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NBFCs fare better than banks

By *Shilpy Sinha*, ET Bureau | Updated: Jun 28, 2016, 05:56 PM IST

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MUMBAI: The [non-banking finance companies](#) continued to perform better than the banks with the balance sheet expanding by 15.5%, said the [Reserve Bank of India](#) in its latest [Financial Stability Report](#).

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"The financial performance of NBFC sector has remained unchanged for the last two years. Net profit as a percentage of total income remained at 15.3% between March 2015 and March 2016 and ROA stood at 22% during the same period," RBI said in the report.

NBFC sector is growing at the cost of banks that are saddled by bad loans and poor profitability. Banks ability to lend is constrained due to Basel III capital requirements. Many niche NBFCs have come up over the years lending to segments like [gold](#), housing, [infrastructure](#) and retail.

The aggregated balance sheet of the NBFC sector expanded by 15.5% on a year-on-year basis in March 2016, the report said.

Loans and advances for the period rose 16.6% while total borrowings were up 15.3% in March 2016. This is when bank credit grew by less than 10%.

On the asset quality front, NBFC sector performed better than banks with the gross non-performing assets of NBFCs as a percentage of total advances declining to 4.6% in March 2016 from 5.1% in March 2015. Net non-performing loans as a percentage of total advances declined to 2.5% from 2.9% during the same period.

This is despite NBFCs moving to 150+ day NPA recognition norm during the last fiscal. The government in the Union Budget has allowed NBFCs with asset size of above Rs 500 crore would be permitted to access the provisions of Sarfaesi Act. This would further improve NBFCs' ability to make recoveries.

The Reserve Bank of India has prescribed stringent norms on capital adequacy and NPA in order to bridge the regulatory gaps between NBFCs and Banks, asking NBFCs to maintain minimum capital of Tier I and Tier II of not less than 15% of their risk weighted assets.

RBI said that seven NBFCs were not able to meet the regulatory minimum capital adequacy norms of 15% as of March 2016.

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