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CRISIL RATINGS

Retail NBFCs: The shine is back, but will it last?

NBFCs' Growing Role In Retail Finance

NBFC Asset Quality Set to Improve; Performance of Newer Asset Classes Remains Key Monitorable

Asset Class Resilience and Process Rigour Mitigate Delinquency Risks in NBFCs

NBFCs To Maintain Improvement In Profitability Through 2011-12

CRISIL Insights

A knowledge sharing endeavour from CRISIL

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Foreword

I am delighted to present this compendium of articles on India's retail non-banking financial company (NBFC) sector, titled **'Retail NBFCs – The Shine is Back, But Will it Last?'**

The sector continues to play a critical role in making financial services accessible to a wider set of India's population. As the sector grows, the interest from investors, both equity and debt, has been increasing. This compendium is part of our initiative to share with you, the insights we have gained from our ongoing analysis of the sector, over the years. We believe that initiatives such as this will enhance the availability of information on the sector, and in turn, increase investor confidence.

CRISIL's ratings cover a significant part of the NBFC sector: we currently have ratings outstanding on more than 50 NBFCs, with total assets under management of around Rs.1.5 trillion. This represents around half of the retail NBFC assets in the country. These entities are diverse – a few of them are larger than some private sector banks. The NBFCs also operate across a variety of segments, including car and commercial vehicle finance, loans against property, gold loans, and unsecured retail loans. This compendium, however, does not cover NBFCs in the infrastructure finance and microfinance segments and housing finance companies.

As the title suggests, the shine is back in the NBFC sector after the challenging years it faced between 2007 and 2009. The shine in performance is reflected in the growing share of retail NBFCs in the financing market, improving profitability, healthier asset quality, diversified resource profile, and adequate capitalisation. The NBFCs have also strengthened their internal processes, enhanced their origination and collection practices, introduced product innovations, focused on secured asset classes, improved operating efficiencies, and built a stronger presence in semi-urban and rural India. The NBFCs, especially those that have acquired scale in their core business, have, therefore, become structurally more resilient. These strengths, complemented by the strong growth prospects, should allow the NBFCs to match the banks' share of the retail financing market over the next couple of years.

The sector will, no doubt, face tighter regulation as it gains in systemic importance. CRISIL believes that enhanced regulations will reduce the sector's regulatory arbitrage vis-à-vis banks, moderate growth and profitability in certain product segments, and will also improve transparency. The competitive landscape in the retail finance sector could change, given the likelihood of some NBFCs converting to banks, entry of new players, including captive finance entities, and entities from other financial sectors into retail financing. As players attain scale in operations and increase their geographical reach, challenges pertaining to human resources and managing growth may emerge. The NBFCs' performance will remain more vulnerable to economic cycles than that of banks.

We hope you will find our insights and analysis useful. We welcome your feedback.

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Executive Summary

CRISIL believes that the non-banking financial company (NBFC) sector is emerging as a strong financial intermediary in the retail finance space. Retail NBFCs[1] are expected to report a compound annual growth rate (CAGR) of 20 per cent between 2011 and 2013. The sector's assets under management (AUM) are expected to double by 2013 from the 2010 levels. NBFCs may, therefore, continue to gain market share at the expense of banks; NBFCs' share in the non-housing retail finance is expected to almost match that of banks by end-March 2013. While the traditional vehicle financing business is expected to achieve stable growth, after displaying volatility between 2007 and 2010, new segments, such as gold loans and loans against property (LAP), will continue to experience higher growth levels.

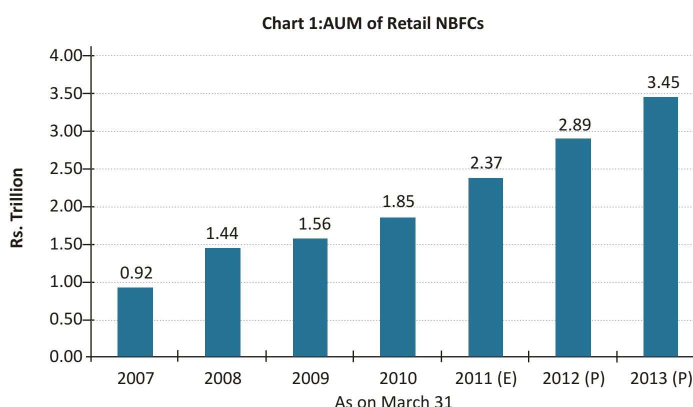
In CRISIL's view, high penetration in smaller towns, product and process innovation, and continued focus on core businesses, will be the key enablers of steady growth and competitive positioning of NBFCs in retail finance. On the other hand, increasing regulatory coverage and movement towards secured asset classes will strengthen the sector and provide stability. These factors, in CRISIL's opinion, signal a stronger, more mature retail NBFC sector. This will ensure continued investor interest and adequate flow of capital to support growth and cover asset-side risks. Additionally, new groups are entering the NBFC sector in pursuit of growth opportunities offered by the various product segments.

CRISIL believes that NBFCs, especially the domestic players, are well poised to move towards the next phase of growth and scale up their operations. The challenges that they, however, need to address include aligning their business models with the changing regulations, enhancing and diversifying their borrowing mix at competitive rates, and ensuring availability of skilled human resources.

Retail NBFCs to witness healthy growth, despite temporary hiccups

CRISIL believes that retail NBFCs will witness healthy growth over the medium term. As per CRISIL estimates, the AUM of these NBFCs, which reported two-fold growth over the period 2007-10, will again nearly double by end-March 2013 (*refer to Chart 1*). The growth in coming years will be driven by growth in new product segments such as gold financing and LAP; the growth rate in gold financing is, however, expected to taper, primarily due to the removal of priority sector status.

Chart 1:AUM of Retail NBFCs



The retail NBFC sector has been able to recoup quickly from the economic downturn of 2008-09 (refers to financial year, April 1 to March 31), as reflected in AUM growth of 19 per cent in 2009-10 as against 8 per cent in 2008-09. Furthermore, following the economic revival from the second half of 2009-10, vehicle finance NBFCs have also witnessed a healthy revival in growth, and are now expected to achieve stable growth.

