

NBFCs post strong credit growth in Q1 despite rate hikes, inflationary pressure

Rising disbursal across segments aids growth

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Despite expectation of dampened credit demand owing to surging interest rates and rising inflationary pressures, most large non-banking financial companies reported a strong growth in the loan-book in the first quarter of FY23.

The shadow lenders attributed the AUM growth to broad-based demand across segments, including retail finance, SME lending, and vehicle and mortgage loans.

AUM growth

The consolidated AUM of diversified lender Bajaj Finance grew 28 per cent for the reporting quarter, led by a 31 per cent jump in SME lending and a 28 per cent rise in mortgage loans.



The strong demand included some rollover from Q4 of FY22, as pandemic-related pent-up demand kicked in

The country's largest housing financier, HDFC Ltd, last week reported its highest ever Q1 disbursement, leading to an AUM growth of 17 per cent. "Housing demand continued to remain strong during the quarter across Tier I, II & III cities in the affordable, middle- and high-income segments," Sharekhan Securities said in a recent note.

Vehicle loans, barring some segments of commercial vehicle

loans such as tractors, have also been a high growth segment for NBFCs, aided to an extent by the increase in vehicle prices, industry players said.

Retail and rural-focussed NBFCs such as Mahindra & Mahindra Financial Services and Shriram City Union Finance also reported a growth in their AUM of 175 per cent and 74 per cent, respectively.

Demand outlook

The strong demand in the first quarter of FY23 included some rollover from Q4 of FY22, as pandemic-related pent-up demand kicked in, in the second half of the quarter, according to industry players.

In addition, the entire impact of the 90 basis point rate hike in May-June is still to play out as most lenders have so far been cautious about increasing their lending rates. With the central bank expected to hike rates further to combat the inflationary

pressures, an increase in the pace of lending rate hikes can dampen appetite for credit, lenders said.

HDFC Vice-Chairman and CEO Keki Mistry recently said the company has passed on the entire 90 bps rate hike to its customers.

The progress of the monsoon and the pace of pick-up in festival-linked demand in the latter half of the second quarter of FY23 will also be crucial determinants. Till then, analysts expect uncertainty surrounding demand trends to prevail.

The normalisation in diesel prices even as freight rates have largely remained stable is seen as a "blessing for CV operators" as fuel price accounts for about 65 per cent of gross freight receipt, India Ratings said in a note. Going into Q2, the overall outlook for credit demand for NBFCs remains optimistic, taking into account the positive trends, the good monsoon and a further pick-up in demand with the start of the festival season.