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Funding costs on the decline, NBFCs step up their game

By [Saikat Das](#), ET Bureau | Updated: Jul 19, 2016, 06:58 AM IST

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MUMBAI: Non-banking finance companies (NBFCs) are seeing their **funding** costs fall in the past few months as the likes of [Bajaj Finance](#), and Indiabulls Housing Finance have expanded credit much faster than average bank loans.

With a few rating upgrades, these companies are set to see a further drop in borrowing costs.

"Our cost of borrowings has come down by 110 basis points on an average since our rating upgrade," said Gagan Banga, managing director, Indiabulls Housing Finance. "We have passed on majority of the benefits to our customers. Overall, we have added 30 basis points to our margins."

A basis point is one hundredth of a percentage point. Indiabulls Housing Finance was upgraded to triple-A grade in July last year. A few weeks ago, Care Ratings also upgraded the company's subordinate, or unsecured debt rating, to top grade.

"One notch upgrade should ideally lower borrowing costs by 40 basis points. Over a period of time, we expect the borrowing costs to come down further," said Banga.

Bruised by bad loans, banks have been growing loans less than 10 per cent on a year-on-year basis. But NBFCs have expanded credit, mostly in the range of 15-25 per cent, as they ensure better credit quality through retail lending mechanism.

NBFCs, including home loan lenders, mostly tap the bond **market** to support their credit growth.

"Bond sales by NBFCs, or HFCs (Housing Finance Corporations), have gained traction in the past one year as those issuers nowadays offer better credit quality," said Ajay Manglunia, executive vice-president at [Edelweiss](#) Finance. "Informed investors prefer to bet on them more than commercial banks. Their borrowing costs have fallen sharper than expected."

Average borrowing costs have clearly shrunk in the wide range of 40-80 basis points in the past six to 12 months, according to industry estimates. Although falling interest rate regime has contributed to the dips, such a plunge is equally credited to the flourishing business models carried out by those companies.

For instance, [Dewan Housing Finance](#) lowered its borrowing costs by 68 basis points between FY15 and FY16.

"This (lower costs) has resulted in some improvement in the net interest margins," said Siddharth Purohit, senior equity research analyst at [Angel Broking](#). "But we feel going ahead, HFCs could pass on large part of the incremental benefits to new borrowers to push volume growth."

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