[1] Top 30 NBFCs

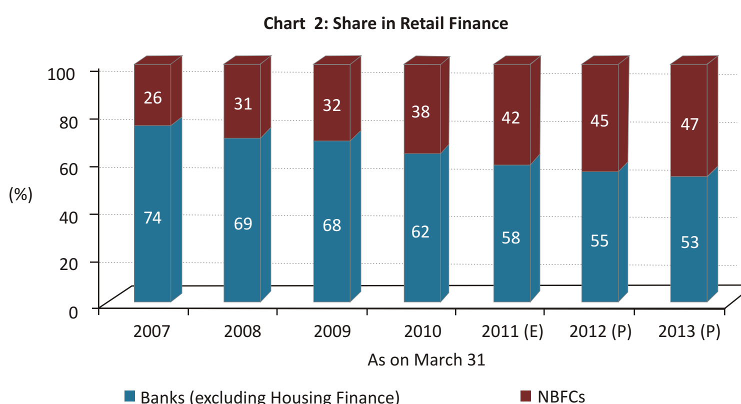
Sector	Estimated CAGR 2011-13 in AUM (%)	Key Drivers
Vehicle Finance	15	❑ Comprises 50 per cent of total loans in the sector ❑ Growth expected to be in line with economic growth ❑ Large NBFCs to remain committed to their core areas of growth ❑ Better growth prospects in tractor loans and construction equipment financing segments
Loan against Property	17	❑ Secured avenue to fund working capital requirements of micro, small, and medium enterprises. Conservative loan-to-value ratios provide comfort ❑ High property prices enable unlocking value ❑ NBFCs have a niche presence in Tier II and III cities and, therefore, have an edge over banks, given their quicker turnaround times in meeting borrower needs
Gold Loans	40-50	❑ Growing willingness to borrow against jewellery ❑ Substitution effect of NBFCs exiting personal loans ❑ High stock of gold in the form of jewellery in India ❑ Highly under-penetrated market for gold loans ❑ Safe asset class given low volatility in gold prices and high liquidity ❑ NBFCs' first-mover advantage in the untapped markets in the country ❑ Growth is, however, expected to reduce due to removal of priority sector status

Within the retail NBFC sector, domestic NBFCs will remain the dominant contributor; contribution from foreign NBFCs will remain limited over the medium term. Despite improvement in the operating environment, the overall performance of the foreign NBFCs remains muted. Competitive pressures and high delinquencies in the unsecured retail loan portfolios led foreign NBFCs to downsize their operations. On the upside, peaking of losses in the unsecured portfolio and movement to secured asset classes is expected to improve their growth going forward.

NBFCs to continue to gain market share at the expense of banks

The steady pace of growth for the NBFC sector vis-à-vis slower growth rate for banks has resulted in a significant increase in the NFBC's share in the total retail finance pie over the past few years. CRISIL expects NBFCs to almost match the share of the banking sector by the end of March 2013. As on March 2010, NBFC's share in retail finance, as compared to banks, has already increased to around 38 per cent from 26 per cent three years ago (*refer to Chart 2*).

Chart 2: Share in Retail Finance



While NBFCs have grown steadily over the past three years, the non-housing retail assets of banks have displayed subdued growth, registering a CAGR of around 5 per cent; in fact, banks registered a decline in growth of around 7 per cent in 2009-10 in their non-housing retail portfolio. High delinquencies in the unsecured loans portfolio, particularly for private sector banks, slowdown in automotive loan growth during the economic downturn in 2008-09, and a greater focus on the relatively safe housing finance business, resulted in sharp decline in the banking sector's non-housing retail finance growth. With the revival in the macroeconomic environment from the second half of 2009-10, CRISIL expects banks' retail assets portfolio (excluding housing loans) to record positive, albeit moderate, growth over the medium term.

Retail finance business - Key growth enablers

In CRISIL's view, the core strengths of NBFCs lie in their sizeable presence in Tier II and III cities, given the NBFCs' good understanding of regional dynamics, which enables them to build strong customer relationships. This, coupled with product innovation and superior product delivery, has enabled NBFCs to maintain and enhance their competitive positioning, despite stiff competition from banks.

Strong market penetration and increasing operating efficiency

Retail NBFCs have strengthened their presence in the semi-urban and rural areas where retail finance penetration is low. While banks, especially public sector banks, have a large presence in these areas, it is largely to meet agricultural loan requirements. As per CRISIL estimates, semi-urban and rural segments account for more than 60 per cent of retail NBFCs' business. A significant part of the growth seen in NBFCs is, therefore, also a form of substitution of the credit typically extended by the unorganised sector, thereby contributing to the financial inclusion agenda.

Systems and process upgrade, focus on high-potential branches, and enhanced orientation towards the relationship-based model, has resulted in healthy improvement in operating efficiencies for NBFCs. A CRISIL analysis reveals that some of the large NBFCs have been able to increase their operating efficiency (measured by business per branch) by 35-40 per cent over the past three years, further contributing to their business growth.

Product innovation and superior delivery

Given their deeper understanding of customer needs, NBFCs continue to focus on product innovation and customising product offerings. This helps NBFCs maintain their niche positioning, and gives them an edge over banks. A classic example of product innovation is the building of an organised market in used vehicle financing, a segment largely untouched by banks. Similarly, NBFCs have built a scalable business model in gold financing, despite banks' longstanding presence in this segment. An example of customisation would be the structuring of monthly installments while accounting for seasonality of cash flows, in case of construction equipment loans. Similarly, in the case of gold loans and LAP, NBFCs provide superior delivery by optimising turnaround time on loan disbursals.

In CRISIL's opinion, retail NBFCs have also benefited from their abiding focus on core segments. The ones that had ventured into unrelated businesses are rebalancing their activities with increased focus on core businesses; diversification is being pursued in a measured manner, and is largely restricted to activities that are related to the core segments.

NBFCs better equipped to withstand economic cycles

In CRISIL's opinion, positive developments in the NBFC sector, ranging from widening regulatory ambit, revamp in business strategies, and improved investor confidence, ensures a fair degree of stability in the sector. The NBFC sector withstood the economic downturn of 2008-09 well, when compared with the one in the late 1990s. No defaults were reported during the recent economic downturn, as against a high number of defaults and exits during the economic downturn in the 1990s.

