NBFCs see opportunities opening up, prepare to give fresh loans in June

BY SAIKAT DAS & ATMADIP RAY, ET BUREAU | MAY 19, 2020, 07.45 AM IST

Mumbai | Kolkata: Top non-banking finance companies are set to resume sanctioning fresh loans in June with sentiment boosted by the government stimulus and easing of the lockdown, even as they tread cautiously, aware that repayment capacities may have weakened with job losses and income declines. The Edelweiss Group, Mahindra Finance, IIFL Finance and Shriram Transport Finance have started disbursing loans with their clients demanding to draw down the limits sanctioned in March. Companies expect double-digit loan growth in the September quarter or early in the December quarter.

Microfinance firms have also started disbursing emergency loans to help grassroots borrowers tide over the immediate crisis. “We will resume our new loan sanctions beginning June,” said Umesh Revankar, chief executive officer at Shriram Transport Finance. “We see opportunities opening up in rural and semi-urban areas that are not hard hit by Covid-19. Truck movements are going to rise, aided by the government’s stimulus package and easing of the lockdown.” The economy had come to a standstill following a nationwide lockdown that started on March 25. Shriram funds purchases of second-hand vehicles and expects overall loan expansion at below 5%, although the pace is expected to pick up with double-digit credit growth in the September quarter. Closure of regional transport offices during first two phases of the lockdown brought Shriram’s business activities to a halt.

“We aim to attain 8-10% credit growth by the September quarter,” said Rashesh Shah, chairman at Edelweiss group. “Our clients are gradually coming back to work, which results in resumption of loan demand.” Edelweiss Finance plans to start sanctioning new loans from June as one-fourth of its customers are back in action. It will reopen 20% of its branches in smaller towns by this month end.

Credit and refinance facilities from Small Industries Development Bank of India (Sidbi) and National Bank for Agriculture and Rural Development (Nabard) have been operational, bridging the liquidity gap that was creating a mismatch between demand and supply till April, captains of the sector said. “We all have to build confidence first and turn sentiment to positive,” said Ramesh Iyer, managing director at M&M Financial. “Government stimulus helped in that direction. We are also reinvesting product designs and services.”

The company now permits new tractor customers to start repayments after one and a half months. Mahindra Finance is sanctioning two-month-old loan requests even as it gets new loan queries from rural farming companies. “We have already started digital loan sanctions for existing customers with a credit track record,” said Nirmal Jain, chairman of IIFL Group, which has resumed operations at half of its 1,800 branches.

NBFCs below the top rung, too, are gearing up to lend afresh, with the credit guarantee programme announced by the government likely to boost their fund flow. The RBI’s targeted long-term repo operation for smaller firms (TLTRO 2.0) will get a better response now as the risk would be borne by the government fully or partially, people familiar with the matter said. “The special liquidity support to lower-rated NBFCs will mean banks don’t have to take credit risk and NBFC papers are likely to be lapped up,” said Sanjay Chamria, managing director at Magma Fincorp.

NBFCs are opening branches mostly in the smaller towns and cities not hit badly by the outbreak. In cities, they have resumed operations in green and orange zones, which have fewer Covid-19 cases. Local branch chiefs are now empowered to take decisions on opening branches, especially in the rural and semi-urban areas.