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Aditi Gupta
Economist

How have NBFCs fared vis-à-vis Banks

Using the data largely from RBI's report on Trend and Progress in Banking 2021-22, this study attempts to look at the performance of Non-Bank Financial Corporations (NBFCs) in the last few years and compares the same with scheduled commercial banks (SCBs). Specifically, we look at the growth in overall balance sheet, credit growth and the sectors which have driven growth in credit.

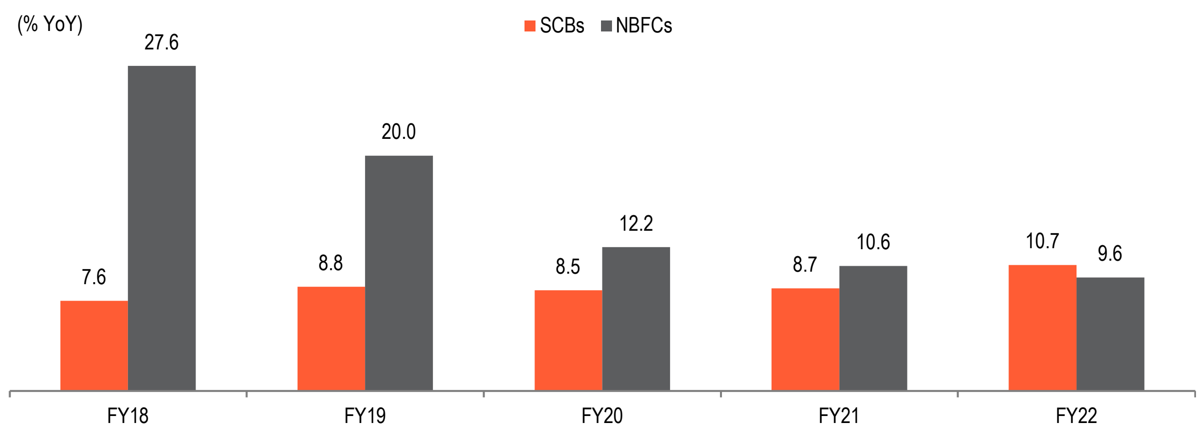
Structure of NBFCs

NBFCs play an important role in the economy by providing a supplementary source of credit to borrowers. These firms usually specialize in niche areas such as real estate, agriculture and infrastructure etc. RBI classifies NBFCs in the following categories: a) Deposit taking NBFCs or NBFCs-D, b) Non-deposit taking NBFCs or NBFCs-ND, c) Asset reconstruction companies or ARCs and d) Housing Finance Companies or (HFCs). For this analysis, we are only looking at NBFCs-D and NBFCs-ND, more specifically systemically important NBFCs-ND-SI, with asset size of over Rs 500 crore.

Growth in balance sheet: NBFCs and SCBs

We first begin our analysis by comparing the growth in balance sheet of NBFCs and SCBs over the last five years. It can be seen that for NBFCs, balance sheet growth has been moderating. After registering a stellar growth of 27.6% in FY18, the growth momentum has fizzled out to just 9.6% in FY22. In comparison, balance sheet of SCBs has shown an increasing trend over the last 5 years, albeit the gains have remained modest. It is also interesting to note that except for FY22, the growth in balance sheet of NBFCs has been higher than SCBs. However, the gap has progressively narrowed and turned negative in FY22. On a CAGR basis, over the last 5 years, while NBFCs' balance sheet has grown by 15.8%, it has only expanded by 8.9% for SCBs.