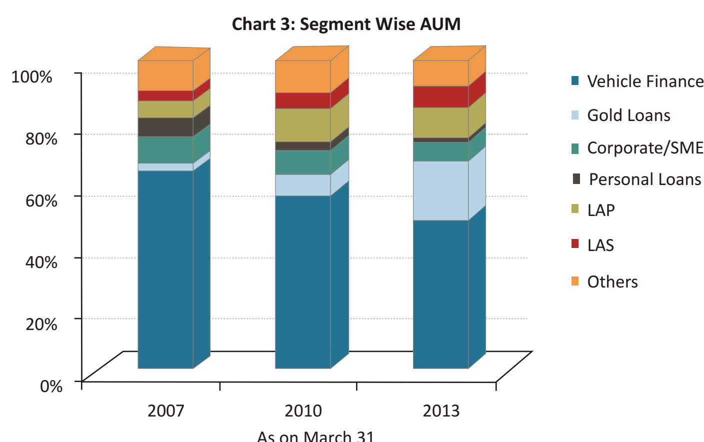
Increasing regulatory coverage

Regulatory supervision for the NBFC sector has been increasing over the past few years and is likely to be tightened further. In December 2006, the Reserve Bank of India (RBI) issued single-party and group exposure norms, thereby reducing concentration risk. This was followed by the issue of guidelines for non-deposit taking systemically-important NBFCs (NBFC-ND-SIs) in August 2008, stipulating prudential norms covering NBFCs' capital adequacy and asset-liability management requirements. NBFC-ND-SIs will need to maintain a capital adequacy ratio of at least 15 per cent from April 2011. Similar capital adequacy norms have recently been made applicable for deposit-taking NBFCs. CRISIL believes that the increasing regulatory coverage for the sector will result in greater transparency and strengthen the sector, thereby enhancing the confidence of stakeholders.

Greater focus on secured asset class: Product suite now more diversified

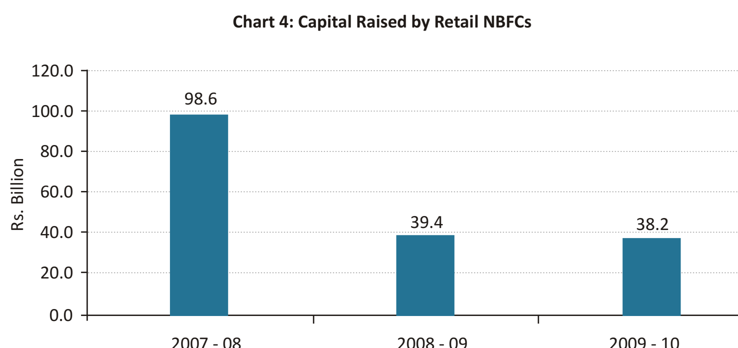
Growth in the sector has been characterised by an enhanced focus on secured asset classes. CRISIL expects the proportion of secured lending by NBFCs to increase to almost 99 per cent of overall AUM by March 2013 from around 96 per cent in March 2010 and 91 per cent in March 2008. High delinquencies have compelled NBFCs to either exit, or significantly curtail exposure to, asset classes such as personal loans, credit card loans, and unsecured business loans; these segments have been substituted by new product segments such as gold financing and LAP, which are inherently secured in nature. In fact, by March 2010, NBFCs' personal loan portfolio had almost halved its peak size of two years ago.

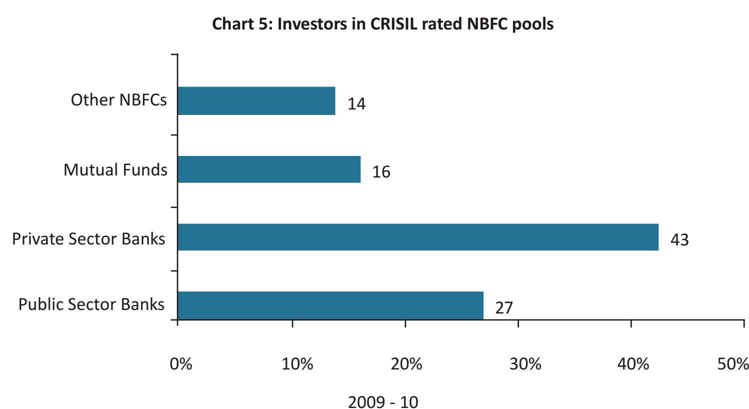
Growth in the NBFC sector will also be accompanied by a greater diversity in the product suite, unlike in the past, when the traditional segments, such as vehicle finance, constituted over 60 per cent of the AUM. Given the expected high growth in new product segments, the sector is expected to have a more balanced product profile by March 2013 (*refer to Chart 3*).



Good investor interest, ensuring adequate access to capital and securitisation

The NBFC sector has witnessed active equity investor interest, as reflected by healthy equity capital inflows of over Rs.175 billion (*refer to Chart 4*) into the sector over the past three years. A CAGR of 24 per cent in the market capitalisation of large NBFCs over the past five years also reflects strong investor confidence in this sector. The steady infusion of capital has enabled NBFCs to maintain growth in their loan portfolio while adequately covering asset-side risks. The capital cover for net non-performing assets for NBFCs was comfortable, at around 17 times, as on March 31, 2010. Given the medium-to-long term potential of this sector to demonstrate sustainable growth, investor appetite is expected to remain strong for NBFCs that are well placed to raise fresh capital to support their growth plans.





Furthermore, NBFCs continue to actively tap the securitisation/assignment route, which enables them to reduce borrowing costs and also provides them with capital relief. As per CRISIL estimates, 25 to 30 per cent of NBFCs' AUM was securitised or assigned as on March 31, 2010, most of which was subscribed by banks. While a substantial portion of the securitised transactions comprised commercial vehicle (CV) pools, newer product segments such as gold loans have also seen a sizeable surge in securitisation or assignment volumes over the past couple of years. This is primarily because assets securitised by NBFCs are eligible to be classified under priority sector lending, in the CV, tractor, and agriculture gold loan (till January 2011) segments, thereby assisting banks in fulfilling their priority sector lending commitments as per RBI regulations. In 2009-10, of the total CRISIL-rated securitised pools of NBFCs, public and private sector banks have been the investors in around 70 per cent of these pools (*refer to Chart 5*). CRISIL believes that the assets generated by NBFCs have potential for securitisation, given the reasonable investor appetite, notwithstanding removal of priority sector benefits for gold loans. However, any further tightening in regulatory guidelines on securitisation or priority sector status could adversely impair the NBFCs' ability to securitise in future.

Key challenges in the growth path of retail NBFCs

While retail NBFCs continue to have good growth potential, the sector is expected to face certain challenges as it makes the transition to the next growth phase. As articulated by RBI in its recent 'Financial Stability Report', CRISIL expects NBFC regulations to be tightened further, so as to align them with those for the banking sector. While this will result in further strengthening of the sector, NBFCs are likely to face challenges in aligning their business model with the regulations. Stronger regulations are likely for product segments that have seen very high growth in the recent past. Any adverse changes in securitisation and/or priority sector guidelines will constrain NBFCs' resources profiles, and, therefore, impair their growth over the near term. Further, given the sector's high exposure to India's financially under-served population, specific state-level regulatory actions, such as the recent regulations for microfinance entities in Andhra Pradesh, have potential to disrupt operations.

