

Non-banking Financial Companies

Headwinds around growth and profitability to intensify in FY2025

April 2024



Agenda













Highlights





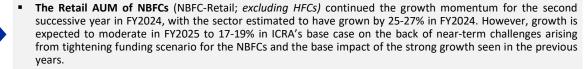
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FY2025 AUM growth to moderate to 17-19% in the base case and 14-16% in the stress cases; regulatory concerns and funding constraints drive the downside risks.

Profitability of NBFCs would moderate by 20- 40 bps on a YoY basis in FY2025.

Incremental funding requirement is estimated at around Rs. 3.0 trillion in FY2025.







Further downside risks for AUM growth in FY2025 could emerge from the impact of the series of regulatory actions, which have occurred recently or could be brought about by the regulators going forward based on their risk perception in the sector. The NBFC-Retail sector would be the most affected, though some impact is seen for the HFC sector too. In a stress case scenario, ICRA expects the AUM growth in the NBFC-Retail segment to reduce to around 14-16% in FY2025.



The unsecured consumer loans segment, consisting of PL & CL, would be the most impacted and may face a sharp reduction in the growth rates in FY2025 after many years of sustained robust growth. On the other hand, LAP/SME & MFI loans, which also drove growth in the last two years, would continue to maintain healthy growth in FY2025 as well. VEF would continue to maintain a moderate growth, while the GL segment could be impacted by the recent regulatory action on a large player.



■ Tightening liquidity conditions would push up the weighted average cost of funds (CoF) by 20-40 bps in FY2025. As the space for further increase in lending rates becomes more restricted, given the competitive scenario, entities would face margin pressure. Further, the segmental asset quality is also expected to weaken by 30-50 bps in FY2025, resulting in increased credit costs. This would impact the net profitability by 20-40 bps in FY2025; although, the overall profitability would continue to remain at healthy levels.



Incremental funding requirement (over and above the refinancing of existing/maturing debt) is estimated at around Rs. 3.0 trillion in FY2025. Given that the share of bank credit to the NBFCs is likely to remain constrained, entities would have to increase funding from other sources, including via market issuances and securitisation to meet the envisaged growth.



• The current sectoral capitalisation profile is adequate for meeting the growth targets in the near term. Some entities with tighter capital positions would, however, be required to raise capital. This could also be partly driven by the new regulatory requirements (risk weight on consumer credit, leverage guidelines, etc).



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