Figure 1: Overall growth in balance sheet of NBFCs and SCBs



Source: CEIC, Bank of Baroda Research

Table 1: Balance sheet SCBs vs. NBFCs March 2022

Item	SCBs	% YoY	NBFCs	% YoY
Capital	2,14,439	14.0	1,31,241	3.8
Reserves and Surplus	16,89,877	13.0	7,70,209	14.8
Deposits	1,71,82,709	10.3	70,754	13.6
Borrowings	16,63,283	12.9	25,51,092	8.5
Other Liabilities and Provisions	9,17,346	9.0	3,17,625	8.5
Total Liabilities/Assets	**2,16,67,655**	**10.7**	**38,40,921**	**9.6**
Loans and Advances	1,22,08,009	13.0	29,08,743	7.6
Investments	57,78,971	6.7	5,13,891	15.5
Cash and balances with RBI	22,77,084	18.0	1,80,341	14.4
Other Assets	14,03,590	(1.7)	2,37,945	19.5

Source: CEIC, Bank of Baroda Research | Note: Cash and balances for SCBs includes cash and balances with RBI and balances with banks and money at call and short notice, Other Assets for SCBs includes Fixed assets and other assets, Other Assets for NBFCs includes other current assets and other assets

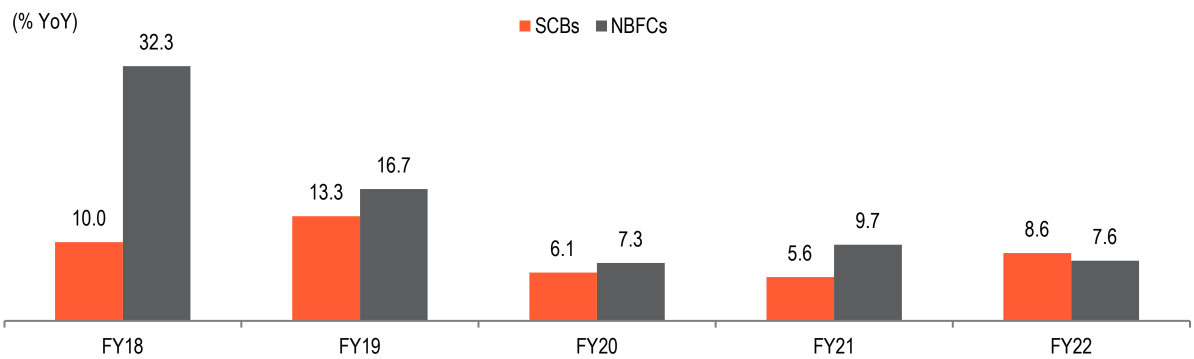
Table 1 shows that deposits accounted for around 79% of total liabilities for SCBs. On the other hand, for NBFCs, borrowings were the main source of funding with a share of around 2/3rds. It must be noted that NBFCs rely heavily on banks as well as markets to fund their operations. In FY22, bank borrowings, accounted for 75% of total borrowings by NBFCs, as interest rates were low.
On the assets side, loans and advances contributed to 56% of total assets for SCBs, while for NBFCs the corresponding share was higher at 75%. Share of investments for banks was 27%, while for NBFCs it was lower at 13%.

Growth in credit: NBFCs and SCBs

Next, we analyze the trend in overall credit growth in both SCBs and NBFCs and compare the same. It can be seen that credit by NBFCs has declined sequentially over the last five years. In fact, credit by NBFCs grew at a solid pace of 32.3% in FY18 and has since moderated.

On the other hand, credit outstanding by SCBs has shown varied trends. After growing by a stellar 10% in FY18, credit growth of SCBs improved to 13.3% in FY19. Thereafter, it moderated to 6.1% in FY20, and further to 5.6% in FY21. After this, credit growth of SCBs improved to 8.6% in FY22. It must be noted that in four out of the last 5 years, credit offtake by NBFCs was higher than SCBs. Overall on a CAGR basis, credit growth for both SCBs was much lower at 8.7% versus 14.4% for NBFCs.