Ensuring availability of adequate debt funding at competitive costs is one such key challenge. CRISIL believes that NBFCs will require an additional Rs.910 billion of debt funding over the next two years. While banks are expected to cater to the bulk of these requirements, exposure constraints may restrict banks from a continuing increase in disbursements to the NBFC sector. The banks' exposure to the NBFC sector has increased to nearly 4 per cent of advances as of September 2010 from 2.2 per cent as of March 2005. In order to maintain their growth, NBFCs will, therefore, also have to look to alternate sources in the market and compete with other issuers/ asset classes, thereby increasing their cost of borrowings.

Additionally, availability of experienced and good-quality manpower is a key challenge for NBFCs. In CRISIL's opinion, the financial sector is, as a whole, likely to face this challenge, given the expansion plans of existing players and expected entry of new players, especially the new private sector banks. Many established retail NBFCs are poised to achieve a far higher scale (above Rs.100 billion of assets), and will, accordingly, need to continuously strengthen their management, and make more effective use of technology.

Conclusion

CRISIL believes that NBFCs have, over the years, emerged from the banks' shadow, and established a strong and independent identity in the retail finance space. Retail NBFCs will maintain their steady growth trajectory, backed by their ability to innovate, reach out to under-served customers, and resilience to economic cycles. While a tightening regulatory framework and financial and human resource challenges will test the ability of NBFCs to grow, CRISIL believes that the NBFCs will continue to constitute a critical financial intermediary in the Indian retail finance space.

NBFC asset quality set to improve; Performance of newer asset classes remains key monitorable

Executive Summary

The asset quality of non-banking financial companies (NBFCs) is set to improve steadily over the medium term, after the significant deterioration witnessed between 2007 and 2010. Overall, the gross non-performing assets[1] (NPAs) are expected to decline by around 100-125 basis points (bps) by 2012-13 (refers to financial year, April 1 to March 31). The improvement will be driven by a structural shift in asset composition through transition towards secured asset classes, improved asset quality monitoring mechanisms, and a favourable business environment.

The performance of previously untested asset classes such as loans against property (LAP) and gold loans is key, given the rapid increase in disbursements in these asset classes. NBFCs also continue to face the risk of dilution in underwriting quality, resulting from intensified competition and the possible re-entry of banks into the retail finance space.

The story so far...

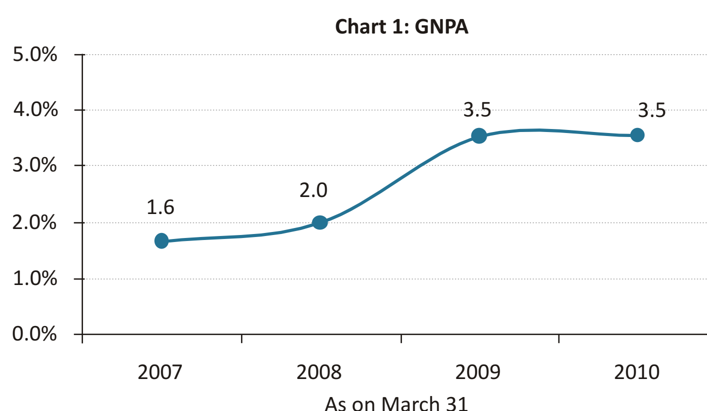
March 2007-March 2008: The risk build-up phase

Rapidly intensifying competition from banks in the traditional asset financing space forced most NBFCs to expand in high-yielding product segments such as personal loans to grow their portfolio. As competition intensified, players lowered underwriting standards (by increasing loan tenures, loan-to-value (LTV) ratios, and exposure to the lower-income segment) in the established asset classes to remain competitive. Hence, although the NBFC sector saw healthy business growth, a lot of the growth came through build-up of latent risks in the portfolio.

April 2008-March 2009: The outbreak phase

High growth amidst pricing competition and diluted underwriting standards was immediately followed by a sharp deterioration in asset quality performance (*refer to Chart 1*). CRISIL in its July 2008 opinion piece, 'Unsecured exposures weaken retail asset quality,' highlighted the expectation of a material deterioration in retail loan asset quality, caused by factors such as a rising proportion of unsecured loans, increasing exposure to high-risk customers, rising interest rates, and decline in credit standards.

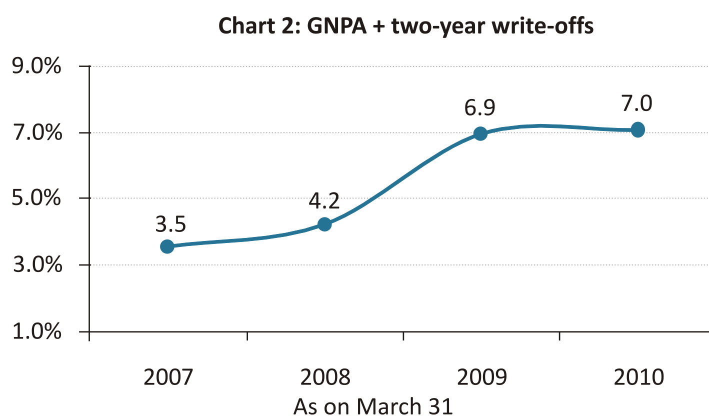
Chart 1: GNPA



The situation was also exacerbated by the liquidity crunch, which increased borrowing costs, and the slowdown in economic growth that impaired the borrower's ability to repay. The combined effect resulted in a sharp increase in both gross NPAs and credit costs. Gross NPAs in absolute terms jumped 3.6 times (by Rs.35.0 billion) between 2006-07 and 2008-09. In percentage terms, gross NPAs increased to 3.5 per cent from 1.6 per cent during the same period.

