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NBFCs to Focus on sustenance and profitable growth in 2020

While 2019 was survival of the fittest, we welcome the New Year 2020 with optimism and hope, as we are already seeing easing of liquidity and asset quality improving gradually, post a series of measures being undertaken by the Govt of India and banks to provide support to the flagging economy.

Sanjay Chamria   December 27, 2019, 08:24 IST

Sanjay Chamria
VC & MD, Magma Fincorp

Sanjay Chamria is the VC & MD at Magma Fincorp Read More

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The year 2019 was the 31st year of our company's existence in the retail lending sector and it has been a watershed year, having tested the mettle of all types of NBFC's, big medium or small, secured or unsecured, and consumer or commercial lenders. The test has been comprehensive - on liability management, risk management and corporate governance. After the complete withdrawal of debt capital markets from lending to NBFC/HFCs, banks also developed risk aversion and increased the interest rates despite a 135 bps reduction in base rates by RBI, and at the peak of the crisis banks even stopped taking further exposures to non-AAA rated NBFC's. Simultaneously, the macro-economic slowdown (post short term disruptions of demonetisation and GST implementation) has badly impacted the MSME's, small truckers and transport operators, and the entire real estate industry- all of these commercial sectors are primarily catered to by NBFCs, and it has resulted in rising NPAs and credit losses; the situation has been accentuated by the NBFC accounting standards migration to IndAS effective 1st April, 2018 where even small delays in payment a

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higher loss provisioning. The adage *when it rains it pours* could not have been more apt to describe the problems being faced by the NBFC/HFCs during 2019. The sequential collapse of some large and leading lenders, including AAA rated entities, has created a crisis of confidence in the NBFC sector for rating agencies, bankers and investors, and it will require herculean efforts on part of the industry backed up by consistent improvement in operating and financial metrics to regain confidence and restore normalcy.

We welcome the New Year 2020 with optimism and hope, as we are already seeing easing of liquidity and asset quality improving gradually, post a series of measures being undertaken by the Govt of India and banks to provide support to the flagging economy. The NBFC industry should use the crisis wisely, to usher in reforms, reconstruct its business model, and re-discover its right to exist. More than ever before, NBFCs need to focus on having prudent risk management by ALM (Asset Liability Mismatch) and credit risk, as these are two pillars which have in all past crises proven to be the differentiators between the men and the boys.

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The NBFC industry can draw learnings from the telecom, aviation and hospitality sectors which have seen unforeseen price cuts over the last decade and manage to retain profitability through cost-optimisation, superior customer-servicing and improving revenue per customer. Acquisition of new customers is expensive, and servicing of the existing customer and meeting his further credit needs through life cycle relationship management and cross selling multiple products will be quite critical for sustained profitable growth.

India is a country of 1.30 billion people where credit penetration is still incredibly low, with half of the customers being on-boarded by NBFCs being new to credit, and more than half of the population being SENP (self-employed non-professionals), many of whom don’t have formal documented income and hence despite being creditworthy they are considered NINJA (No Income, No Job and No Assets). NBFCs have catered to this large underserved market for decades, outpacing banking industry credit growth, while managing portfolio risk and doing all this cost effectively, by providing door-step banking through a high-touch operating model as opposed to branch-banking and tele-connect model of the traditional banks. With the boom of FinTech, JAM (JanDhan-Aadhaar-Mobile), and UPI payments, the avenues to acquire customers are growing faster than ever.

NBFCs that will survive and thrive will need to go back to the basics on managing leverage, ALM mismatch, protect Income spreads, and manage NPAs prudently while weaving technology into their DNA to provide superior customer experiences. It is going to be the *yug of nav-nirman*; after destruction you have reconstruction, and in my view, where 2019 was the year of destruction, 2020 will be the year of reconstruction.

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