Slowdown in NBFC sector likely to continue for a few more quarters

Shobha Roy Updated on January 03, 2019

The slowdown in the non-banking financial sector is likely to continue for the next couple of quarters. However, the sector may witness growth after that, supported by the demand for funding.

According to Sunil Kanoria, Vice-Chairman of SREI Infrastructure Finance, the overall balance sheet of NBFCs will come down in the next few months, as new sources of funding may not be easily available. However, the impact on profitability could be contained for those NBFCs that focus on their core business model.

SREI is one of the largest financial services groups in the country, with consolidated assets under management of more than $6.6 billion.

"We saw good growth during the first six months of this fiscal after which there was a sudden halt in the past three months. In the December quarter also we are likely to see overall reduction in balance sheet size of non-banks, and that will continue for the next few months or so," Kanoria told *BusinessLine*.

Sustainable models

It is important for NBFCs to focus on their core business models to restrict the impact on profitability.

While there are certain models that are strong and will continue to evolve and grow, there are a few others that need a rejig, and that would call for changes in regulatory framework and policies. According to him, there are two or three business models in the NBFC sector that will continue to drive growth. One, NBFCs that are focussed on particular asset classes such as construction equipment or commercial vehicle finance, where they not only provide finance but also manage assets and have developed specific skills set to do so over the years.

Second, fintech companies that have strong distribution and collection platforms, supported by efficient technology.

And finally, NBFCs that provide money to companies that do not get funding from the banking system, either by way of loan against property, corporate loans, or structured finance.

"For an economy like India where there is demand growth [but adequate] capital is not available, these three models would be there in the NBFC sector, and for people following any of these models or a combination of these, growth would come back," he said.

Liquidity, cost of funds

According to Kaushik Banerjee, CEO, Asset Finance, Magma Fincorp, the year 2018 saw headwinds for asset-financing NBFCs in the form of higher cost of funds on account of liquidity issues and reluctance on the part of banks to lend to this sector.

"There has been a sharp slowdown in industry volumes across most products after September 2018, particularly in cars and commercial vehicles, barring LCVs. This slowdown was on account of insurance costs, higher fuel costs, increase in lending rates, and enhancement of rated capacity in HCVs," he said.

However, with 2019 being an election year, Banerjee expects a recovery in industry volumes on account of the government's focus on the economy.

"This should result in higher disposable incomes, particularly in the non-urban markets. We expect the markets to witness a recovery in sale of commercial vehicles and cars leading to superior growth," he added.

Risk aversion

According to Kanoria, while liquidity was an issue for the NBFC sector, the bigger issue was that of risk aversion.

"There is latent demand. The economy has started picking up; there is expenditure by the government, both Central and State, consumption is also picking up. But because of capacity constraints, growth is not reaching its full potential. While liquidity is a challenge, it is not that major a challenge as risk aversion for NBFCs. If you are able to address these two, then we can see much faster growth," he pointed out.

With India heading for elections towards mid-2019, there could be some level of uncertainty for the next couple of months. Announcement of new policies and initiatives would also be slow, and that is likely to have some impact on the system.

In a recent meeting with the Prime Minister, NBFC heads sought a liquidity window to address the issue of risk aversion. They have also urged the Centre to allow NBFCs to access public deposits. "If this window is made available, the marketplace will start to take some risk on NBFCs which they have stopped. But for long-term sustainability, we have sought permission for NBFCs to access public deposits, as well as for more NBFCs to be granted banking licences," he said.

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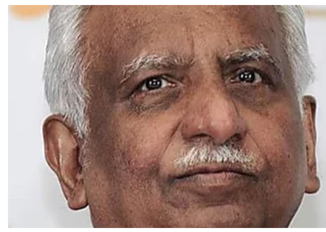
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