

## NBFCs outperform private banks in June quarter

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*This is thanks to a combination of robust loan book growth and decline in cost of funds*

Mumbai, August 3:

Non-banking finance companies have outperformed private banks in terms of financial performance in the June 2016 quarter by a wide margin.

Though their businesses are not directly comparable due to the different customer profiles, regional presence and business models, the better performance of NBFCs *vis-a-vis* private banks shines through when judged on common parameters, such as loan book, cost of funds, net interest margin and asset quality.

Besides, many NBFCs are increasingly being compared to private banks on the growth front.

Net interest income (NII) of 16 NBFCs on an aggregate basis has jumped 21 per cent year-on-year to Rs. 12,898 crore compared to 15 per cent by 11 private banks to Rs. 24,597 crore in the June 2016 quarter, according to data provided by Capitaline.

While NII growth y-o-y for NBFCs saw improvement from 7 per cent compared to the March 2016 quarter, the same for private banks has deteriorated from 21 per cent.

“From the beginning of 2014, the yield on 10-year government bonds, a rough proxy for wholesale borrowing costs of NBFCs, has come down by about 150 basis points.

“Over the last two years, the overall loan book of NBFCs grew at 16 per cent annually, or almost twice as fast as bank credit growth over the same period,” pointed out Morgan Stanley in a report.

Thus, a combination of robust loan book growth and decline in cost has led to NBFCs reporting a jump in their topline (NII).

Net profit of NBFCs leaped by 26.4 per cent y-o-y in the June quarter to Rs. 5,563 crore compared to a decline of 4 per cent y-o-y witnessed in the previous quarter.

For private banks, the same nudged up 3.4 per cent compared to a negative growth of 14 per cent.

The robust bottomline performance by NBFCs comes without compromising on asset quality.

Average gross non-performing assets (in terms of percentage of advances) of NBFCs have been stable y-o-y as well as sequentially unlike private banks, which have seen the same inching up y-o-y as well as sequentially.

### Shares soar

Shares of many NBFCs have been soaring on the bourses as analysts continue to expect better and robust outlook for many.

Shares of 10 NBFCs — Bajaj Finance, Bajaj Finserv, Bharat Financial Inclusion, Can Fin Homes, Cholamandalam Investment and Finance Company, Edelweiss Financial Services, IIFL Holdings, Repco Home Finance, Shriram City Union Finance and Shriram Transport Finance — touched new 52-week high levels recently.

“Valuation of NBFCs is not cheap. Seventy-five to eighty per cent of multiple expansion has already happened. Given a choice, I am more comfortable with valuation of small private sector banks than NBFCs at the current juncture,” said Pankaj Sharma, Head-Research, Equirus Securities.

Average valuation of NBFCs at three times FY18 price-to-book-value basis is now more than that of private banks’ 2.5 times.

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### NBFCs’ FY18 average valuation crosses private banks

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