PRESS RELEASE

May 30, 2023

NBFC retail AUM to expand by 12-14% in FY2024, post robust growth in FY2023: ICRA

- **RoMA expected at 2.4-2.6% in FY2024**

ICRA expects the retail exposures of non-banking financial companies *(NBFCs, excluding housing finance companies)* to expand by 12-14% in the current fiscal with unsecured loans remaining the key driver; this follows the robust growth of 25% in FY2023. The assets under management (AUM) exceeded Rs. 14 trillion as of March 2023, with growth significantly surpassing expectations. Most asset segments had registered strong credit growth after the subdued performance during the Covid-19 pandemic years (FY2021-FY2022) with unsecured loans expanding the most, though on a lower base. NBFCs have been steadily improving their loan penetration by deepening and expanding/diversifying their target segments.

Mr. A M Karthik, Co-Group Head - Financial Sector Ratings, ICRA Limited, said: "*Pent-up demand and the improved operating environment for borrowers led to a sharp jump in NBFC credit during the last fiscal. Digitalisation of the borrower onboarding and underwriting process, access to comprehensive borrower data, and leveraging of the established borrower franchise also contributed to the strong growth performance, especially in the unsecured segments. These factors would remain key growth drivers in the current fiscal too, as there is substantial scope for increasing credit penetration in the country."*

The robust growth of 25% in AUM in FY2023 was on the back of the muted compound annual growth rate (CAGR) of 8% during the pandemic years (FY2021-FY2022); the AUM had increased at a CAGR of 19% during FY2019-FY2020. The growth revival witnessed since Q3 FY2022 continued sequentially, resulting in a strong overall growth in FY2023 as credit demand remained robust. NBFC retail exposure growth in FY2023 was powered by the unsecured segments *(excluding microfinance)* consisting of personal/consumer loans and unsecured business loans; this segment is estimated to have grown by about 45% in the last fiscal. The secured segment, consisting of vehicle loans, gold loans, mortgage-backed loans, etc., grew at a relatively moderate pace of about 17-18% during this period. Thus, the share of the unsecured segment of NBFCs increased to about 23% of the retail NBFC AUM from 17% in March 2021. Microfinance, which is also unsecured, is estimated at 11% of the retail AUM of NBFCs as of March 2023.

Based on the ICRA sample of large NBFCs in the retail segment, the asset quality has improved with the overdues position moderating, largely in line with ICRA's expectation; the gross stage 3 reduced by about 90-100 basis points (bps) during FY2023. The return on managed assets (RoMA) settled at 2.8% in FY2023, a year-on-year improvement of about 40 bps.

"*There would be some moderation in the RoMA in FY2024 as the impact of the increase in the cost of borrowings plays out fully, thereby affecting margins. However, the ability of NBFCs to pass on the higher cost on their incremental lending and adjust their product profile, and the improving asset quality would reduce the impact of margin compression. RoMA is expected to be 2.4-2.6% in FY2024,*" adds **Mr. Karthik**.

The capital profile is adequate with net worth to AUM of about 22% in March 2023 vis-à-vis 16.5% in March 2019, thereby providing a stable ground for AUM growth in the current fiscal. Some entities, with relatively tighter capital profiles (net worth/AUM of less than 14-15%), would raise equity capital if their growth exceeds internal generation.

Banks were the key lenders to NBFCs in FY2023 with bank credit to NBFCs growing by about 39% compared to the overall credit growth of 15%. Incremental funding requirement for the projected AUM growth of retail NBFCs is Rs. 1.6-1.8 trillion. Considering ICRA' banking sector non-food credit growth expectation of 11-11.7% for FY2024, strong demand for securitisation with improvement in the asset quality, and increasing co-lending/partnership arrangements, funding should remain adequate for the envisaged AUM growth. However, access to funding shall tighten, especially for mid-sized and smaller entities, if the AUM growth significantly exceeds the estimates.

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