Press Release

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NBFC AUMs to de-grow for the first time in nearly two decades

Disbursements to halve but moratorium, capitalisation of interest to limit AUM de-growth;
incremental funding remains the key monitorable

Assets under management (AUM) of non-banking financial companies[1] (NBFCs) are expected to de-grow 1-3% *(see chart in annexure)* in the current fiscal as fresh disbursements drop sharply. Excluding the top 5 NBFCs, the de-growth is expected to be even sharper at 7-9%. Lower repayments during the loan moratorium period (March 1, 2020, to August 31), and capitalisation of interest accumulated will, however, help limit the de-growth.

As for disbursements, four factors at play: one, the challenging macroeconomic environment, which would curb underlying asset sales, especially in the two biggest segments of housing and vehicle finance; two, sharper focus on liquidity as incremental funding is not easy to come by for many players in a confidence-sensitive scenario; three, stiff competition from banks as funding costs for many NBFCs remain relatively high; and, four, tightening of underwriting standards by NBFCs amid weak economic activity and expectations of increasing delinquencies.

Says Krishnan Sitaraman, Senior Director, CRISIL Ratings, "While disbursements across segments are expected to fall 50-60%, AUM trajectory will differ by segment. CRISIL's analysis of the largest segments of the NBFC AUM pie shows that most segments could witness contraction in the current fiscal. The silver lining, however, would be gold loans, which constitute ~5% of the AUM. Growth here is seen to be relatively higher as more individuals and micro enterprises go for it to meet immediate funding needs."

For majority of the NBFCs, multiple factors will be at play this fiscal, as the table below shows:

Extent of negative impact by parameters influencing NBFC AUM						AUM growth		
Segment	Share in NBFC AUM	Underlying asset sales	Competition from banks	Tighter underwriting	Funding access challenges	FY19	FY20 [E]	FY 21 [P]
Home loans	35-40%	High	High	Low	Medium	15%	5-7%	0-2%
Vehicle finance	15-20%	High	High	Medium	Medium	18%	5-7%	(3-5%)
Real estate and structured credit	15-20%	High	Low	High	High	11%	(8-10%)	(10-12%)
MSME finance*	10-15%	-	Medium	High	Medium	16%	3-5%	(3-5%)
Unsecured loans	~5%	High**	Medium	High	Medium	42%	25-30%	3-5%
Gold loans	~5%	-	Medium	Low	Low	15%	22-24%	14-16%
Overall						15%	4-6%	(1-3%)

*Note: Figures in bracket represent de-growth for the segment; *MSME – micro, small and medium enterprise: includes only Loans against property (LAP) and unsecured business loans; **only for consumer durable financing. The negative impact by parameters influencing NBFC AUM represents the expected impact of factors which would pull down the AUM growth for NBFCs.*
E: Estimated; P: Projected
Source: CRISIL Ratings

While each segment will show its own characteristics, the moratorium will support all. For example, the rundown in home loans is expected to be lower because of longer tenure and 20-30% of the book being under moratorium. That, along with some incremental disbursements in the latter half of this fiscal, and capitalisation of interest accumulated would support AUM levels. For wholesale finance, ~40% of the book is seen under moratorium in a business-as-usual scenario (with the addition of the Covid-19-related moratorium, 80-90% of the total book is estimated to be under moratorium).

In the current environment, competition from banks, especially in the traditional asset classes such as home loans and vehicle finance, is expected to be substantially higher given that banks have surplus liquidity and their focus will be on these asset classes in the retail space. But in real estate and structured finance, NBFCs have been catering to borrowers at the project stage, where banks do not have a major presence. As for micro, small and medium enterprises, especially loan against property, and the unsecured segments, even banks are expected to be cautious. As a result, NBFCs could still find a footing in the second half of the current fiscal.

[1] *NBFCs include housing finance companies but exclude government-owned NBFCs*

Despite intensifying competition from banks, NBFCs are expected to tighten their underwriting standards because of worries over asset quality deterioration. Such circumspection may limit disbursements to real estate, structured finance, MSME finance, and unsecured loans.

But access to incremental funding will be the bigger challenge, as reflected in corporate bond and commercial paper issuances of NBFCs over the past 20 months or so. Redemption issues and risk aversion at mutual funds (a key investor in this segment) are compounding the woes. Securitisation, too, has seen very few transactions after the onset of the Covid-19 pandemic because of asset-quality fears and lack of granular data on collection efficiency.

