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# Non-Banking Financial Companies (NBFCs)

## NBFCs riding on pre-owned vehicle assets to drive up profitability

FEBRUARY 2024

# Highlights

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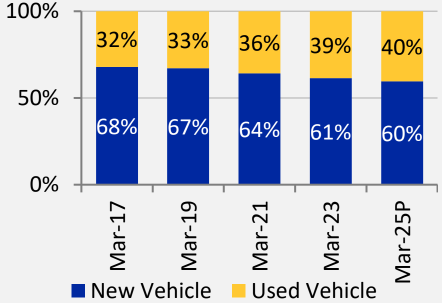


*Increase in used vehicle assets reduce margin pressures of financiers, managing asset quality, however, would be critical.*

- Vehicle segment share in overall NBFC assets under management (AUM) has steadily moderated to 14% in March 2023 from 17% in March 2016; vehicle finance AUM growth was lower than other retail assets, namely business and consumption loans. Further, lower growth is attributed to the slow revival in overall vehicle sales volumes after the pandemic along with increasing competition from banks.
- NBFCs are increasing their focus on pre-owned/used assets as financial penetration is lower and the used asset market is quite sizeable. Used assets share in the overall vehicle book is expected to expand to 40% by March 2025 from about 35% in March 2020.
- Vehicle assets of NBFCs shall expand at a CAGR of 15-17% in FY2024-FY2025 over 10% CAGR in FY2019-FY2023. This shall be driven, to an extent, by used asset expansion, which is expected to grow at a CAGR of 18-20% in FY2024-FY2025 over new assets AUM growth of 14-16%.
- Competitive pressures are high in new commercial vehicle (CV) and passenger (PV) segments, where banks command a sizeable share. In these segments, share of used assets in NBFC AUM is expected to expand to ~55% and ~38%, respectively, by March 2025 over ~50% and ~30%, respectively, in March 2021.
- Used vehicle asset quality has remained relatively weak, however, the risk adjusted returns are better with limited competition from banks.
- Vehicle financiers* carry adequate provisions at present and expect the same to improve, going forward, as they up the share of used assets. Credit losses are lower than NBFC-Retail (excluding HFCs) players.
- Return indicators for vehicle financiers are moderate than NBFC-Retail (excluding HFCs). Thus, managing growth in used assets while keeping asset quality under control and maintaining adequate capital buffers shall remain key, going forward.

*Source: ICRA Research; HFCs- Housing Finance Companies * NBFCs having more than 50% of their AUM in vehicle finance business*

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# Thank You!