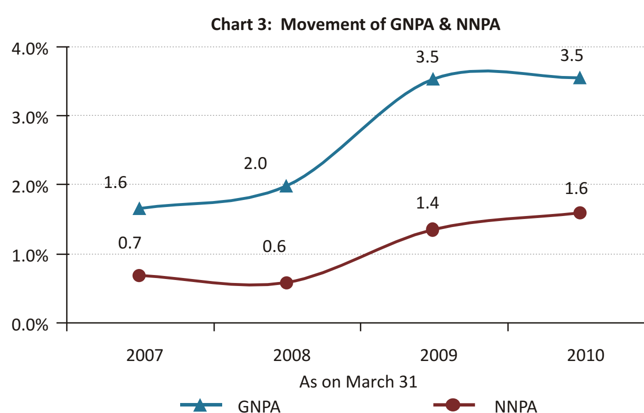
[1] *Gross NPAs as defined by RBI*

Moreover, most players were slow to implement tested and robust collection practices as their focus was on growth, rather than asset protection. Inability to recover dues resulted in increasing write-offs, which grew threefold (to Rs.20.7 billion) during the period. If the two-year write-offs are added to the gross NPAs, the adjusted gross NPAs increased to 6.9 per cent from 3.5 per cent (*refer to Chart 2*).



April 2009 -March 2010: The correction phase

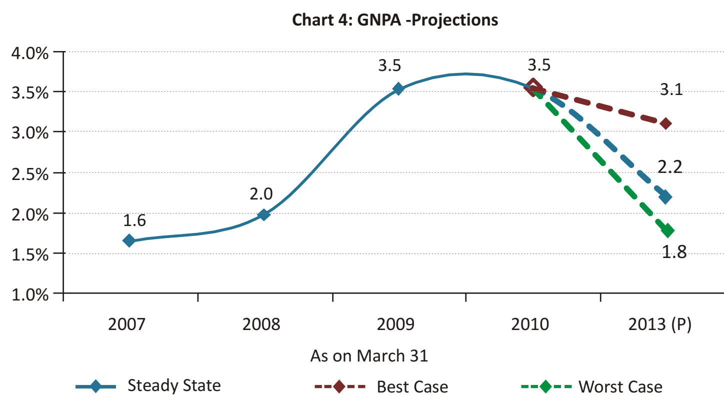
In a bid to arrest sharp deterioration in asset quality, NBFCs shifted priorities from growth to asset protection by exiting high-risk asset classes, and increasing focus on recovery. In absolute terms, gross on-book outstanding personal loans fell sharply by 36 per cent between March 31, 2008 and March 31, 2010. Efforts were also made to tighten underwriting norms and reduce reliance on outsourced collections/ recovery. Consequently, reported gross NPA numbers remained flat from March 2009 to March 2010 as compared with the 155-bps rise from March 2008 to March 2009 (*refer to Chart 3*).



The story going forward...

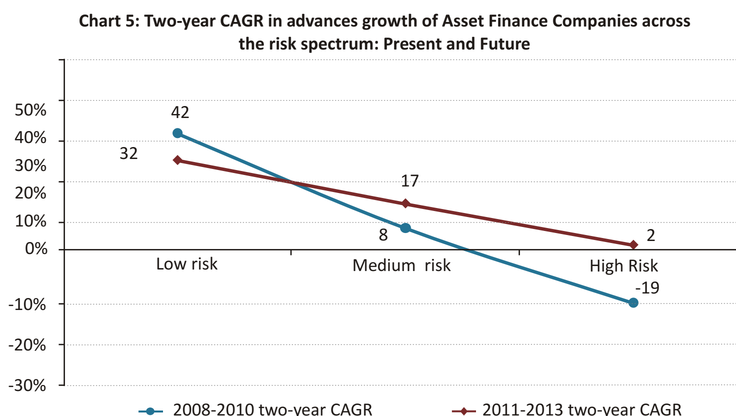
Overall asset quality on recovery path

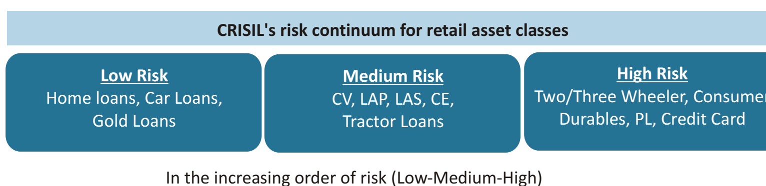
The overall gross NPA ratio of NBFCs across asset classes is expected to decline to around 2.2 per cent by end-March 2012, from 3.5 per cent as on March 31, 2010 (*refer to Chart 4*). The improvement will be driven by a structural shift in the outstanding portfolio, improved asset protection mechanisms, and an improving economic environment.



Structural shift: Movement towards safer/secured asset classes

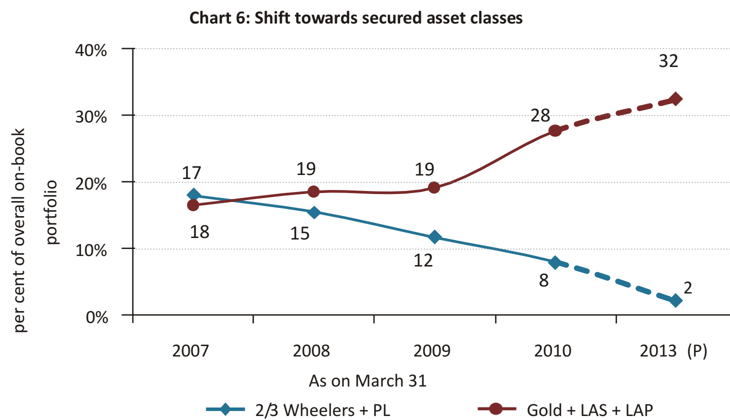
The past two years have seen NBFCs shift from high-risk asset classes to those that are relatively low-risk and secured. Between 2008 and 2010, the high-risk asset classes reported a fall in outstanding portfolio (a negative 19 per cent compound annual growth rate (CAGR)), whereas the low-risk asset classes reported a healthy growth in outstanding portfolio (*refer to Chart 5*). This trend is likely to continue over the medium term (refer to CRISIL article 'NBFCs' growing role in retail finance' in this compendium).





In the increasing order of risk (Low-Medium-High)

NBFCs have reduced their exposure to risky asset classes such as personal loans (PL) and two- and three-wheeler loans, and increased their exposure to secured asset classes such as gold loans, LAP, and loans against shares (LAS) (*refer to Chart 6*). Moreover, CRISIL believes that the proportion of PL and two- and three-wheeler loans is expected to further decline in the next two years and that incremental growth in the NBFC sector is likely to come mainly from secured



Asset classes such as gold loans, LAS, and LAP. The share of these three secured asset classes to total assets under management will be more than a third by 2011-12. Moreover, traditional asset classes are also expected to grow steadily over the next two years. Hence, structurally, the NBFC sector's inherent asset quality is likely to improve.