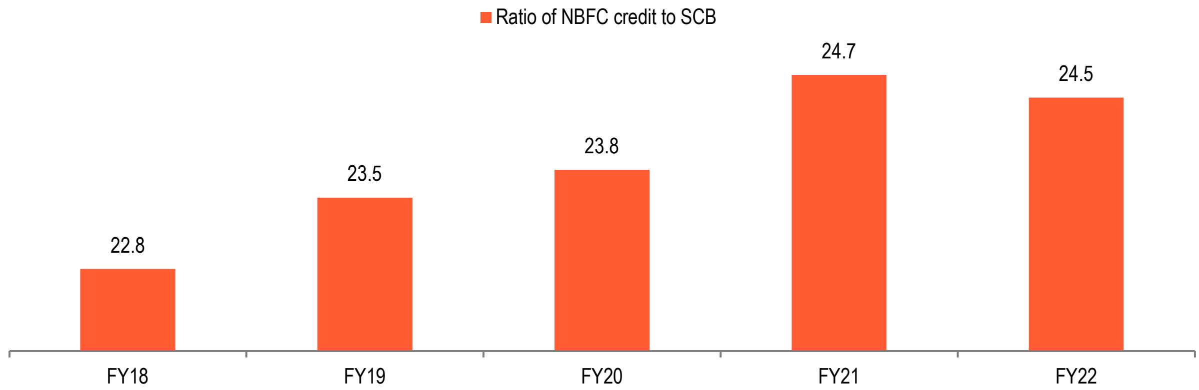
Figure 2: Overall growth in credit of NBFCs and SCBs



Source: CEIC, Bank of Baroda Research | Note: Data for SCBs is based on monthly sectoral deployment of credit data released by RBI

In terms of ratio of credit by NBFCs to credit by SCBs, the ratio has improved from just 22.8% in FY18 to a high of 24.7% in FY21. In FY22, the ratio stood at 24.5%.

Figure 3: Ratio of credit o/s of NBFC to Bank credit o/s



Source: CEIC, Bank of Baroda Research |Note: Data for SCBs is based on monthly sectoral deployment of credit data released by RBI

<u>Composition of credit disbursed: NBFCs and SCBs</u>

Table 2 gives the breakup of credit disbursed by both SCBs and NBFCs in FY18 and FY22.

- While agriculture and allied activities accounted for 13.3% of total credit disbursed by SCBs in FY22, its share in the credit portfolio of NBFCs was very small at just 2.1%.
- Industry is a major sector being serviced by both SCBs and NBFCs alike with a share of 28.5% and 46.5% respectively in FY22.
    - Within industry, large companies form the bulk of lending for both SCBs and NBFCs.
    - Furthermore, while share of large companies in total credit to industry has come down for SCBs (76.4% in FY22 from 82.3% in FY18), for NBFCs the share has improved to 80.3% compared with 55.5% in FY18.
    - Share of MSMEs in total industry credit has improved for SCBs to 23.6% versus 17.7% in FY18. The comparative figure for NBFCs has shown some moderation from 7.1% in FY18 to 5.8% in FY22.
- Services sector accounted for 27.2% of total credit disbursed by SCBs in FY22 (26.5% in FY18), and 16.8% of credit by NBFCs in FY22 (17.4% in FY18).
    - Within services, NBFCs and trade account for a major share of credit disbursed by SCBs. In fact, while the share of trade in SCB credit to services has remained unchanged at around 23% in both the periods, share of NBFCs has gone up from 10.7% in FY18 to 12.4% in FY22. This can be attributed to lower interest rates offered by banks vis-à-vis corporate debt market, as also support provided during COVID through the TLTROs.
    - For NBFCs, the major head under services is transport operators with a share of 25.5% in FY22. Interestingly, its share in FY18 was only 6%. On the other hand, share of commercial real estate which accounted for 38.9% of services credit in FY18 has dipped to 21.9%.

  - Share of miscellaneous services in service credit for both SCBs and NBFCs has declined in FY22 compared with FY18. However, it still accounts for more than 30% of the share for both NBFCs as well as SCBs.
- Retail sector is an important lending sector for both SCBs and NBFCs. The share of retail loans in SCBs total loan portfolio has improved from 24.7% in FY18 to 30.6% in FY22. For NBFCs, the increase has been much more, rising from 19.4% in FY18 to 34.6% in FY22.
  - In this sector, SCB credit is heavily concentrated in the housing loan segment. Share of home loans has remained stable at ~50%.
  - For NBFCs, vehicle loans form the bulk of credit disbursed in this segment. However, share of vehicle loans has moderated from 45.7% in FY18 to 40.4% in FY22. NBFCs have faced competition from SCBs in this segment as the share of auto loans in SCBs retail portfolio has increased from 9.9% to 11.9% in FY22.
  - Another important inference is that gold loans have gained significant prominence for NBFCs, accounting for 14.3% of total retail loans in FY22. The corresponding figure for SCBs stands at 2.2%.

