NBFCs Continue to Witness Steady Asset Quality in FY22

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Synopsis

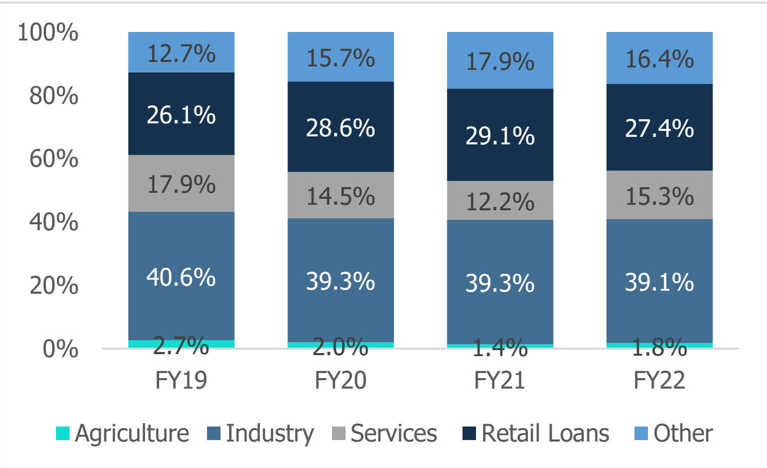
- A shift in the segmental distribution of credit was observed in the last four years, with retail seeing a 130 bps increase in its share even as industry and services lost 150 bps and 260 bps, respectively.
- Credit to the industry is still dominated by government NBFCs, while the retail segment is led by private NBFCs. Asset quality remained steady, while SMA numbers have reduced. Borrowings remained the major source of funds for NBFCs, mainly in the form of debentures and bank borrowings.
- In FY22, NBFCs and HFCs remained the major issuers, accounting for approximately 53% of total listed bonds.
- Under the baseline scenario, by FY23-end the GNPA of NBFCs reduced to 5.2%, while under the medium risk and high risk, the GNPA ratio rose to 6.7% and 9.4%, respectively.

Segmental Movement in NBFC Credit

Over 9,000 NBFCs are currently registered with the RBI. Even though the combined balance sheet size of NBFCs is approximately one-fifth when compared with the SCBs, NBFCs play a significant role in the last-mile credit delivery. At the end of FY22, aggregate credit extended by NBFCs stood at Rs 28.5 lakh crores.

Figure 1: Segmental Distribution of Credit

Source: RBI



Over the last four years, loans to industry lost market share from 40.6% in FY19 to 39.1% in FY22 and yet continued to constitute the largest segment, followed by personal loans at 27.4%, services at 15.3% and agriculture at 1.8%. Share of service and retail segments have gyrated significantly during the pandemic, with retail rising and service falling. However, by the FY22 end, both segments seem to have reverted mostly to their pre-pandemic levels, with retail gaining some additional share. Government-owned NBFCs accounted for 45.6% of the aggregate credit but have been ceding ground in the industry segment. But they continue to have around three-fourth share in the industry segment.

Asset Quality Remains Steady

The GNPA ratio remained broadly the same in March 2022 as it benefited from regulatory dispensations, including RBI's monetary and liquidity operations. Furthermore, the CRAR of NBFCs was robust in FY22.

Figure 2: Asset Quality and CRAR of NBFCs

Year	GNPA Ratio	CRAR
FY15	4.1%	26.2%
FY16	4.5%	24.3%
FY17	6.1%	22.1%
FY18	5.8%	22.8%
FY19	6.1%	20.1%
FY20	6.8%	23.7%
FY21	6.1%	25.0%
FY22	6.2%	26.9%