Stronger systems to control asset quality

A positive fallout of the sharp rise in delinquencies in the previous downturn was reorientation of systems and a keener focus on asset quality protection. NBFCs adopted asset protection mechanisms across asset classes. Table 1 shows various measures taken by NBFCs to strengthen their origination and collection mechanisms.

Table 1: Strengthening systems for various asset classes*

Asset Class	Measures
Overall	❑ Lower reliance on the DSA channel for sourcing. ❑ Greater reliance on credit history (CIBIL checks). ❑ Making credit appraisal processes in-house. ❑ Origination/sales responsible for initial collections. ❑ Establishing separate collection verticals for various buckets.
Commercial Vehicles	❑ Greater emphasis on guarantors being existing customers.
SME	❑ Greater emphasis on cash flow generation. ❑ Conducting post-verification lending.
Personal Loans	❑ Cross-selling to existing customers with established credit history.
Two/ Three Wheeler	❑ Reducing the geographical reach of branch operations. ❑ Installing new metrics to track initial collection history.

*Please see CRISIL opinion piece titled 'Asset class resilience and process rigour mitigate delinquency risks in NBFCs' for a segment-wise analysis of asset quality

Improving economic scenario

Robust economic growth is expected to continue in 2011-12 (CRISIL Research forecasts GDP growth at 8.3 per cent). A healthier economic environment coinciding with a shift towards safer asset classes and stronger asset protection mechanisms will also help improve asset quality.

Asset quality in newer asset classes and competition within the industry are key monitorables

Asset quality in newer asset classes

CRISIL believes that the NBFC sector is at the cusp of steady growth, profitability and asset quality; however, a number of factors have the potential to hamper buoyant business prospects. NBFCs are expected to grow substantially in hitherto uncharted asset classes such as LAP and gold loans-segments where asset quality is yet to be established.

Loans against property - The second half of 2009-10 saw a sharp growth of NBFCs in the LAP segment. Although the collateral in this asset class is mortgage against property, the characteristics are different from housing loans. The ticket sizes are typically higher than housing loans, and the tenures are shorter. Moreover, while extending LAP, lenders base credit decisions on collateral value and coverage. In LAP, the cash flow generating ability of the project/business is equally important. Also, the end use of these funds is vastly different from housing loans (primarily diversification, expansion, and debt consolidation). However, the emotional attachment to property remains similar to home loans.

Growth and the resultant asset quality practices in this asset class are critical. Given the large ticket size, a LAP portfolio is easily scaled up, while the presence of inflation-adjusted collateral, whose value rises over time, often lures players into relaxing underwriting standards once competition starts to intensify in this space.

Gold loans - The latter half of 2009-10 has also seen gold loans emerge as a strong growth engine in the NBFC space. The three-year CAGR in gold lending between 2007 and 2010 stood at 75 per cent. Gold loans are high-yielding (average yield around 22 per cent), have small ticket sizes (the average ticket size is around Rs.50,000), and are secured, backed by highly liquid collateral. All these factors make it an attractive proposition for the financer.

However, the rapid pace of growth brings with it challenges related to adherence to processes and systems, a key determinant of asset quality in this segment. Moreover, changes in the pace of growth regulation surrounding this sector can also pose challenges.

Risk of increasing competition

Re-entry of players in the PL business, and increasing price-based competition can also affect asset quality, going forward. Moreover, a number of capital market players in the quest to generate return on equity (RoE) are now starting to enter the space traditionally dominated by asset-financing companies.

Conclusion:

Given the steady upward trajectory in economic growth, the NBFCs are expected to maintain the improving trend in asset quality over the medium term. NBFCs have stronger systems and processes than they did in the past; these systems and processes are adequate to counter delinquency challenges. NBFCs' balance sheets have improved subsequent to the clean-up exercise in terms of write-offs. However, the performance of new asset classes and unhealthy competition in pursuit of growth are key monitorables for CRISIL.

Asset class resilience and process rigour mitigate delinquency risks in NBFCs

Executive Summary

CRISIL has observed significant differences in asset quality across product categories and across non-banking finance companies (NBFCs) over the past few years, including during the economic downturn. Traditional asset classes such as commercial vehicle (CV) financing and car financing have been resilient compared with personal loans (PL) and two- and three-wheeler financing, which witnessed sharp deterioration between 2008 and 2010. CRISIL has also observed that sound origination, underwriting, and collection practices resulted in relatively lower delinquencies within the same asset class.

Overall asset quality on recovery path following sharp rise in delinquencies in 2008-09

The overall gross non-performing asset (NPA) ratio of NBFCs across asset classes is expected to reduce to around 2.2 per cent by end-March 2013, from 3.5 per cent as on March 31, 2010 (*refer to Chart 1*). The improvement will be driven by a structural shift in the outstanding portfolio mix, improved asset protection mechanisms, and improving economic environment. See CRISIL's opinion piece, '*NBFC asset quality set to improve; Performance of newer asset classes remains key monitorable.*'

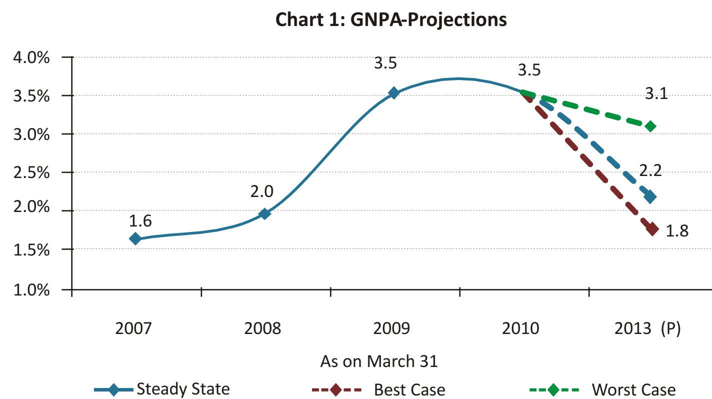
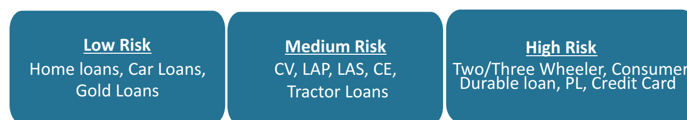


Figure 1 CRISIL's risk continuum for retail asset classes



In the increasing order of risk (Low-Medium-High)

