



Non-Banking Financial Companies

**Focus Report: Business Loan and
Small Ticket LAP**

AUGUST 2024





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Robust growth has brought focus on to the ST LAP segment; loans envisaged to expand at a 20-25% CAGR over the next five years.

Portfolio seasoning is limited; two-year lagged 90+DPD are close to 2x of their reported level.

ST LAP largely concentrated among four southern states.



Small ticket loan against property (ST LAP)¹ by NBFCs² stood at about Rs. 1 trillion as of March 2024; loans grew at a compounded annual growth rate (CAGR) of about 21% over the last four years. The current low asset base and comfortable capital profile of entities in this space shall support expansion of 20-25% CAGR over the next five years.



ST LAP have an average ticket size of Rs. 0.8-0.9 million and generate yield of about 18-19%. These loans account for about 28% of the overall LAP by the NBFCs and about 18% of the overall business loans (BL)³ by the NBFCs.



New-age entities, which commenced operations in the last 10-15 years, and affordable segment focused housing finance companies (NBFC-HFCs) are the key players in ST LAP. The NBFC-HFCs have a higher average ticket size than other NBFCs, considering their target borrower segment in the housing space.



Like the NBFC sector in general, the ST LAP segment is also concentrated with the top seven players driving ~43% of the AUM⁴. The segment is operationally intensive, which acts as an entry barrier for larger players; however, advancements in data availability and technology can intensify competition.



Sharp growth has resulted in limited portfolio seasoning. Disbursements of the last two financial years constituted ~82% of the outstanding AUM in March 2024. Two-year lagged 90+DPDs⁵ are close to 2x of their reported levels.



Overall expected credit loss provision is up to about 1.6% at the entity level, which have exposure to this segment; while write-offs have remained low, even after the Covid-19 impact; loan recovery record is limited at present. Further, NBFCs other than NBFC-HFCs do not have access to SARFAESI⁶ for ST LAP.



Weaker asset quality witnessed in Maharashtra and Madhya Pradesh vis-à-vis other large states; Andhra Pradesh and Telangana are high growth states, as these are the focus states for some large players.

Note: ¹ LAP with ticket size of up to Rs. 1.5 million; ² NBFCs: Non-Banking Financial Companies (including housing finance companies);

³ BL: includes LAP, unsecured and quasi-secured loans (machinery, stock, guarantees, etc.) offered to enterprises and individuals for business purposes;

⁴ AUM: Assets under management; ⁵ DPD: Days Past Due; ⁶ The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act



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