Source: RBI

Figure 3: Asset Quality Ratios across Select NBFC Categories

	NBFC-ICC		NBFC-IFC		NBFC-IDF		NBFC-MFI	
	Mar-21	Mar-22	Mar-21	Mar-22	Mar-21	Mar-22	Mar-21	Mar-22
GNPA	8.0%	7.9%	3.9%	3.6%	0.4%	0.3%	5.4%	4.7%
SMA-0	7.5%	6.1%	5.2%	2.5%	0.0%	0.0%	2.3%	2.1%
SMA-1	3.2%	3.3%	1.9%	2.2%	0.1%	0.1%	1.7%	1.5%
SMA-2	3.1%	2.3%	2.4%	2.1%	1.7%	0.4%	1.0%	1.3%

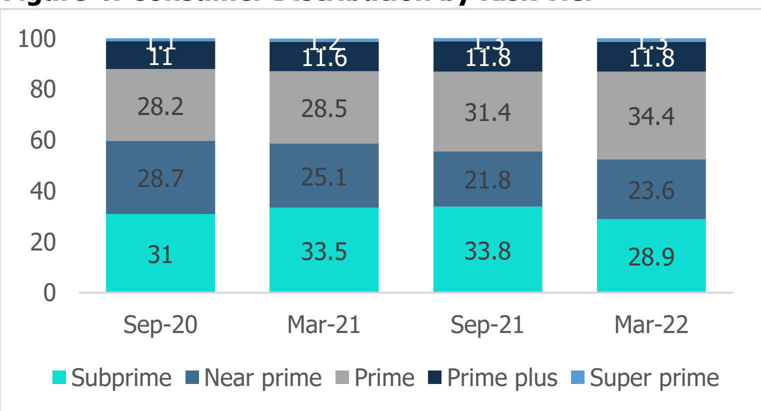
Source: RBI

If we examine the asset quality numbers across select NBFC categories, we can observe the following trends:

- All the categories of NBFCs witnessed an improvement in their GNPA and SMA numbers. NBFC-MFI witnessed an increase in the SMA-2 numbers.
- Stress continues to exist in NBFC- ICC, which accounts for 51.6% share of total NBFC advances.

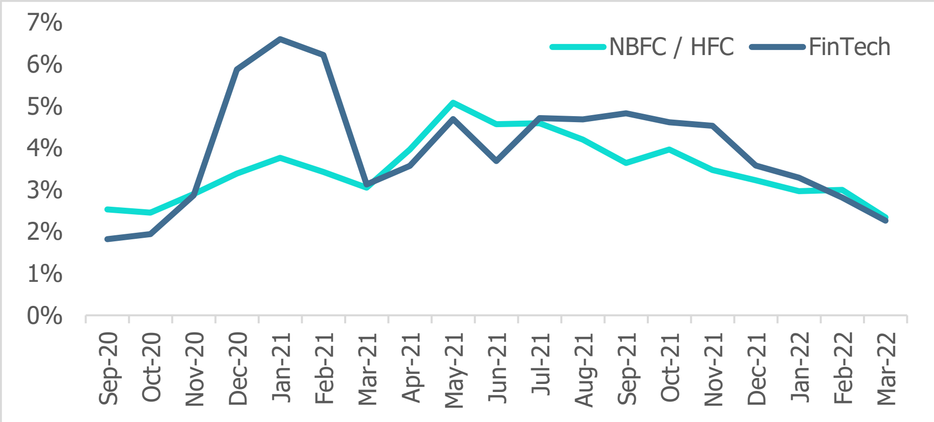
Consumer Credit

Figure 4: Consumer Distribution by Risk Tier



NBFCs showed an improvement in customer mix for the distribution by risk with the below prime borrowers category showing a reduction over the period.

Figure 5: Delinquency Levels in Aggregate Consumer Credit



Source: RBI

Impairment in consumer credit, measured in terms of the proportion of the portfolio at 90 days past due or beyond, which had increased in the pandemic, especially in the second wave shows signs of stabilisation after the pandemic.