Gross NPAs as defined by RBI

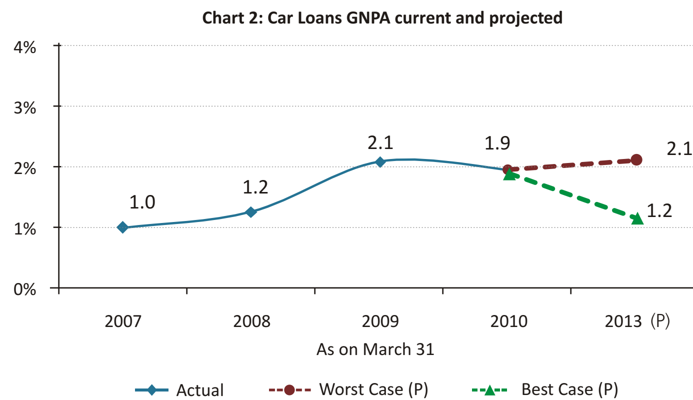
Significant variation in asset quality performance across asset classes

CRISIL has analysed asset quality performance across these retail asset classes. The key results of the analysis are presented below:

Financing - Car and Commercial Vehicle loans

Vehicle finance loans account for over a third of on-book gross assets of NBFCs with CVs accounting for around 25 per cent and car loans accounting for another 12 per cent. Asset quality in the car loan segment has remained range bound (*refer to Chart 2*) compared with a sharper deterioration in other asset classes. As on March 31, 2010, gross NPAs in the car segment stood at 1.9 per cent as compared with 2.1 per cent a year ago. The gross NPAs are likely to range between 1.2 and 2.1 per cent by 2012-13 (refers to financial year, April 1 to March 31).

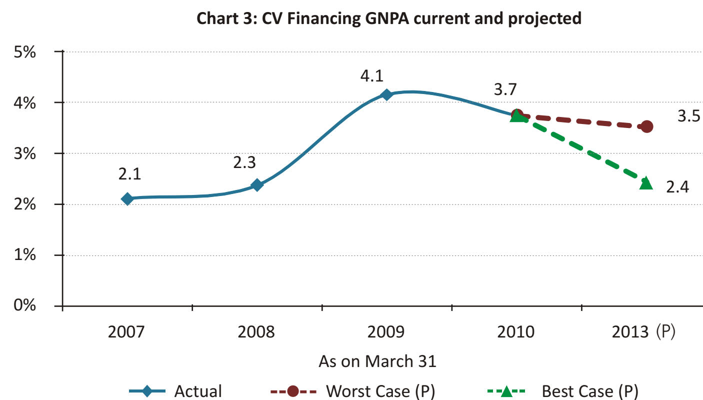
Chart 2: Car Loans GNPA current and projected



The car financing segment has a better borrower profile, including well-banked borrowers having an established credit history, thereby safeguarding asset quality during sharp economic downturns.

The asset quality of CVs, however, deteriorated sharply in 2008-09, but witnessed a steady recovery. Gross NPAs in this segment peaked in 2008-09 and reduced to 3.7 per cent in 2009-10 (*refer to chart 3)*. CRISIL believes that the gross NPAs in the CV segment will remain between 2.4 and 3.5 per cent over the medium term.

Chart 3: CV Financing GNPA current and projected

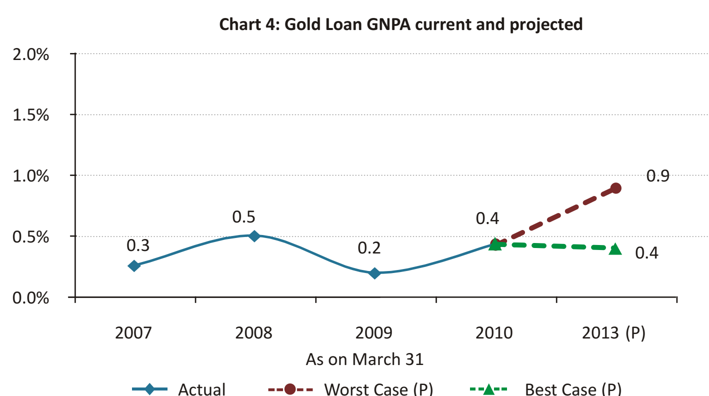


This asset class is characterised by wide heterogeneity in customer profile. At one end are the large fleet operators (LFOs) with an established track record; on the other extreme are the small road transport operators (SRTOs) and first time users (FTUs), whose

intrinsic creditworthiness is weak or difficult to establish. Adding to the heterogeneity is the presence of captive financing players in the CV financing space which adds to the volatility in asset quality (excluding captive financers GNPA in CV financing stood at less than 3.0 per cent). Stringent underwriting, valuation and collection practices, in-depth understanding of customer profile and constant engagement with the customer are key differentiators of asset quality performance in this asset class.

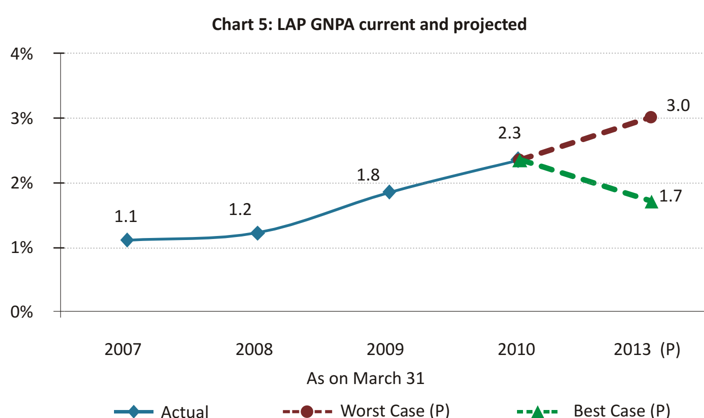
Loans against property (LAP) and gold loans

These two asset classes accounted for almost 18 per cent of the total on-book gross advances as on March 31, 2010. Asset quality in these segments is healthier than in other asset classes (*refer to Charts 3 and 4*). As on March 31, 2010, the gross NPAs stood at 2.3 per cent for LAP and 0.4 per cent for gold loans. Despite the adverse credit cycle, the gross NPAs in these segments have remained lower than the industry average. The gross NPAs in these segments are expected to remain between 0.4 and 0.9 per cent (for gold loans) and 1.7 and 3.0 per cent (for LAP), over the medium term.



