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URBAN LOAN SANCTIONS SHRINK AS NBFCS SHIFT FOCUS TO RURAL

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MUMBAI : Non-bank lenders are seeking out rural areas where competition with banks is less and the size of loans smaller, leading to a contraction in loan sanctions in urban areas.

Sanctioned loans in urban areas, which typically account for a majority of the sector’s loans, have shrunk 3% year-on-year (y-o-y) in the December quarter, showed data released by industry body Finance Industry Development Corp. (FIDC), jointly with credit information company Crif High Mark. In the same period, sanctions in the rural and semi-urban areas grew 13% and 19%, respectively. Data on sanctions helps gauge demand for credit among borrowers and the availability of loans in various pockets.

Experts pointed out that non-banking financial companies (NBFCs) have been going slow on large loans like big-ticket loans against property (LAP), unsecured personal loans and even wholesale credit which primarily originate in urban areas. This risk aversion to certain segments, part of a conscious decision to balance risk and reward, has led to a decline in urban loan sanctions, they said. “Right now, the mantra is to go granular and go deeper for small-ticket loans where there is a good risk-return pricing. These include rural, tier-3 and tier-4 areas rather than indulging in a very competitive urban market," said Pankaj Naik, associate director, India Ratings and Research Pvt. Ltd.

Naik said the bread-and-butter business of NBFCs is in vehicle finance and loan against property, where the trend is to avoid chunkier loans. On the urban side, he said revival will hinge on NBFCs again catering to segments like LAPs, wholesale loans and unsecured personal loans through digital routes.

“On the unsecured side, I think, NBFCs are still risk-averse and they want to look at the debt repayment capacity of borrowers before taking incremental exposures. Also, on the unsecured side, there were disruptions during the pandemic and some kind of over-leveraging would have happened by borrowers," Naik said, adding that the kind of products NBFCs offer in urban areas have some or the other issue at present which will get resolved over a period of time and these lenders would then press the accelerator and grow these businesses.

The FIDC-Crif High Mark data also showed that education loan sanctions dropped 31% y-o-y to 707 crore; loans of 1-3 years have declined 43% to 6,992 crore; and secured business loans have fallen 24% to 925 crore in the three months through December. Total sanctions by non-bank lenders grew 5% y-o-y to 3.07 trillion in the third quarter and NBFCs expect the March quarter to see further improvement.

According to Mahesh Thakkar, director-general at FIDC, there are three reasons behind the growth in rural credit as compared to loans in urban areas. During the covid-19 pandemic, NBFCs witnessed credit demand largely from the rural areas as people in urban areas avoided fresh loans, he said.

“NBFCs are keener on rural loans because urban areas have heightened competition with banks which price their loans more aggressively. That apart, NBFCs are looking at smaller loans in rural areas where they realize there is a greater need for credit than urban centres," said Thakkar.

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