

Delinquencies in loan against property to rise: India ratings

According to the Ind-Ra report, early signs of stress are already visible and especially amongst the NBFCs

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Loan against property, one of the segments that has been witnessing high double digit lending growth may begin to see higher levels of stress, as per a report by rating agency India Ratings and Research (Ind-Ra).

As per the report, early signs of stress are already visible and especially amongst the Non Banking Financial companies (NBFCs). "Delinquencies may even exceed 5 per cent on a static basis for a few NBFCs, about three times of those in FY14. The signs of early stress are clearly visible in the LAP business loan pools assessed by Ind-Ra, indicated by a sharp rise in 90 days past due delinquencies for some of the large players," said the report.

As per the analysts, stagnant property prices especially in metros and large cities which are the primary markets for medium and large ticket LAP and squeeze on refinancing due to risk aversion is leading to the stress.

Even though this is a secured lending segment some banks had begun to get cautious in this segment in the last few months due to excess competition. "Several players especially the NBFCs had started getting very aggressive in this space and that was leading to unnecessary competition and at times lending to some profiles that we may not otherwise be very comfortable with so we had started going slow in it," said one of the retail heads of a private sector bank.

"Intense competition has pulled the yields significantly which have shrunk to about 300 basis points over State Bank of India's base rate. After adjusting for yield reversals on NPLs and operating costs, yields may not, at least for few players with uncompetitive funding costs, leave enough buffers to absorb spikes in credit costs," said the report.

The analysts also added that in a majority of cases, property valuation is outsourced to third-party valuation companies and therefore the methodologies followed are not standardised yet that may lead to stress.

In a bid to garner market share in this segment, lenders are believed to have diluted the use of risk mitigation practices. Apart from Non-residential properties (including industrial, commercial, freehold land, unoccupied residential property, among others) are increasingly being accepted as collaterals. This proportion could go as high as 30 per cent of the portfolio for some players and the realization on liquidation of these properties is low, said the report.