.9% in September 2023, down from 28.5% in September 2022. Within borrowings, banks and debentures were the biggest sources of funds, by September 2023 NBFCs raised 25.0% through borrowing from banks, commercial papers and debentures subscribed by banks and 19.6% through other debentures.



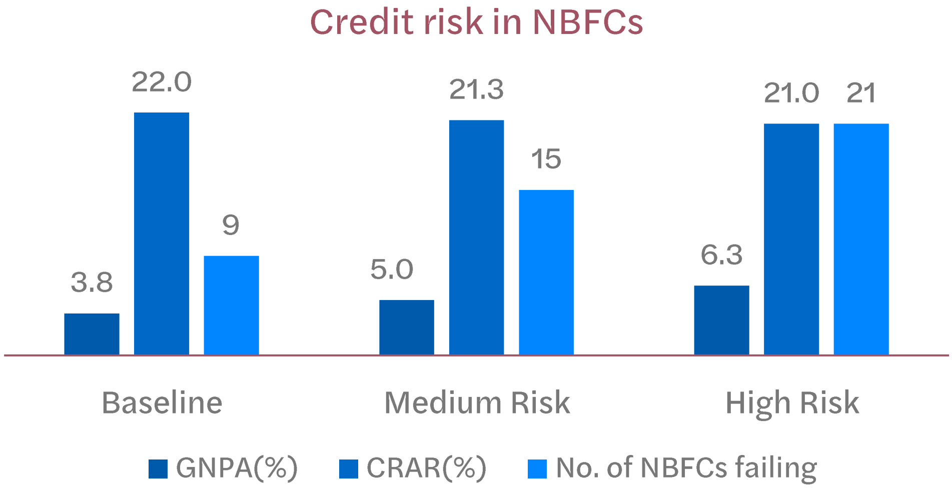
Source: RBI

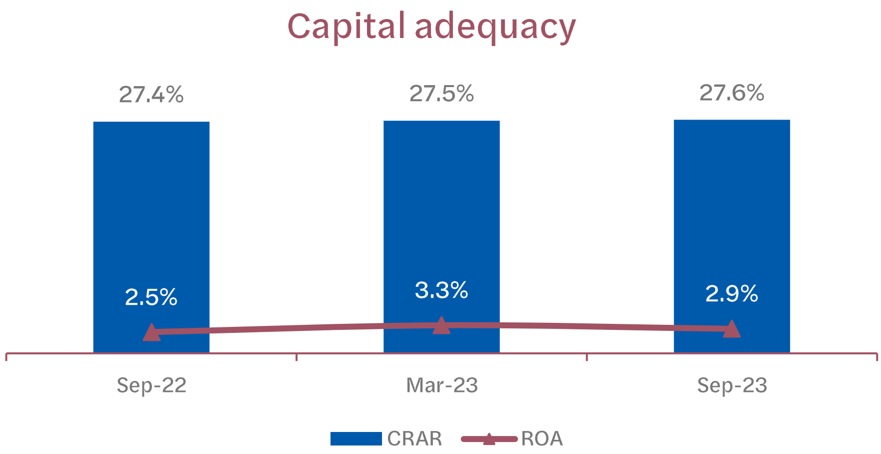
NBFC performance tracker

Credit risk in NBFCs

The RBI conducted stress tests on 146 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 September 2023, the sample NBFCs had a 24.4% capital adequacy ratio and a 3.1% 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 3.8%, 5%, and 6.3% respectively. Similarly, CRAR stood at 22%, 21.3%, and 21% 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 3 in March 2023) for the category of baseline, 15 (as compared to 5 in March 2023) for the category of medium risk and 21 (as compared to 5 in March 2023) 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 totaled IN₹7,65,753 crores during Q2 FY24, up from IN₹6,47,855 crores in Q2 FY23, marking an increase of IN₹1,17,898 crores and an overall growth of 18.2% during the period.

