

NBFC market cap is twice that of PSU banks

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In 2006, their m-cap was half that of PSBs



Mumbai, June 5:

Non-banking financial services companies (NBFCs) may have smaller scale operations, but when it comes to building investor wealth, they are way ahead of large public sector banks and as good as the private ones.

The market capitalisation of NBFCs, which was just 50 per cent of public sector banks' on March 31, 2006, is now nearly twice that of the latter at the end of FY 2016.

During the same period, the net profit of 33 NBFCs grew at a compound annual growth rate of 23 per cent, according to data provided by Capitaline. In comparison, 13 private banks' net profit grew at 23.88 per cent during the ten-year period.

“While banks faced another weak quarter with high provisions for bad loans, resulting in a loss for most public banks and sharp growth deceleration for private banks, better-than-expected asset quality performance was the key highlight for NBFCs in the March 2016 quarter,” said analysts at Kotak Institutional Equities.

The growth in NBFCs is not only due to the strong financial performance reported by most players, but also due to the rise in the number of niche players over the years.

Nine companies listed in the last ten years, with newer and niche businesses such as gold loans, home finance and micro finance. Brokerages such as Motilal Oswal and Edelweiss Securities have also begun focussing on the NBFC business.

Most-valued

The most-valued NBFCs are HDFC, Bajaj Finance, Indiabulls Housing Finance, Bajaj Finserv and Shriram Transport Finance. The market capitalisation of HDFC, for example, is higher than State Bank of India.

Focussed home finance players, especially mid-sized ones such as Can Fin Homes, Dewan Housing Finance, Gruh Finance and LIC Housing Finance, figure among the top ten wealth generators in the NBFC space. The raising of FDI limit up to 49 per cent in insurance also partly sparked interest in companies such as Bajaj Finserv.

However, companies involved in gold loans and infrastructure lending, including Muthoot Finance, Manappuram Finance, Power Finance Corporation, Rural Electrification Corporation and PTC India Financial Services, have been laggards due to inherent problems, such as falling gold prices and the slump in infrastructure spending after the global economic slowdown.

State-owned banks, on the other hand, made a cumulative loss of ₹ 17,257 crore in FY16 while their net interest income rose at 14.6 per cent between FY06-FY16.

The non-performing assets of SBI, India's largest bank, both gross and net, almost doubled in FY16 to 6.5 per cent and 3.8 per cent, respectively, from 3.6 per cent and 1.9 per cent in FY06.

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