Press Release

November 23, 2017 | Mumbai

Non-banks' share of credit pie to increase 300 bps in 3 years

Wholesale credit to outperform, constitute 19% of overall non-bank credit by 2020

The share of non-banks (comprising non-banking finance companies, or NBFCs, and housing finance companies, or HFCs) in India's credit pie is seen rising 300 basis points (bps) to 19% over the next three years through fiscal 2020. That would be faster than the four fiscals (to 2017) it took to notch up similar growth in credit share (from 13% to 16%).

And that's despite intensifying competition from private banks, which continue to aggressively ramp up retail lending, and public sector banks trying to claw back into the segment after recapitalisation.

While non-banks would continue to do well in their traditional stronghold of retail finance, they are seen growing fastest in the wholesale finance segment, which would provide a kicker to their overall credit growth.

Home loans, the largest business segment for non-banks, is expected to grow at a steady CAGR of ~18% over the next three fiscals, owing to sharper focus of HFCs on the self-employed customer segment and lower ticket sizes.

But the loan against property (LAP) segment is witnessing stronger-than-expected headwinds amid intensified competition from banks, and rising delinquencies. Yield compression has been sharper and happened sooner than expected. Consequently, growth in LAP is expected to be slower than before.

On the other hand, vehicle finance is expected to rebound from recent lows on the back of higher investments in roads and expected improvement in industrial activity. The underlying asset quality in this segment is also getting better and we expect profitability metrics to tick up post the current transition period.

Wholesale finance is an evolving area where a number of NBFCs have entered over the past five years, many of which have strong parentage. Consequently, the share of wholesale credit in the overall NBFC credit pie is expected to increase to 19% by 2020 from 12% in 2014.

Says Gurpreet Chhatwal, President, CRISIL Ratings, "The opportunity in realty and the structured credit space has increased materially after the implementation of RERA and rising demand for mid-corporate promoter financing. In infrastructure financing, highways offer a large and growing opportunity. However, there is concentration risk because of large ticket sizes. Consequently, prudent underwriting standards and close monitoring are crucial to sustainable growth."

The performance of NBFCs has been resilient so far due to their solid understanding of customers, track record of product innovation, efficient delivery systems, and differentiated value proposition. The challenge is balancing the risk-reward ratio as increasing competition puts pressure on yields. CRISIL believes proactive investments in technology will be of help.

Says Krishnan Sitaraman, Senior Director, CRISIL Ratings, "The growth of fintechs is an opportunity for collaboration – and not competition – for NBFCs on the origination side. The benefits will stem from better quality and lower cost of origination, stronger underwriting norms, more focused identification of customers, and expansion of the target market segment. However, NBFCs' collections architecture will be predominantly offline given the importance of close customer engagement."

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Last updated: April 2016

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