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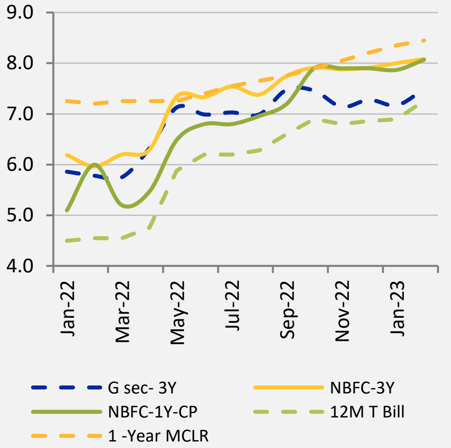
Retail-NBFCs and HFCs

Incremental funding of Rs. 2.9-3.3 trillion required in FY2024

March 2023

Highlights



Source: RBI, AIMIN, ICRA Research

- Overall loan book of non-banking financial companies (NBFCs) in the retail segment and housing finance companies (HFCs) would reach about Rs. 30 trillion by March 2024 compared to Rs. 23 trillion in March 2022. Fresh funding of Rs. 2.9-3.3 trillion in FY2024 would be required for achieving the estimated growth.
- Retail-NBFCs continue to maintain higher on-balance sheet liquidity compared to the pre-pandemic level. HFCs' liquidity has moderated somewhat but remains higher than the 2018 level. Entities would lower their liquidity buffers to bolster their margins as the cost of funds trend upwards on the next few quarters.
- Banks have remained the principal lenders to the sector by taking direct exposures, investing in capital market instruments and participating in loan sell-downs. The share of banking credit to the sector, having grown sharply, has reached a peak, raising concerns about banks hitting their sectoral exposure limits.
- At present, bank funding is available at competitive rates as compared to long-term non-convertible debentures (NCDs). Tightened systemic liquidity, elevated inflation levels and the slower deposit growth rate vis-à-vis credit growth would push-up bank rates at a faster pace than the trend witnessed so far
- On NCDs, tighter liquidity and crowding at the shorter end of the market yield curve is leading to an uptick in the shorter-term rates, which are currently at levels similar to the rates at the longer end of the curve. NCD issuances of Retail NBFCs + HFCs in 9MFY2023 is moderate in relation to the sectoral credit growth.
- CP issuances remain moderate and rangebound at present. However, the same could increase, going forward, as entities try to manage their funding cost and borrowing tenors. CP rates remain attractive in relation to bank funding.
- Funding from retail sources remains modest at present, but it is crucial as the sector scales up at a faster pace on account of retail credit demand. Securitisation volumes have picked-up in the current fiscal and stood at Rs. 1.17 trillion in 9M FY2023.

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Thank You!