

NBFCs may grab larger share in corporate lending



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The share for non-bank finance companies (NBFCs) in corporate lending might increase as the revised stressed asset framework predicts higher non-performing assets (NPAs) for banks.

"Pressure on asset quality could mean that banks would not be as aggressive about lending as before, because they would focus on resolving NPAs," said Karthik Srinivasan, Group Head, Financial Sector Ratings, Investment Information and Credit Rating Agency.

NBFCs have seen a strong growth rate in retail, but corporate lending is a new space for them.

A CRISIL report stated that the share of wholesale credit in the NBFC credit pie was expected to increase to 19 per cent by 2020 from 12 per cent in 2014.

It signals the shift of NBFCs towards corporate lending.

"While NBFCs would continue to do well in their traditional stronghold of retail finance, they are growing fastest in the wholesale finance segment," said the CRISIL report.

Pricing pressure for NBFCs might decrease because banks would be less interested in

lending for the short term, said analysts.

"Large corporates can't move to NBFCs as there is more risk, and it requires consortium-based lending. The project sizes are quite big and the new NBFCs do not have the capabilities in terms of capital and risk," said Jinay Gala, analyst, India Ratings and Research.

Wholesale and diversified NBFCs, however, would continue to gain share in the large-ticket mid-corporate segment, said an India Ratings report. It predicted a growth rate of 18 per cent year on year over the next financial year for large NBFCs.

Experts said the ability of NBFCs to price the risk, flexibility in loan structuring, and faster turnaround periods are all factors that help them capture greater share in the mid-corporate and micro, small and medium enterprises segments.

"A 90 per cent share remains with banks, but NBFCs have achieved 10 per cent of the market share, and by 2020 we expect that it would increase to 15 per cent," Gala added.

"It would take capability building and a mindset change for banks to compete and provide loans to the MSME sector, said Prateek Roongta, partner, Boston Consulting Group.