Ketchum Sampark

THE ECONOMIC TIMES

Fri, 17 May-19; Economic Times - Delhi; Size : 319 sq.cm.; Circulation:134320; Page : 12

Around ₹5,000-10,000 crore worth of loans may have been sanctioned under the scheme since its launch in August last year

More NBFCs Tie up with Banks Under Loan Scheme

Ashwin.Manikandan
@timesgroup.com

Mumbai: An Increasing number of non-banking financial companies are partnering with banks under the RBI's loan co-origination scheme since its announcement last year, as liquidity tightness in the subsequent months forced these non-banks to look for cheaper routes to raise funds.

Industry experts said that anywhere between ₹5,000 crore and ₹10,000 crore worth of these loans may have been sanctioned under the scheme since its launch in August last year. Under the co-origination scheme for priority sector lending, partnership dynamic between the two sets of lenders would be such that loans would be originated by NBFC with a minimum exposure of 20% and banks would fund the rest of the loan with pre-agreed rates of lending by the two players.

"Based on the respective interest rates and proportion of risk sharing, a single blended interest rate should be offered to the ultimate borrower in case of fixed rate loans…a weighted average of the benchmark interest rates in proportion to the respective loan contribution can also be offered," according to an RBI circular. This will render such loans much cheaper to the end-borrower than a typical loan given by an NBFC.

While industry experts said that it is still early days for the scheme and no conclusive data has been collated to show how many such loans have been distributed, market demand for cheap funding coupled with the eagerness NBFCs have shown in selling their loan pools to banks — reflected in the elevated securitisation volumes in the second half of FY19 — indicate high adoption probability of the scheme.

"The scheme works well for both parties. For NBFCs, it can help boost profitability without investing too much funds, while from a bank's perspective, it can help them complete their priority sector lending targets without bearing costs of operation with low credit risks," said Prakash Agarwal, director, financial sector rating, India Ratings.

"Currently, our estimate is that these loans would be in single-digit thousand crores, but given the liquidity crunch in the market, they may incrementally pick up going in FY20."

While larger NBFCs have stayed away from co-origination model, mid-cap NBFCs such as IIFL, Village Financial Services, Paisalo Digital and Capital Float are among the players which have tied up with banks to co-originate loans.

"Sale of securitised loan pools for MFIs to banks went up to ₹26,000 crore in FY19 as against ₹9,700 crore in the previous fiscal. While there is an obvious demand for assignment-based and co-lending based models for loan origination, it needs to be seen how much risks banks are willing to take on these schemes," said Anil Gupta, head of financial sector ICRA.

The rating agency said that based on demand and sectoral targets, an upside market potential of at least ₹10,000 crore is seen for the disbursement of these loans under the scheme.

While most private sector banks have deployed a business-correspondent based model for meeting priority sector targets, some public sector banks such as SBI and Bank of India are weighing the possibility of collaboration opportunity with NBFCs under the scheme.

"We have tied up with a few NBFCs and will start our disbursements next quarter. It is a good tool to reach out to niche target markets where we don't have penetration. We find credit risks also much lower," a senior banker from Bank of India told **ET**.

The Scheme

- **Loans would be originated by NBFCs with a minimum exposure of 20%.**
- **Banks would fund the rest of the loans with pre-agreed rates of lending by the two players**
- **The scheme** works well for both parties
- **For NBFCs,** it can help boost profitability without investing too much funds
- **For banks,** it can help them complete their priority sector lending targets without bearing costs of operation with low credit risks

While there is an obvious demand for assignment-based and co-lending based models for loan origination, it needs to be seen how much risks banks are willing to take on these schemes

ANIL GUPTA,
Head of financial sector, ICRA

RBI's LOAN CO-ORIGINATION SCHEME