

Credit crunch: NBFCs to sacrifice profitability to survive via co-lending model

Published: September 25, 2019 1:35:38 AM

Industry executives say that non-banks could be reduced to being “sourcing agents” for banks, relying on fee income more than interest income.



NBFCs also say their cost of funds will trend down.

By Shritama Bose & Mitali Salian

It's not business as usual for India's non-banks, following the year-long credit crunch faced by them. In a bid to give them a lifeline, the central bank came out with norms allowing them to co-lend with public sector banks. As non-banking financial companies (NBFCs) adopt the co-lending model with banks as partners, they may be on the road to sacrificing profitability for the sake of survival.

Industry executives say that non-banks could be reduced to being “sourcing agents” for banks, relying on fee income more than interest income. Days of hefty balance-sheet growth are gone and many are already in the process of pruning their balance sheets.

The co-lending model notified by the Reserve Bank of India (RBI) envisages the use of NBFCs' reach and distribution capabilities to deploy funds sitting on banks' balance sheets in priority sectors. Several NBFCs are now in the process of tying up co-lending agreements with banks and some partnerships have already been frozen. State-owned banks will be able to reach new borrowers as their branch network has traditionally been harnessed more for fetching deposits rather than disbursing loans.

Some banks, such as Bank of Baroda (BoB), have decided to co-lend in non-priority categories as well. Papia Sengupta, executive director, BoB, said last month, "Our policy is covering both priority and non-priority sectors and when we asked for a clarification, RBI said very clearly that it nowhere bars us (the bank) from taking it (co-lending model) for non-priority sector."

Mehernosh Tata, business head – SME, Edelweiss Retail Finance, said that the model benefits customers for whom borrowing rates will come down. "For us, co-origination represents an alternate business model that is asset light and creates a sustainable revenue model through NIM (net interest margin) and fee income," he said. NBFCs will continue to have the capability to service customers and also address needs of those who are new to credit.

Bankers FE spoke to said that for a co-originated loan, between 70-80% of the sanctioned amount would flow from the bank, with the rest being put in by the NBFC. The interest rate charged to the customer would be a blended rate arrived at on the basis of the rates charged by the two institutions in question. In other words, an NBFC customer who may have earlier had to shell out 18% for a small business loan would now be charged 13%. Banks are interpreting the question of interest revenue-sharing in their own different ways. A senior official with a large public sector bank (PSB) said that after collecting interest from the borrower at say, 13%, the NBFC will get to retain the difference between the bank's interest rate and the final rate charged to the borrower. "That way, the effective cost of borrowing for the NBFC stands at my interest rate, maybe 10-11%. It is obviously higher than the 8-9% they would have been charged in the normal course," the banker explained.

Apart from that sliver of the interest component, NBFCs will also be earning a fee from the bank for sourcing the customer, processing the loan and making collections. "This means the NBFCs cannot remain as profitable as before," the banker said.

Another executive with a mid-sized PSB said, however, that the final interest rate charged to the borrower is the only one that comes into play in a co-originated loan. “There is no question of the bank and NBFC earning different interest rates. The RBI guidelines are very clear on that,” he said.

NBFCs also say their cost of funds will trend down. Rajesh Sharma, managing director, Capri Global Capital, said, “As banks have started offering lower lending rates as compared to FY18-19, loaning to the distressed sector are likely to get cheaper with co-origination model.”

Get live [Stock Prices](#) from BSE and NSE and latest NAV, portfolio of [Mutual Funds](#), calculate your tax by [Income Tax Calculator](#), know market's [Top Gainers](#), [Top Losers](#) & [Best Equity Funds](#). Like us on [Facebook](#) and follow us on [Twitter](#).

HOMEINDUSTRYBANKING FINANCECredit Crunch: NBFCs To Sacrifice Profitability To Survive Via Co-Lending Model

Luxury 3,4 & 5 beds nestled in Prabhadevi's finest gated estate.

Rustomjee Crown, Prabhadevi |

Sponsored

Book 2.5/3/4 BHK Apartments From Sobha Near Velachery, Chennai.

sobha.com |

Sponsored

RBI places curbs on Punjab and Maharashtra Cooperative Bank for six months

The RBI said that depositors with the Punjab and Maharashtra Cooperative Bank will not be allowed to withdraw more than Rs 1,000 from their accounts for the next six months.
