Net interest margin of NBFCs likely to come under pressure

Our Bureau Mumbai | Updated on April 15, 2019 Published on April 15, 2019

0

Small NBFCs face balance sheet contraction on tight liquidity and sell-down of portfolios

With limited availability of liquidity and sell-down of portfolios, net interest margins (NIMs) of non-banking finance companies (NBFCs) might be under pressure across the board, with small- and low-rated NBFCs facing balance sheet contraction, according to an industry wrap by State Bank of India's economic research department.

NIM, which indicates how well a lender manages its assets and liabilities, is measured as the excess of interest income over interest expense scaled by total assets.

SBI's NBFC industry wrap said that in some of the sub-sectors, such as housing finance, the high leverage is a cause for concern, and needs to be addressed appropriately along with efficient asset-liability management (ALM), which will always be critical.

NBFCs, with higher exposure to SMEs/loan against shares and developer loans, may see near-term pain, it added. Referring to liquidity issues and ALM mismatches being faced by some of the NBFCs, the report said they have witnessed an increase in the cost of funds, and are trying to shore up the liquidity levels now.

No change in financials

Overall, given the current backdrop in the NBFC space, the report assessed that nothing major has changed in the financials of the sector per se, except the overall perception towards the sector. Further, both asset quality as well as capital to risk-weighted assets (CRAR) ratio look better in than the previous year, and the model followed by NBFCs is more or less the same as hitherto.

At the same time, it is also true that some of the NBFCs have raised interest rates in the last few months amid liquidity issues.

Bridging the gap

In her foreword to the report, Anshula Kant, Managing Director (Stressed Assets, Risk and Compliance), SBI, said: “NBFCs have been playing an important role in bridging the gap between organised and unorganised lending, and are considered an important pillar of the economy.

“In recent times, the regulators have come out with various policy measures, including partial credit enhancement. harmonisation, and co-origination as an enabler for the sector.”

Additionally, RBI’s recent announcement of setting up a committee on the Development of Housing Finance Securitisation Market is a welcome move, as a liquid secondary mortgage market would enable competitive interest rates and better asset liability management for financial institutions, Kant added.

According to the SBI report, as of March 2018, the aggregate size of loans and advances of NBFC sector (including HFCs), registered an annual growth of around 22 per cent, amounting to ₹27 lakh crore.

Continuing the trend, the first half of FY19 recorded a growth of 12 per cent, with loan size reaching ₹30-lakh crore. However, with the subsequent portfolio sell-out and liquidity issues, the loan size of NBFCs might not have expanded at the same pace as in H2FY19.

Published on April 15, 2019

NBFC

0

COMMENTS

Next Story

NBFC-MFIs raise ₹ 26,000 crore via securitisation route in FY19: ICRA