

Non-banking Financial Companies

**Well-placed for strong performance
in FY2024 as well**

July 2023



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NBFC-Retail AUM to grow by 18-20% in FY2024

Incremental funding requirement for meeting this growth is estimated at Rs. 4.7-5.0 trillion

Profitability of NBFCs would witness some moderation in FY2024 compared to the previous year



- ICRA has revised the growth outlook for the retail loans of NBFCs (NBFC-Retail; *excluding HFCs*) to 18-20% from its previous forecast of 12-14%. NBFC-Retail AUM, as of March 2023, stood at ~Rs. 14.0 trillion, up 26% YoY.



- The unsecured loan segment, consisting of personal & consumption loans, unsecured small enterprise loans and microfinance loans, which drove growth in the last fiscal, would continue to support growth in the current fiscal. This segment is expected to expand by 26-28% in FY2024.



- Secured NBFC-Retail AUM, consisting of vehicle finance, gold loans and secured business loans, etc, is forecasted to grow by 14-16%. The overall sector* would grow about 13-15% in the current fiscal vis-à-vis the 16% growth witnessed in FY2023.



- The overall sector's incremental funding requirement (over and above the refinancing of existing/maturing debt) is estimated at Rs. 4.7-5.0 trillion. Expansion in overall bank credit, the healthy market issuance trend and strong securitisation demand shall ensure adequate fund availability for the sector.



- NBFCs (excluding HFCs) have wound down provisions over the last two years. Incremental provision required for loan growth and loan losses would keep credit costs range-bound vis-à-vis the previous fiscal, even as the asset quality is set to stabilise.



- The cost of funds (CoF) for entities is, however, expected go up by 60-80 basis points (bps) in the current fiscal. Coupled with the fact that most NBFCs have a fixed rate loan book, entities are expected to face some pressure on margins in FY2024. This, along with higher operating costs, would impact the net profitability, which would moderate by up to 20 bps vis-à-vis the last fiscal.



- The capital 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 (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



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