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# BUSINESS PROSPECTS OF NBFCs IN INDIA

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The banking sector in India is witnessing vital fundamental reforms in which Non-Banking Financial Companies ("**NBFC**"/ "**NBFCs**") have been playing a very important role from the macroeconomic perspective. NBFCs have shown considerable growth in the last couple of years and as an impact they have created their own position in the banking sector promising a rising future in the years to come.

On one hand, we have public sector banks with traditionally large share in the market dealing with the problem of Non-Performing Assets ("**NPAs**") and at the same time we have new players such as new payment banks and peer to peer lenders. In the existing credit market scenario, conventional banks are facing competition from NBFCs and the latter are certainly emerging as better alternatives to the banks for meeting the financial needs of various sectors.

A large part of this paradigm shift can also be accredited to digital lending. The future of digital lending looks extremely bright in India thanks to the push being given by the Government towards digitalization of transactions involving money coupled with the escalating boom in technology and the promising marriage of the two. A result of the same is the peer to peer lending sector which has recently come within the regulatory framework of the Reserve Bank of India ("**RBI**") under the wing of NBFCs. As on September 11, 2018, there are only 5 registered peer to peer lending companies in India, details of which are mentioned below:

| Sr. No. | Name | Location |
|---|---|---|
| 1. | Fairassets Technologies India Private Limited | New Delhi |
| 2. | Fincsquare Fintech Private Limited | Hyderabad |
| 3. | Bridge Fintech Solutions Private Limited | Mumbai |
| 4. | Bigwin Infotech Private Limited | Mumbai |
| 5. | Ohmy Technologies Private Limited | Mumbai |

Until 10 years ago, taking a loan was a cumbersome process. Borrowers had no choice but to approach banks but the influx of NBFCs into the banking sector have brought with them easier sanction procedures, flexibility, low operating cost and focus on core business activity. In the present scenario, paperwork, uncertainty over sanction of loans and long wait periods post sanction is almost redundant. The digitally backed NBFCs are assessing the borrowers' creditworthiness online and delivering almost instant credit with little or no paperwork, transparency in their offerings and great customer service which is a significant upgrade from the earlier experience.

NBFCs have made their presence in the fields of vehicle financing, housing loans, hire purchase, lease as well as personal loans. Naturally, NBFCs stand on a surer footing vis-à-vis conventional banks.

According to a report by the Boston Consulting Group issued in December 2015, the credit penetration of NBFCs in India was at 13% of Gross Domestic Product ("**GDP**") which is still low compared to other emerging economies, this offers a vast untouched opportunity. Further, according to the Information and Credit Rating Agency of India Limited (ICRA), the NBFC-retail credit, which stood at Rs 7.5 trillion as on March 31, 2018 is to expand at 19-21 per cent during the financial year ending March 31, 2019.

Up till now, NBFCs' growth had been constrained due to lack of adequate capital. Going forward, capital infusion and leverage thereupon would catapult NBFCs' growth in size and scale. Several NBFCs have been issuing non-convertible debentures ("**NCDs**") and other instruments to increase their balance sheet liquidity. Furthermore, even banks are preferring to lend to NBFCs rather than retail borrowers. In light of the recent scams and issues pertaining to NPAs that have shook the banking sector, banks are of the ideology that it is far better to lend to an NBFC with a decent credit rating than to take direct exposure to loans that could go bad. Also, lending a lump sum to an NBFC is a faster way of meeting targets than lending to many dispersed borrowers.

Nirmal Jain, founder and chairman of IIFL Holdings in a recent interaction with BloombergQuint said that "*PSU banks are also growing and competing in retail. But in the middle to long terFBm, they are still crippled* *for capital*". Mr. Jain also said that the demand for credit is such that a large part of that will go to the private sector lenders and NBFCs and that a 25-30 percent growth for NBFCs is not difficult.

Bajaj Finance, which was established in 1987, crossed $73.5 Million (INR 500 Crores, in annual disbursement back in 2000). In the following six years, the company doubled it to $147 Million (INR 1,000 Crores). By 2014, the company claimed to have crossed $2.95 Billion (INR 20,000 Crores) mark for its assets under management.

The growth of NBFCs versus banks can easily be deduced from the below illustration which depicts the growth in the top 5 banks and growth in the top 5 NBFCs in the financial year 2017-18 vis-à-vis financial year 2012-13:

| **Top Banks** | | | **Top NBFCs** | | |
|---|---|---|---|---|---|
| **Name** | **Year** | **Profit before tax (USD in millions approx.)** | **Name** | **Year** | **Profit before tax (USD in millions approx.)** |
| HDFC Bank | 2012-13 | 1350.7 | HDFC Ltd. | 2012-13 | 1008.1 |
| | 2017-18 | 3843.1 | | 2017-18 | 2376.6 |
| Kotak Mahindra | 2012-13 | 424.4 | Bajaj Finance | 2012-13 | 117.7 |
| | 2017-18 | 1236.4 | | 2017-18 | 547.6 |
| State Bank of India | 2012-13 | 3494.4 | Indiabulls Housing Finance | 2012-13 | 223.4 |
| | 2017-18 | -1653.2 | | 2017-18 | 671.8 |
| ICICI Bank | 2012-13 | 1838.5 | L&T Housing Finance | 2012-13 | 133.5 |
| | 2017-18 | 1482.2 | | 2017-18 | 234.9 |
| Axis Bank | 2012-13 | 1029.5 | Indiabulls Ventures | 2012-13 | 8.2 |
| | 2017-18 | 76.4 | | 2017-18 | 43.2 |

As on September 11, 2018, there are 10,472 NBFCs registered with the RBI out of which a lion's share of 95% are non-deposit accepting and 1.1% are deposit accepting NBFCs. Since November 2014, 248 non-deposit accepting NBFCs having asset size of Rs. 5 billion and above have been classified as systemically important. Moreover, the RBI is tightening rules for NBFCs and is cancelling licenses of various NBFCs which are not in compliance with the regulations laid down by the RBI.

On a conclusive note, the appetite of banks to lend is only going to deteriorate keeping in view of the credit demand of our developing nation and the ongoing stress in public-sector banks due to mounting bad debts which entails lots of opportunities for NBFCs to fill the gaps and increase their presence in the Indian market. Clearly, NBFCs will continue to grow at a faster pace.

**Sources:**


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