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Surge in credit to NBFCs takes service sector loans past those to industry

January 3, 2023 Subrata Panda

Higher credit offtake by non-banking finance companies (NBFCs) has seen credit to the service sector surpassing the quantum of loans from banks to the industrial sector, shows Reserve Bank of India’s latest sectoral deployment data for November 2022.

According to the latest data, as of November 18, outstanding loans to the services sector amounted to Rs 33.15 trillion while those to industry stood at Rs 32.94 trillion. On a year-on-year (YoY) basis, the credit to services sector grew by 21.3 per cent in November 2022 as compared with 3.2 per cent a year ago.

Similarly, credit growth to industry accelerated to 13.1 per cent YoY last November from 3.4 per cent in November 2021

Within the services sector, credit to NBFCs grew by 33 per cent YoY in November 2022, compared to a meagre 5 per cent during the same month in 2021.

According to ICICI Securities, 52 per cent of the incremental accretion of Rs 5.81 trillion in the services vertical over the past 12 months was accounted for by NBFCs and 22 per cent by other services.

And among NBFCs, loans to public financial institutions (PFIs) were up 87.9 per cent YoY and 29.9 per cent year-to-date (YTD), while those to housing finance companies were up 16.1 per cent YoY, and 9.1 per cent YTD.

"After running down high-risk assets and consolidating for a while, NBFCs are now pursuing growth opportunities in a risk-calibrated manner. Consequently, we expect bank lending to them to rise in FY23 unlike the slowdown/deceleration seen in the recent past," analysts at ICICI Securities said.

RBI's recently released Trend and Progress Report said NBFCs have increased their borrowings from banks, which is one of the largest funding sources for these lenders, in the wake of the benign interest environment.

NBFCs owed close to 59 per cent to banks, followed by mutual funds (16.2 per cent) and insurance companies (17.4 per cent). The share of banks has continued to rise with yields having hardened in the bond market.

"The share of MFs and insurance companies has been consistently declining for the last several quarters. This is due to a mix of higher interest rates in the bond markets, led by higher long-term G-Sec rates, and the risk aversion in the debt capital markets restricting funding availability for NBFCs rated lower than the highest categories," said Care Edge in its report.

At the end of H1FY23, overall credit extended by NBFCs grew by 13.1 per cent to Rs 31.5 trillion, data showed. "With strong capital buffers, adequate provisions, and sufficient liquidity, NBFCs are poised for expansion. Nevertheless, going forward, they need to be wary of rising borrowing costs as financial conditions tighten," RBI said in its Trend and Progress Report.

An analysis of sectoral deployment shows that retail credit growth continued to outperform overall credit growth. Of the monthly incremental retail credit accretion of Rs 30,000 crore in November, 60 per cent was accounted for by housing, 38 per cent by other personal loans, and 22 per cent by vehicle loans, while there was a decline in credit cards.