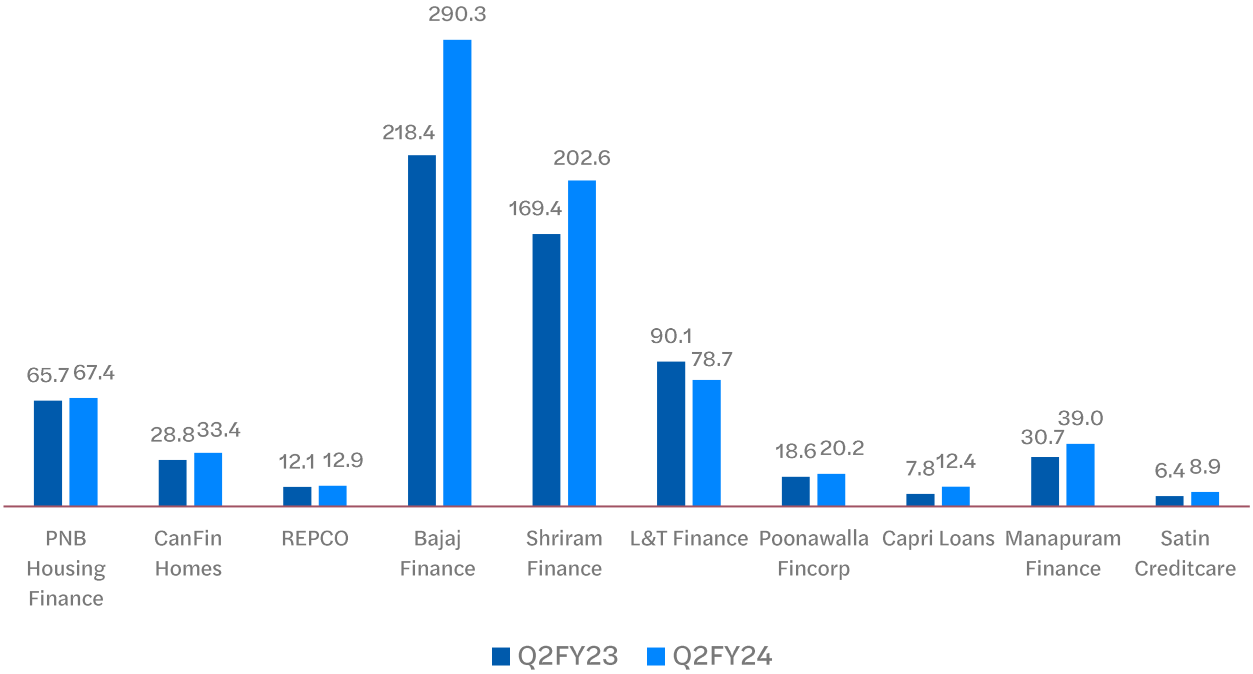
Between Q2 of FY23 and Q2 of FY24, Capri Loans witnessed the most significant growth in AUM of approximately 59.1% and reached IN₹12,358.5 crores, up from IN₹7,769.2 crores in Q2 FY23. Followed by Satin Creditcare and Bajaj Finance, experiencing an overall growth of 38.6% and 32.9% in AUM, respectively.

The total AUM by top NBFCs totaled

IN₹7,65,753 crores

during Q2 FY24.

Assets under management (In 000s of Crs.)

