

12:15 PM 21 DEC MARKET STATS ▾	SENSEX 26,338 ▲ 29.77	NIFTY 50 8,090 ▲ 7.55	GOLD (MCX) (Rs/10g.) 27,183 ▲ 53.00	USD/INR 67.86 ▼ -0.18	CREATE PORTFOLIO	Download ET MARKETS APP	CHOOSE LANGUAGE ENG
--	---------------------------------	---------------------------------	---	---------------------------------	-------------------------	--------------------------------	------------------------

NBFCs at higher risk of defaults on LAPs: Moodys

By *Joel Rebello*, ET Bureau | Updated: Dec 16, 2016, 07.02 PM IST

[Post a Comment](#)

MUMBAI: India's non-banking finance companies (NBFCs) are at a higher risk of defaults from loans against property (LAP) post the withdrawal of high currency notes but low loan to property ratios will ensure that the losses are limited, credit ratings agency Moody's said in a note on Friday.

The ratings agency estimates that LAP as a segment has grown at a compounded rate of 25% per annum, much higher than the 17% growth in retail credit aided by loose underwriting standards. These loose standards will come back to bite the industry in the next few months, Moody's said.

These risks are higher with respect to NBFCs. "We see some non-bank lenders as being at greater risk than traditional banks, due to their higher exposure to non-traditional segments of the market. In particular, these institutions have less diversified loan books than traditional banks, and have a clientele that is more exposed to cash flow disruptions as a result of India's demonetization in early November 2016," Moody's said.

The government announced the withdrawal of Rs 500 and Rs 1000 notes on November 8 which constituted 86% of the currency in circulation. Until December 10 people have deposited Rs 12.44 lakh crore worth of notes in banks while the Reserve Bank of India (RBI) had added only Rs 4.61 lakh crore worth of notes back into circulation. The resultant shortage of cash has disrupted businesses leading to delays in repayment.

To be sure, risks in the LAP segment have been increasing because of the depreciating value of collateral which in many cases is residential or commercial properties of small businessmen.

Moody's said that the 90+ days past due rate of LAP loans reached 2.7% as of March 2016 compared to 2.3% as of March 2015.

Moody's said this segment has also attracted new market entrants in recent years, because of its high yields and meaningful loan ticket sizes. Which means that competition has also intensified leading to stress. Around 10-11 players now having loan book sizes of at least \$1 billion, compared to 2-3 players four years ago.

"The looser underwriting standards adopted by some of these lenders in pursuit of aggressive growth is starting to translate into deteriorating asset quality, a trend we expect to continue as lenders revert to more conservative underwriting practices," Moody's said.

However, the rating agency does not predict a sharp deterioration because the loan to value (LTV) ratio for these loans are comfortable at 60% to 70%. LTV is the amount of money banks or NBFCs are willing to lend against the value of the property taken for collateral. Typically home loans LTVs are higher at 80% or more.

Stay on top of business news with The Economic Times App. [Download it Now!](#)

Live Market	News	Portfolio	Mobile	Live TV	Newsletter	Commodities	Speed	QnA	Blogs	Alerts	RSS
Other Times Group news sites Times of India इकोनॉमिक टाइम्स छंदीनोमिड टाइम्स Mumbai Mirror Times Now Indiatimes नवभारत टाइम्स महाराष्ट्र टाइम्स ವಿಜಯ ಕರ್ನಾಟಕ Lifehacker Gizmodo Eisamay IGN India NavGujarat Samay	Living and entertainment Timescity iDiva Zoom Luxpresso Gaana Happytrips Cricbuzz Get Smartapp Networking itimes MensXP.com	Hot on the Web Budget 2017 Sensex, Nifty Live Year-End Special 2016 UP & Punjab Assembly Elections 2017 Live: Currency Demonitisation Gold Rate RBI Monetary Policy	Services ads2book Gadgetsnow Free Business Listings Simplymarry Astrospeak Timesjobs Magicbricks Zigwheels Timesdeal dineout Filmipop Remit2India Gaana Greetzap Techradar Alivear Google Play								