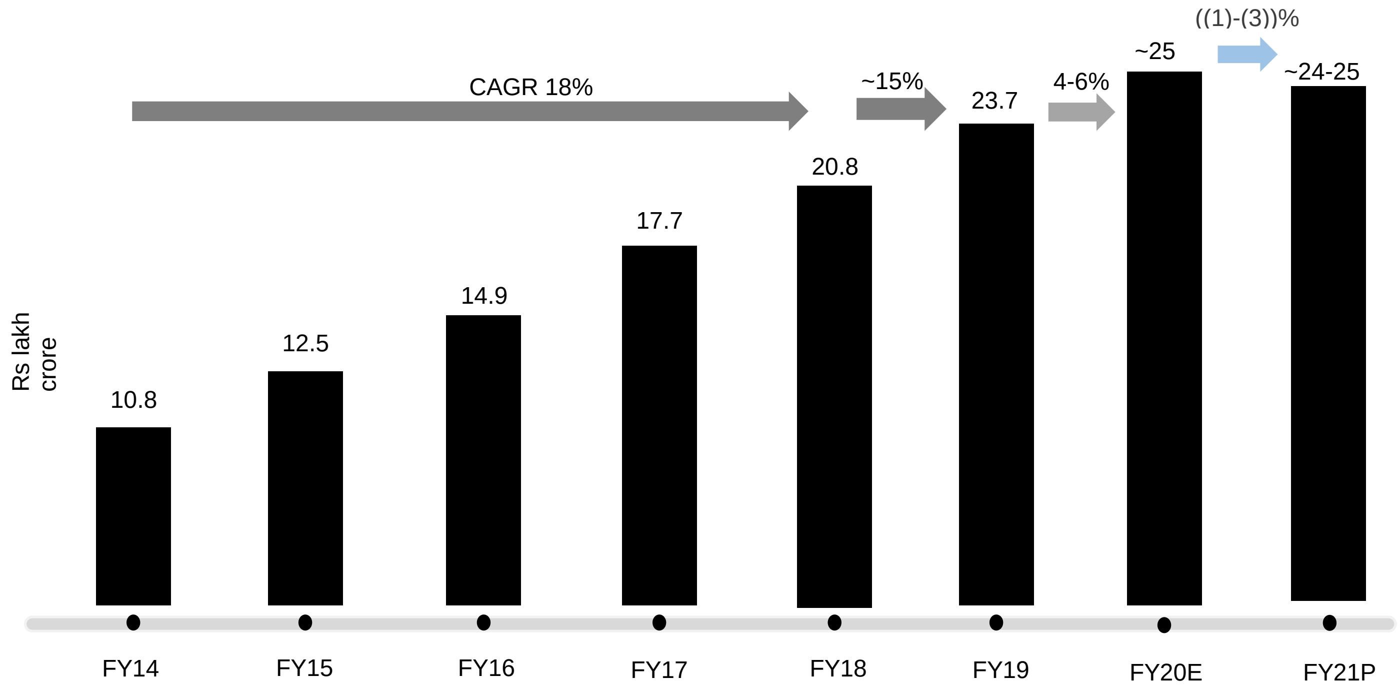
Says Ajit Velonie, Director, CRISIL Ratings, "Despite the decline in interest rates over the past six months, the funding cost for NBFCs has remained relatively high because of risk aversion among investors and lenders. On the other hand, public sector banks and leading private banks have surplus liquidity, marked by improving low-cost funding such as current and savings account deposits. With banks sharpening focus on retail loan products, NBFCs are expected to lose share, especially in the housing and vehicle finance segments."

Some green shoots were visible in June when NBFC fund-raising from banks improved because of the long-term repo operations (LTRO) window opened by the Reserve Bank of India. However, LTRO is a one-time facility so the pace of fund raising via traditional routes bears watching.

NBFCs with strong parentage or those that are part of large corporate groups (accounting for ~70% of sectoral AUM) should continue to fare relatively better on the fund-raising and disbursement fronts. Further, NBFCs have navigated extended stress periods in the past and that experience, along with their core strengths of customer relationships, adaptability, local knowledge, innovation and responsiveness will be supportive as they attempt to tide over the current challenges.

Annexure

NBFC AUM to decline



Note on methodology: *To arrive at the AUM estimates, CRISIL has considered a downward trajectory in the underlying asset sales juxtaposed with increasing share of banks in the overall retail pie. The run-down of the book however, has been adjusted for the share of book under moratorium in the current fiscal.*
Source: CRISIL Ratings

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