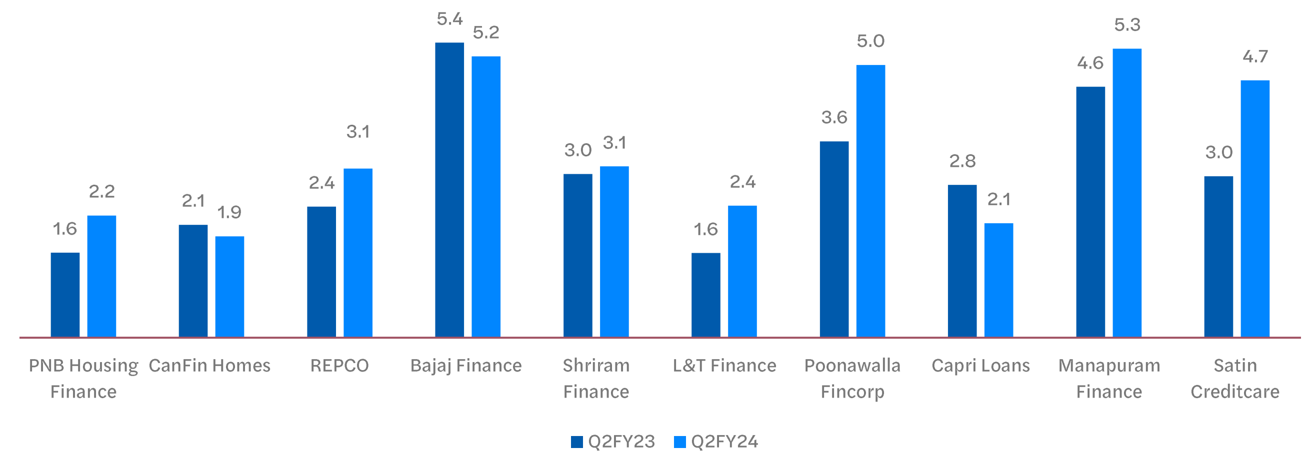


Source: Investor Presentations, Mazars Analysis

NBFC performance tracker

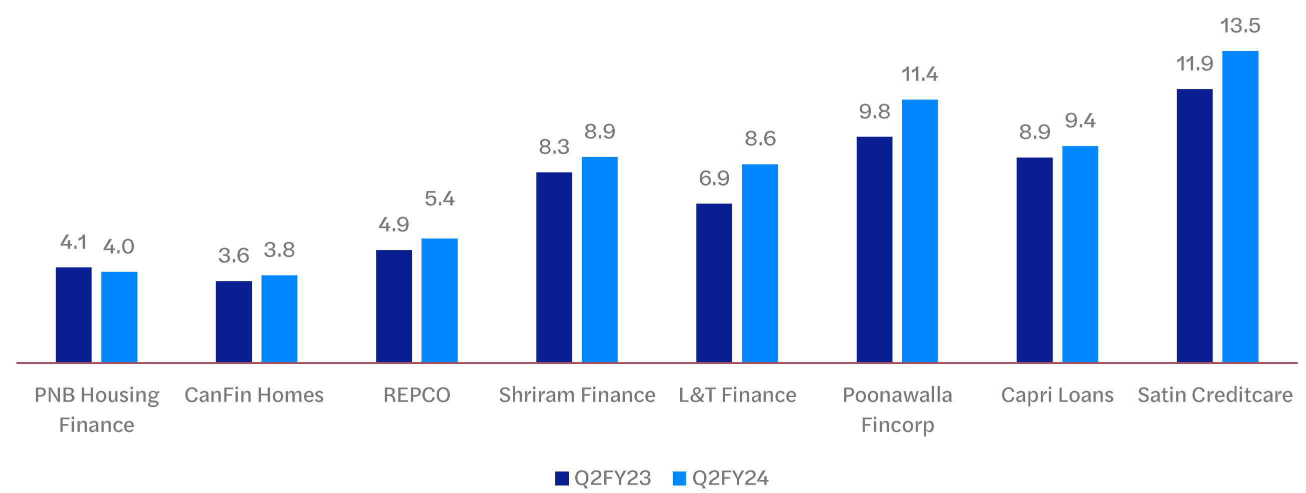
Top NBFCs and a track of their performance

Return on assets



The top NBFCs under analysis registered a significant increase in their average return on assets (ROA) between Q2 FY23 and Q2 FY24. During the period, the average ROA of NBFCs examined, marked a ~0.5% increase, reaching ~3.5% in Q2 FY24, up from ~3.0% in Q2 FY23. Majority of NBFCs experienced an increase in ROA during the period with Satin Creditcare and Poonawalla Fincorp witnessing the biggest improvement of ~1.8% and 1.4% respectively, while Capri Loans registered a contraction of 0.7% during the period. The Net Interest Margin (NIM) of the NBFCs analysed, improved by 0.8% and averaged 8.1% in Q2 FY24, as compared to 7.3% in Q2 FY23. L&T Finance recorded the greatest increase of ~1.7% among the top NBFCs, followed by a ~1.7% increase for Satin Creditcare and a 1.6% increase for Poonawalla Fincorp. PNB Housing Finance was the only player to witness a decline in its NIM, NIM for the lender declined by 0.2% during the same period.

