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SIGNIFICANT growth opportunities for NBFCs

■ WE are witnessing fundamental changes in the banking sector. On the one hand we have the public sector banks with a traditionally large share in the market and on the other, we have new players entering the industry viz. two new universal banks, 10 small banks and 10 payment banks. In the credit market, existing banks are also facing competition from non-banking finance companies (NBFCs) and debt mutual funds. The banking credit industry growth rates fell to a 20-year low of 8.6 per cent in June 15 whereas NBFCs almost doubled their growth rates, as they grew at 18.8 per cent year-on-year as of Dec-15 vs. 9.5 per cent as of FY14. This resulted in a gain of share in the total credit in India for NBFCs between 2005 and 2015 from 10 per cent to 13 per cent. As per the RBI data, the loan book of deposit taking NBFCs and systemically important NBFCs is at Rs 11 lakh crore as of Mar-2015, which is three times the book size as of Mar-2010, which was at Rs 4 lakh crore. Within the NBFC space, various sub-segments have emerged. Mortgages, microfinance and unsecured loans appear to be driving growth. As per estimates, credit in these segments grew year-on-year at a rapid 30 per cent-plus for mortgages and 50 per cent-plus for microfinance as of Dec-15. Housing finance companies have increased their share of the overall pie from 26 per cent in FY 09 to 38 per cent in FY15. NBFCs also tend to have a large share in niche segments such as commercial vehicle finance, with their share rising from 42 to 46 per cent in the last three years ending FY 15. As per a BCG report, India's credit-to-GDP ratio stood at 97 per cent as of FY 15 vs. 165 per cent in China, 149 per cent in Germany, 244 per cent in the US and 447 per cent in the UK. This implies opportunity for growth for the credit market in India. Interestingly for the same year the NBFC-credit-to-GDP ratio was just 13 per cent in India vs. 33 per cent in China, 29 per cent in Germany, 130 per cent in the US and 264 per cent in the U.K. This implies that the opportunities for growth for NBFCs are also significant. If one overlays on this the fact that the largest segment in the banking sector is facing some challenges, then the opportunities to grow should be even higher.

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