



Unique opportunity for NBFCs and HFCs to re-engineer their ops for FY20

Published: April 2, 2019 1:38 AM

The players who are quick to tap market sentiments and curate investor-friendly products will gain customer confidence and build new relationships to emerge triumphant.



Sensing a unique business opportunity in the current situation, banks are poised to extract their pound of flesh by hiking rates and seeking high

fuelled by adgebra

By Sanjay Chamria

Non-banking financial companies (NBFCs) in India constitute a key frontier of economic stability by functioning outside the purview of the formal banking system. Since September 2018, capital access constraints have hampered operational competencies of NBFCs and driven the need to inject liquidity into their systems. As NBFCs have been grappling with higher borrowing costs and tighter liquidity positions over the last six months, the race to explore new avenues for raising capital has gained momentum.

Having braved a lull, 2019 is the year of revival for the sector, with some NBFCs initiating the process of raising capital while others already raising capital via retail bonds, dollar bonds and dollar loans. A rise in the number of deals and bilateral assignments apparently dominating securitisation markets in India is bolstering the capacity of NBFCs to lend to the underserved. The competitive edge of shadow banking institutions has been boosted and their capacity for extending credit to the priority sector has been strengthened on the back of guidelines issued last year that facilitate blended lending and co-origination agreements between NBFCs and banks. This is a key development that could open new funding avenues for NBFCs and lay the groundwork for their sustained growth and development.

IL&FS defaults, corporate governance issues concerning a large mortgage player, and a couple of ratings downgrades in the sector have led to a volatile undercurrent in liquidity conditions since September 2018. With the debt market grinding to a halt on account of these developments, lenders which include money market players have undertaken a stock check of their portfolio and re-evaluated the positions of companies. Fresh lending limits and revised pricing strategies have been implemented for companies after ranking them on the basis of their risk profile assessments. The changes have impacted NBFCs and housing finance companies (HFCs) and several small to large A and AAA rated entities in varying degrees.

Liability management has become a key focus area for companies, a factor that remained largely unheeded in the last five years. The net income margins of the sector have been impacted with growth rates witnessing significant reduction on account of asset-liability mismatches (ALM) and interest rate volatilities, leading to the re-rating of the entire sector. These developments have led to the emergence of new avenues for raising debt capital, including retail issuance of NCDs, overseas dollar borrowings and dollar bonds. Given the appetite of retail investors and foreign institutional players to invest in sound financial companies with strong risk management, it presents a unique opportunity to diversify the liability profile and reduce dependence on banks and debt market players like mutual funds and insurance companies. Sensing a unique business opportunity in the current situation, banks are poised to extract their pound of flesh by hiking rates and seeking higher risk participation from even tiered players.

A significant development in the current context has been the revival of the co-origination model for retail asset classes like vehicles, equipment and tractors. The model was successfully executed by renowned foreign banks in the late 1990s and later replicated by the country's top two private banks in the early 2000s. The application of the co-origination model under the new [RBI](#) guidelines can be a game changer and a strong alternative in the liability franchise for NBFCs, given the risk participation and vast business opportunity presented by the informal segment. A doorstep servicing model, strengthening balance sheets of banks and cheaper funds have the potential to greatly enhance the distribution outreach and effective penetration of NBFCs in the retail segment and MSME sector in India.

An in-depth analysis points to the fact that the entire sector has been divided into two parts. At one level, companies having secured lending and good asset quality with tenured presence and retail franchise are being courted by debt market players with a heightened appetite to lend to these

companies at comparatively softer rates. At another level, companies specifically in the real estate business having limited tenured presence with wholesale books and unsecured lending books are getting increasingly isolated in the debt market. There remains lurking apprehension about the asset quality and ALMs of these companies, adversely impacting their ability to service their liabilities. Capital infusion by the government, resolution of big-ticket NPAs and improved capital adequacy injecting fresh liquidity in the system have significantly bolstered the banking system in the last six months. The removal of a large number of banks from the PCA framework has increased credit flows in the commercial market and eased liquidity to the SME sector, signalling the revival of economic growth in the country.

Increased flow of liquidity in the economy is likely to uplift consumer demand on the back of an anticipation of normal monsoon, rise in MSP for major crops and fiscal boost to affordable housing in the Budget.

In a nutshell, volatility in the demand and supply side of financial markets presents a unique opportunity to NBFCs and HFCs to re-engineer their operations for FY20 and develop their franchise. The players who are quick to tap market sentiments and curate investor-friendly products will gain customer confidence and build new relationships to emerge triumphant.

Get live [Stock Prices](#) from BSE and NSE and latest NAV, portfolio of [Mutual Funds](#), calculate your tax by [Income Tax Calculator](#), know market's [Top Gainers](#), [Top Losers](#) & [Best Equity Funds](#). Like us on [Facebook](#) and follow us on [Twitter](#).

HOME | OPINION | [Unique Opportunity For NBFCs And HFCs To Re-Engineer Their Ops For FY20](#)

Mumbaikars Bought a 2 BHK in Mumbai at Rs 32 Lakhs

Rustomjee Property | Sponsored

PG Diploma in Business Analytics & Intelligence

Amity University Online | Sponsored