Net interest margin



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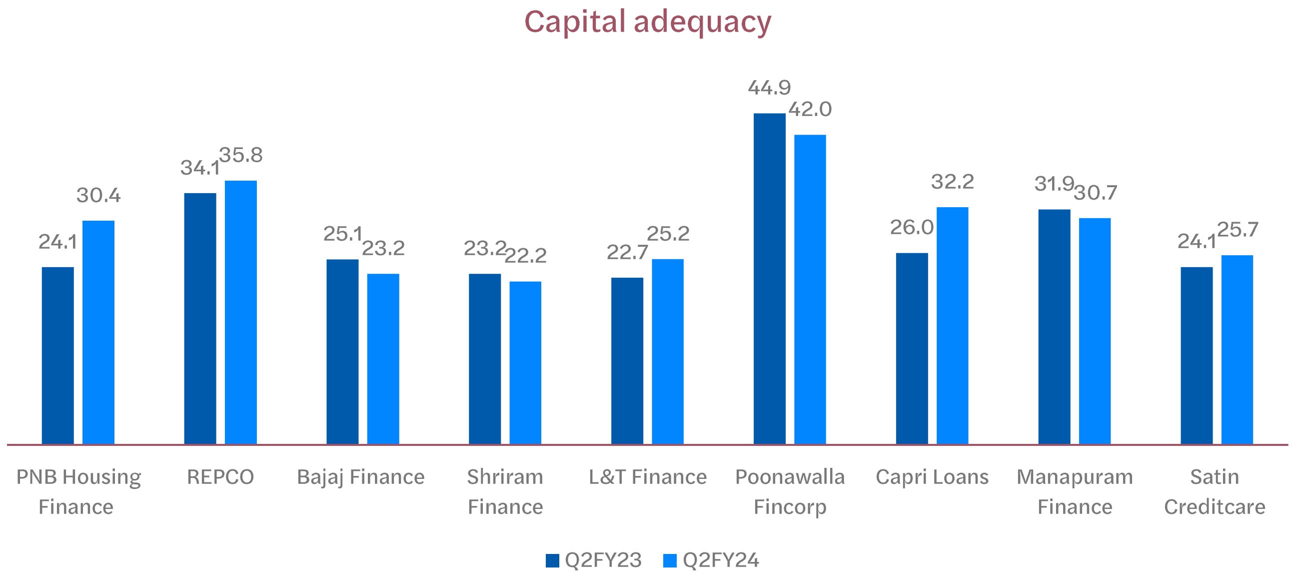
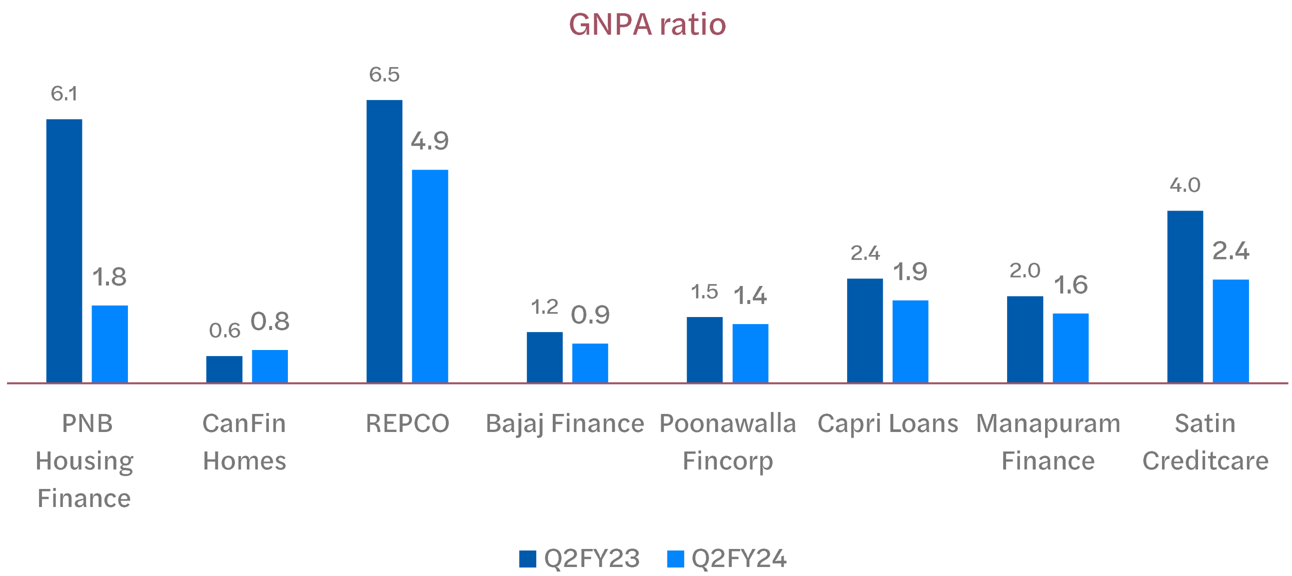
Top NBFCs and a track of their performance



During Q2 FY24, the average capital adequacy ratio for the top NBFCs under examination experienced a 1.7% improvement and reached 29.7% as compared to 28.0% in Q2 FY23. Among all the NBFCs analysed, PNB Housing Finance experienced the most significant increase in its capital adequacy ratio, increased by 6.3% to reach 30.4% in Q2 FY24, followed by Capri Loans, which witnessed an improvement of 6.2%, during the same period. Whereas Poonawalla Fincorp experienced a decline of 2.9% in Q2 FY24. Furthermore, majority of NBFCs saw an improvement in their GNPA ratio during Q2 FY24. PNB Housing Finance experienced the most significant improvement of 4.3% as compared to Q2 FY23, followed by REPCO witnessing an improvement of 1.6% during the same period.



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