Role of NBFCs amidst Banking Distress - The Road Ahead

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The last few years were very challenging for the banking sector. Increased provisioning for bad loans has hit the profitability of banks after a significant rise in NPAs norms. Compounding their woes is a miniscule credit growth. 11 of the leading PSU banks placed under the Prompt Corrective Action (PCA) framework have reported average Gross NPA of 21% and average Net NPA of 13%. The advances of the banks under PCA constitute 18% of the total advances of scheduled commercial banks. The total net loss in PSU banks amounts to Rs. 87,000 Cr.

Under these circumstances the flow of credit from the banking sector to the industry has slowed significantly, creating a void for financing, especially to the SMEs and MSMEs. This space created can be effectively filled in by NBFCs and capital market investors. ICRA expects the market share of NBFCs to expand to 22-25% from existing 16% in the next five years. NBFCs currently have an average GNPA of 5% and Net NPA of 2% - this relatively better asset quality is emanating from tighter processes and controls.

There has been a paradigm shift in the lending space. Until a few years back, availing loans was quite a challenge for the common man. The time consumed and the associated paperwork used to be a significant deterrent. The march of specialized NBFCs in areas starting from housing finance to gold finance and more recently consumer durable finance, has significantly changed the borrowing experience for an ordinary loan seeker. Today a home-buyer can first select a home and then approach a lender for financing probably the most important purchase of his life; or one can walk into a store and buy a TV set without having to worry about immediate availability of cash. Comparatively smaller size allowed NBFCs to be agile, adopt changing technologies and deliver superior customer experience. It has been nothing short of a revolution.

Barring the areas where NBFCs are not allowed to play a significant role, they have grown in all possible directions – personal loans, education loans, consumer durables, housing finance, financing against assets like securities and gold, commercial vehicles, financing of capital assets and infrastructure.

There are areas where we are still at a nascent stage. India's infrastructure finance requirements are expected to be Rs. 50 Lakh crores over the period of next 3 years. Specialized NBFCs from both public and private sector are playing a significant role in this space and there is scope for more. SMEs are backbone of any economy. There are approximately 48 Million SMEs in India and NBFCs are catering to this ever important sector. Tata Capital has 134 branches Pan India and present in 23 states. SMEs remain a focus area in our businesses. As of March 2018, 25 % of our portfolio is SME centric.

New NBFCs are emerging where business models are based on technology platforms. These new age NBFCs are overhauling the traditional methods of customer identification, appraisal, credit delivery and asset quality monitoring. Partnerships with payments banks, payment gateways and other financial institutions such as insurance and asset management companies who are further helping NBFCs to offer a complete proposition— i.e. seamless transactions like any Bank, value added services to offer a complete solution as per the customer category and need. This has further improved the geographical reach of NBFCs and coupled with their strong understanding of the market which helps them position themselves as a better alternative to the traditional ways of banking and offer products which are customized in nature to take care of customers' requirement in an apt way.

NBFCs are also counting on vast digital (and social) data available to enhance customer experience and taking delivery channels to the next level. This is evident from the simplification which has already taken place in the financing domain. New age FinTech and NBFCs are going to leave a big mark in this area.

INNVOVATION will be our road ahead.