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RBI circular unlikely to affect NBFCs' dividend payouts, say experts

The Reserve Bank of India's (RBI) 24 June notification on dividend distribution is unlikely to impact the payout plans of most non-banking financial companies (NBFCs). Most large NBFCs are well placed in terms of the parameters laid down in the circular, analysts said.

The circular links the dividend payment of a company to its adherence to capital adequacy norms over the last three years. It also states that to declare dividend, a company should have a net non-performing asset (NPA) ratio of less than 6 percent in each of the last three years, including as at the close of the financial year for which dividend is being declared. Further, it caps the dividend payout ratio at 50-60 percent for some categories of NBFCs.

Analysts said that the notification formalises an unstated rule that the regulator has anyway been nudging NBFCs to implement. "We understand that during its inspections at NBFCs, the RBI has often conveyed to them that net NPAs should ideally remain below four percent. Therefore, NBFCs are anyway cagey about letting the net NPA rise above that level," said Sanjay Agarwal, Senior Director, CARE Ratings.

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Agarwal added that for most companies, dividend distribution should not be a problem. "There are hardly any companies which are profitable despite having a net NPA ratio of over six percent," Agarwal said.

The RBI had laid down prudential norms for dividend declaration by banks and NBFCs for FY20 as well, but that was seen as more of a reactive measure in the wake of the outbreak of the first wave of Covid. The latest notification establishes a more standardised framework on the subject, said Jinay Gala, Senior Analyst, India Ratings and Research.

"With the latest circular, the regulator is putting a standardised framework in place. With the exception of a few companies, most NBFCs have anyway been avoiding large dividend payouts and 70-80 percent of companies will pass muster under the new norms," Gala said, adding that this notification also establishes a guide for future decision-making by company boards.

Some analysts took the view that the final guidelines are more relaxed than those laid out in the draft released on 9 December, 2020. "The final guidelines have set a relatively relaxed criteria for dividend payout as compared with the draft guidelines," said Manushree Saggar, Vice President & Sector Head, ICRA.

For instance, the final guidelines put no ceiling on the dividend payout ratio for NBFCs that do not accept public funds and do not have any customer interface. The draft, on the other hand, had proposed caps on the payout ratio linked to the net NPA ratio of such companies.

At the same time, NBFCs themselves have of late been cautious about preserving capital. Therefore, high payout ratios are anyway unlikely. "Over the last three years, dividend pay-out ratios have been about 10-20 percent for most entities, with few in the range of 20-30 percent," said ICRA's Saggar.

There are also concerns on asset quality at NBFCs but most companies are unlikely to need fresh capital, said India Ratings's Gala. "There could be a hit to NBFC asset quality because collections have been muted in April and May. However, there may not be any need for fresh capital-raising in the near term as NBFCs have raised money in the last 18 months and the provisions made last year have not been exhausted yet," Gala said.