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Non-banking Financial Companies

Headwinds around growth and profitability to intensify in FY2025

April 2024

Agenda

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1 NBFC-Retail Sector Outlook

2 Macroeconomic Trends and Underlying Growth Drivers

3 Overall Sectoral Performance Trends

4 NBFC-Retail Asset Class-wise Trends

5 ICRA Rating Action Across NBFCs/HFCs/MFIs

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.

- **The Retail AUM of NBFCs** (NBFC-Retail; *excluding HFCs)* continued the growth momentum for the second successive year in FY2024, with the sector estimated to have grown by 25-27% in FY2024. However, growth is expected to moderate in FY2025 to 17-19% in ICRA's base case on the back of near-term challenges arising from tightening funding scenario for the NBFCs and the base impact of the strong growth seen in the previous years.
- **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).

^NBFCs – Non-banking financial companies; HFCs – Housing finance companies (excluding HDFC); AUM – Assets under management
Sector – NBFC-Retail/Wholesale, HFC-Retail/Wholesale, NBFC-Infra; VEF Vehicle finance; GL – Gold loans; SBL – Secured business loans; PL – Personal Loans; CL-Consumer loans; SME – Small enterprise loans; MFI - Microfinance

Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice President	karthiks@icraindia.com	+91-22-61143444
A M Karthik	Vice President	a.karthik@icraindia.com	+91-44-4596308
Manushree Saggar	Vice President	manushrees@icraindia.com	+91-124-4545316
R Srinivasan	Vice President	r.srinivasan@icraindia.com	+91-44-4596315
Prateek Mittal	Assistant Vice President	prateek.mittal@icraindia.com	+91-33-71501100
Shaik Saleem	Senior Analyst	shaik.Saleem@icraindia.com	+91-40-45474829

ICRA Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

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Thank You!