Table 2: Sector wise distribution of credit by SCBs and NBFCs

	SCBs		NBFCs	
	FY18	FY22	FY18	FY22
Gross Bank Credit	**86,25,425**	**1,18,91,314**	**19,66,095**	**29,08,743**
Food Credit	41,989 (0.5)	55,011 (0.5)	241 (0)	-
Non-Food Credit	85,83,436 (99.5)	1,18,36,304 (99.5)	20,65,854 (100.0)	29,08,743 (100.0)
1. Agriculture and Allied Activities	**10,30,215 (13.3)**	**14,61,719 (13.2)**	**46,794 (2.5)**	**50,422 (2.1)**
2. Industry	**26,99,268 (34.9)**	**31,56,067 (28.5)**	**11,21,951 (60.7)**	**11,12,852 (46.5)**
Micro and Small	3,72,999 (13.8)	5,32,179 (16.9)	55,408 (4.9)	46,967 (4.2)
Medium	1,03,680 (3.8)	2,13,996 (6.8)	24,349 (2.2)	17,186 (1.5)
Large	22,22,589 (82.3)	24,09,892 (76.4)	6,23,020 (55.5)	8,94,102 (80.3)
Others	NA	NA	4,19,172 (37.4)	1,54,598 (13.9)
3. Services	**20,50,472 (26.5)**	**30,11,975 (27.2)**	**3,21,437 (17.4)**	**4,02,935 (16.8)**
Transport Operators	1,21,268 (5.9)	1,55,352 (5.2)	19,335 (6.0)	1,02,742 (25.5)
Trade	4,66,938 (22.8)	6,96,301 (23.1)	34,299 (10.7)	49,928 (12.4)
Commercial Real Estate	1,85,801 (9.1)	2,91,168 (9.7)	1,25,108 (38.9)	88,123 (21.9)
NBFCs	4,96,393 (24.2)	10,22,399 (33.9)	24,061 (7.5)	34,292 (8.5)
Others	7,80,072 (38.0)	8,46,754 (28.1)	1,18,634 (36.9)	1,27,851 (31.7)
4. Personal Loans	**19,08,469 (24.7)**	**33,86,982 (30.6)**	**3,59,380 (19.4)**	**8,29,485 (34.6)**
Consumer Durables	19,703 (1.0)	27,628 (0.8)	8,621 (2.4)	24,802 (3.0)
Housing loans	9,74,565 (51.1)	16,84,424 (49.7)	13,256 (3.7)	23,329 (2.8)
Education loans	69,712 (3.7)	82,723 (2.4)	7,198 (2.0)	14,264 (1.7)
Credit Card receivables	68,628 (3.6)	1,48,416 (4.4)	17,427 (4.8)	32,710 (3.9)

Auto Loans	1,89,786 (9.9)	4,02,689 (11.9)	1,64,378 (45.7)	3,34,947 (40.4)
Loans against Gold Jewellery	-	73,960 (2.2)	-	1,18,918 (14.3)
Others	5,86,075 (30.7)	9,67,413 (28.6)	1,48,500 (41.3)	2,80,514 (33.8)

Source: CEIC, Bank of Baroda Research | Note to table: Data for SCBs is based on monthly sectoral deployment of credit data released by RBI | Data in parentheses indicate share in respective head | Due to data reporting by RBI, aggregate bank credit does not equal the sum of 1-4 above. Hence, shares have been calculated in sum of the components | For sub components, share has been calculated from respective heads

Growth in credit disbursed by sector: NBFCs and SCBs

Table 3 gives the sector wise growth in credit disbursed by both SCBs and NBFCs in FY22 and also the CAGR over the last 5 years (FY18 to FY22). Following observations can be made:

