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Non-banking Financial Companies

Growth momentum to moderate as operating conditions tighten for NBFCs

January 2024

Agenda

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1 NBFC-Retail Sector Outlook

2 Macroeconomic Trends and Underlying Growth Drivers

3 Overall Sectoral Performance Trends

4 Impact analysis of RBI's Recent Regulations

5 NBFC-Retail Asset Class-wise Trends

6 ICRA Rating Action Across NBFCs/HFCs/MFIs

Highlights

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Profitability of NBFCs would moderate by 20- 40 bps on a YoY basis in FY2025.

Incremental funding requirement for meeting the growth of the NBFC-Retail segment is estimated around Rs. 3.0 trillion in FY2025.

Entities continue to reduce their on-book liquidity, given the pressure on margins.

- The Retail AUM of NBFCs (NBFC-Retail; *excluding HFCs)* continued the growth momentum in Q2 FY2024, expanding 29% YoY. ICRA expects the NBFC-Retail segment to grow by 21-23% in FY2024, moderately lower than the growth witnessed in H1 FY2024, given the base effect of the expansion seen in H2 of FY2023. The growth is expected to moderate further in FY2025 on the back of a tighter market liquidity expectation and large base created from the strong growths witnessed in FY2023-FY2024.
- The unsecured segment, consisting of PL & CL, unsecured SME & MFI loans, which drove growth in the last fiscal , continued to support growth in the current fiscal till H1 FY2024. Incrementally, in H2FY2024 and FY2025, PL & CL would slow down given the recent regulatory measures. Secured NBFC-Retail AUM, consisting of VEF, GL and SBL, etc, is forecasted to grow by 18-20% in FY2024 and 16-18% in FY2025.
- Incremental funding requirement (over and above the refinancing of existing/maturing debt) is estimated at around Rs. 3.0 trillion annually in FY2024 and FY2025. Given that the share of bank credit to NBFCs is likely to remain constrained, they would have to increase funding from other sources including via market issuances and securitisation to meet the envisaged growth. Entities are also incrementally reducing on-book liquidity to fund a portion of their disbursements.
- Regulatory developments and tighter liquidity shall push up the weighted average cost of funds (CoF) by 30-50 basis points (bps) in H2 FY2024 and further 20-40 bps in FY2025. Moreover, as most NBFCs have a fixed rate loan book, they are expected to face further margin pressure in FY2025. This, along with the bottoming out of credit costs, would impact the net profitability, which would moderate by 20- 40 bps in FY2025 vis-à-vis FY2024.
- The NBFCs (excluding HFCs) have wound down provisions over the last two years. While the credit costs have remained rangebound in FY2024, incremental provision required for loan growth and loan losses in FY2025, as headline asset quality metrics weaken from the lows seen in FY2024, would result in some increase in credit costs vis-à-vis the previous fiscal.
- The capitalisation profile shall remain adequate for meeting the growth targets. Some entities, with tighter capital positions, would raise capital. This would, however, be driven by the new regulatory requirements (risk weight on consumer credit, leverage guidelines, etc) if any. More entities shall raise capital in the next fiscal if strong growth continues.

^NBFCs – Non-banking financial companies; HFCs – Housing finance companies (excluding HDFC); AUM – Assets under management
Sector – NBFC-Retail/Wholesale, HFC-Retail/Wholesale, NBFC-Infra; VEF Vehicle finance; GL – Gold loans; SBL – Secured business loans; PL – Personal Loans; CL-Consumer loans; SME – Small enterprise loans; MFI - Microfinance

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Thank You!