Borrowing by NBFCs

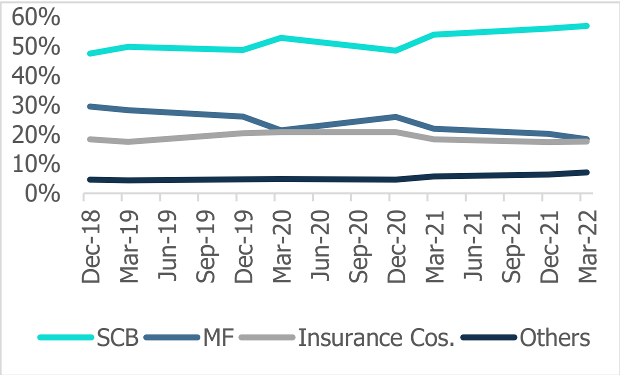
In FY22, NBFCs and HFCs remained the major issuers, accounting for approximately 53% of total listed bonds during the year, while banks (37%) and body corporates (29%) were their major subscribers. Issuances of bonds by NBFCs and HFCs were 17% higher y-o-y during FY22. As per RBI's analysis of commercial paper (CPs) issued by a sample of ten large NBFCs, which accounted for 70% of gross issuances from November 2021 to April 2022, indicated:

- 69% of issuances were in the 0-30 days tenor.
- 49% of the funds raised were used for IPO financing

As a part of the scale-based regulations for NBFC which were issued in October 2021 and a part of which have become effective beginning April 1, 2022, RBI has placed a ceiling of Rs. 1 crore per borrower for financing subscription to IPOs. Hence, since December 2021, there has been a significant decline in IPO funding by NBFCs and most of the funds raised through CPs were for working capital or debt repayment.

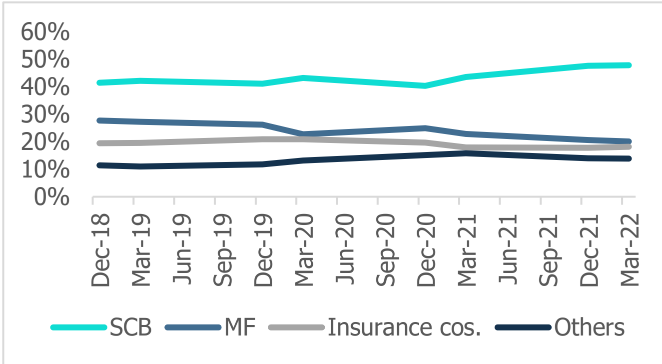
Movement in Share of Lender Groups

Figure 6: NBFCs



Source: RBI

Figure 7: HFCs



Source: RBI

NBFCs were the largest net borrowers of funds from the financial system. NBFCs owed close to 57% (53.9% in FY21) to SCBs followed by 18.4% (22% in FY21) to MFs and 17.6% (18.4% in FY21) to insurance companies. The share of SCBs which had decreased in FY21 registered a rise by March 2022 as yields hardened in the bond market. A point to be noted is that with the rise of bank funding, NBFCs have inherently lost a competitive pricing advantage to the banks. However, the share of MFs and Insurance companies have been on a consistent declining trend for the last several quarters. Furthermore, if the funding mix is considered, the share of SCBs would be higher due to the significant loan asset sell-down (direct assignment) as a funding source which is not included in the above computation (PSBs were significant acquirers of these assets).

HFCs were the second-largest borrowers of funds from the financial system. MFs as a funding source have reduced significantly. In contrast, the relative share of SCBs showed an upward trend for the same period. Furthermore, certain HFCs resorted to sell-downs or securitisation of their retail assets to generate liquidity. Hence, the funding mix if these direct assignments are considered, the share of SCBs would be even higher as SCBs, especially PSBs, had acquired these assets.

Conclusion

Financial entities have generally emerged resiliently from the pandemic and are expanding their business as the economic recovery takes hold. The share of SCBs as a lender to NBFCs had decreased in FY21 due to attractive yields in the capital market but has registered a rise by March 2022 as yields hardened in the bond market. Macro stress tests indicate that under the baseline scenario, the GNPA of NBFCs reduces to 5.2%, while under the medium risk and high risk, the GNPA ratio rises to 6.7% and 9.4%, respectively.

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