- In FY22, agriculture credit from NBFCs rose by 33.6%, while growth for SCBs was lower at 9.9%. However, over the last 5 years on a CAGR basis, SCBs outperformed NBFCs.
- In case of industry, while SCBs performed better than NBFCs on a YoY basis, on a CAGR basis NBFCs performed somewhat better.
    - Within industry, SCBs did much better than NBFCs in case of micro and small and medium industries on both YoY as well as CAGR basis. Surprisingly, growth in NBFC credit to these industries was negative on a CAGR basis.
    - On the other hand, credit to large industries by NBFCs remained higher than SCBs on both a YoY as well as CAGR basis.
- For services, NBFCs credit increased by 21.8% in FY22, while SCB credit trailed at 8.7%. Even on a CAGR basis, growth in NBFC credit rose by 11.4%. The similar figure for SCBs stood at 10.8%.
    - Under services, NBFCs outperformed SCBs in FY22 for all major sub-segments.
    - Over the last 5 years however, NBFCs credit to transport operators has seen a sharp increase, rising by 46.6%.
    - On the other hand, credit to commercial real estate has declined.
- In personal loans segment, while SCBs outpaced NBFCs in FY22, the same story does not hold on a CAGR basis. NBFCs retail loans expanded at a compounded annual rate of 26.1% in the last five years, for SCBs it was much lower at 15.9%.
    - Within this, in almost all the major sub-segments SCBs have performed better than NBFCs in FY22. The exception to this are: education loans, credit cards and loans against jewellery.
    - Ona CAGR basis however, NBFCs outpaced SCBs in segments such as consumer durables, education and vehicle loans.

Table 3: Sector wise distribution of credit by SCBs and NBFCs

% YoY in FY22	% YoY in FY22		CAGR last 5 years	
	SCBs	NBFCs	SCBs	NBFCs
Gross Bank Credit (II + III)	**8.6**	**7.6**	**8.7**	**14.4**
Food Credit	**(10.2)**	**NA**	**0.4**	**NA**
Non-Food Credit	**8.7**	**7.6**	**8.7**	**14.4**
1. Agriculture and Allied Activities	**9.9**	**33.6**	**8.1**	**4.7**
2. Industry	**7.5**	**4.9**	**3.3**	**5.1**
2.1. Micro and Small	22.9	6.2	7.6	(0.5)
2.2. Medium	54.4	15.3	15.3	(0.5)
2.3. Large	2.0	4.6	1.8	15.8
2.4. Others	NA	5.4	NA	(16.2)
3. Services	**8.7**	**21.8**	**10.8**	**11.4**
Transport Operators	8.6	57.3	7.1	46.6
Trade	10.8	48.6	10.2	9.6
Commercial Real Estate	0.6	9.5	9.4	(1.8)
NBFCs	7.8	19.6	21.2	10.8
Others	11.2	4.2	4.3	12.5
4. Personal Loans	**12.6**	**5.0**	**15.9**	**26.1**
Consumer Durables	60.0	33.9	5.9	35.5
Housing loans	12.9	8.6	14.4	7.7
Education loans	5.9	53.8	3.4	27.8
Credit Card receivables	12.7	25.9	23.3	20.4
Auto Loans	9.3	(6.3)	18.8	25.9
Loans against Gold Jewellery	(1.5)	5.3	NA	NA
Others	14.3	14.7	16.7	19.5

Source: CEIC, Bank of Baroda Research |Note: Data for SCBs is based on monthly sectoral deployment of credit data released by RBI

Concluding remarks

NBFCs play an important role in bridging the gap between banks and customers. However, these also contest with banks in many segments due to their geographical advantages. Bulk of funding for NBFCs come from banks. In FY23, bank lending to NBFCs has expanded by a whopping 30% to ~Rs 13 lakh crores. In which case, NBFCs will have to rely to other sources of finance such as the debt market.

NBFCs have also carved niches in specific areas on the lending side such as auto, gold, and transport operators as against banks which have a more broad-based lending portfolio. The proportion of their lending is around 25% of that of banks and has been stable in the range. Hence, their contribution to the financial landscape will remain important in the coming years.

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For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com