

Business Standard

Banks' loss is NBFCs gain as lenders become risk averse: Report

NBFC's contribution to the economy has grown from 8.4% in 2006 to above 14% in March last year

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Bank employees

With public sector banks battling mounting non-performing assets and losing risk appetite, non-banking financial companies have a big opportunity knocking at their doors, says a report.

"With ongoing stress in public sector banks due to mounting bad debt, their appetite to lend (especially in rural areas) is only going to deteriorate, thus providing NBFCs with the opportunity to

increase their presence," the paper brought out by Assocham and PricewaterhouseCoopers (PwC) noted.

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Stressed assets of banks, mostly in public sector, are estimated to have touched Rs 10 lakh crore at the end of fourth quarter of 2015-16, according to a recent Assocham report.

In the backdrop of large exposure of banks to sectors suffering the most such as steel, infrastructure and power, their risk aversion is understandable, the report noted.

"So far, NBFCs have scripted a great success story. Their contribution to the economy has grown leaps and bounds from 8.4% in 2006 to above 14% in March last year.

In terms of financial assets, NBFCs have recorded a healthy compounded annual growth rate (CAGR) of 19% over the past few years, comprising 13% of financial assets and expected to reach nearly 18% by 2018-19," the report pointed out.

It attributed the success of NBFCs to their better product lines, lower cost, wider and effective reach, strong risk management capabilities to check and control bad debts and better understanding of their customer segments.

"Going forward, the latent credit demand of an emerging India will allow NBFCs to fill the gap, especially where traditional banks have been wary to serve.

"Additionally, improving macroeconomic conditions, higher credit penetration, increased consumption and disruptive digital trends will allow NBFCs' credit to grow at a healthy rate of 7 to 10% (real growth rate) over the next five years," said the report.

"In order for NBFCs to realise their true potential, the regulatory framework must succeed in walking the thin line between under-regulation and over-regulation.

"With this objective, RBI has brought about a spate of reforms in the NBFC regulations... It will be interesting to see how the NBFC sector and the regulator work with each other to usher in an era of financial inclusion," PwC said.