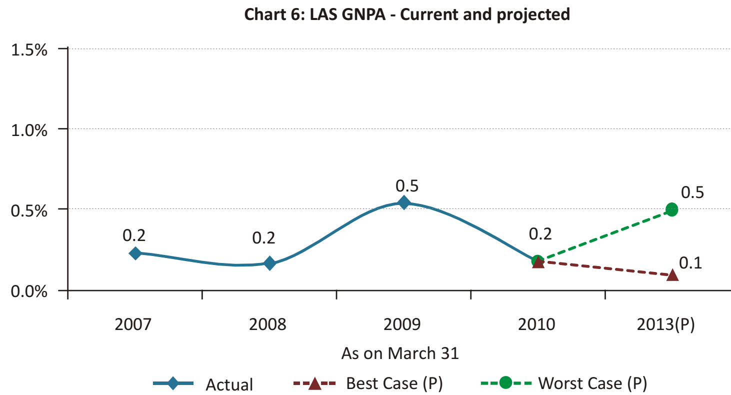
Gross NPAs in LAP have, however, shown an increasing trend in the past three years; while they have stabilised in 2010-11, CRISIL does not expect a material improvement in this asset class because of a rapid build-up of loan book and the relative lack of seasoning in this segment (*refer to Chart 5*).

The key factors driving the relative stable performance in these asset classes are ease of possession and appreciating collateral, and in some cases, the sentimental value attached to these assets by the Indian borrowers. Moreover, in gold loans, tenure is short and the collateral liquid, aiding recovery. This has led to continuing low gross NPAs in the gold loan segment at around 0.5 per cent (much lower than LAP). However, in case of gold loans, the risk of small borrowers pooling together and bringing to bear political pressure on the gold financer not to dispose the collateral could impair asset quality.



Loan against shares (LAS)

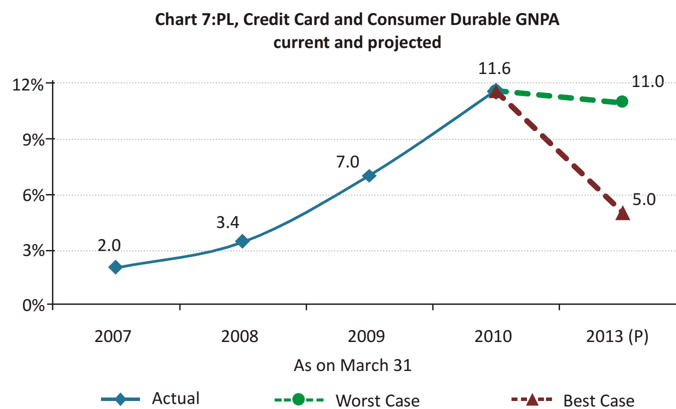
LAS accounted for around 10 per cent of gross outstanding advances as on March 31, 2010. Although relatively small, this segment has performed remarkably well from an asset quality angle (*refer to Chart 6*).



What is notable is that this segment witnessed both an economic downturn (affecting the borrower's cash flows) and a steep fall in collateral values (resulting from a sharp fall in capital markets). Despite this, both gross NPAs and write-offs in this segment have been less than 0.5 per cent across the credit cycle. The key reasons behind this strong performance are the robust risk management systems implemented by industry players, and liquid nature of collateral and high collateral cover, which protect asset quality in this segment, over the medium term. However, the strength of the loan covenants stipulated becomes critical, should a financer have to liquidate in the event of a steep fall in the value of the collateral.

Personal loans (PL), credit cards, consumer durable loans

PL, credit cards, and consumer durable loans (6 per cent of the overall on-book gross portfolio) are the riskiest of all asset classes and have exhibited the weakest credit quality among all asset classes. On a percentage basis, however, gross NPAs, excluding write-offs, increased to around 12 per cent at the end of March 2010 from 3.4 per cent two years ago (*refer to Chart 7*). The primary factor behind the sharp deterioration in this asset class was rapid portfolio growth amidst a relaxed underwriting environment, a direct selling agent (DSA) model, and score-card-based lending (without factoring in adequate performance history of the consumer), multiple lending, and over-leveraging.

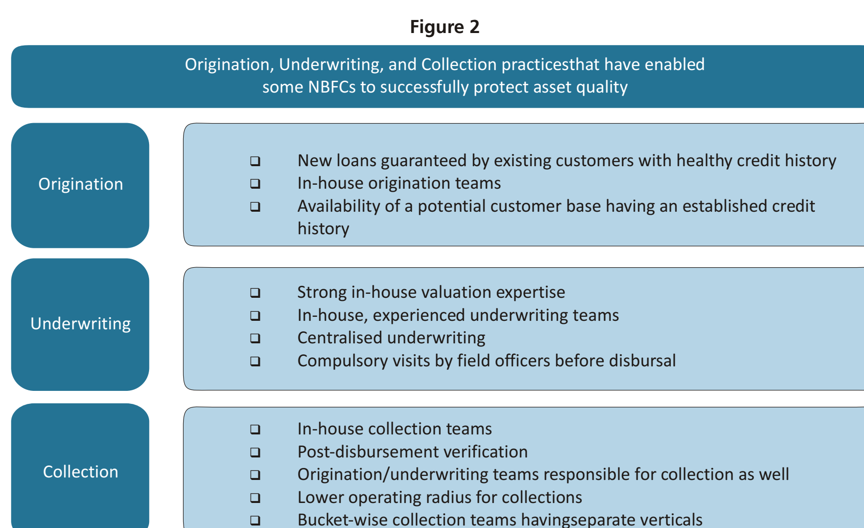


However, as the old portfolio starts to run down and new loans are disbursed in an improved underwriting environment and economic scenario, the gross NPAs are likely to improve steadily. Supporting this improvement would be greater reliance of the financers on Credit Information Bureau (India) Ltd (CIBIL) scores and in-house origination of loans. Till the old portfolio runs down completely, gross NPAs in this segment are likely to remain higher-between 5.0 per cent and 11.0 per cent-than in other asset classes over the next two years.

Origination and collection practices key differentiator of performance within asset class

CRISIL believes that the varying performance of asset quality across NBFCs in the same or similar asset class is primarily because of differing origination, underwriting, and collection practices. Analysis of CRISIL's rated portfolio indicates that robust systems and processes, stronger customer engagement, and strict adherence to risk management policies can help maintain sound asset quality. Figure 2 illustrates various player practices and how these have helped sustain asset quality across the credit cycle.

Figure 2



Conclusion

Although NBFCs are expected to maintain the improving trend in asset quality over the medium term, asset quality across segments will continue to be varied given the inherent characteristics of the asset classes. Moreover, the players' ability to put in place robust and scalable asset protection mechanisms will go a long way in protecting asset quality during economic cycles.

NBFCs to maintain improvement in profitability through 2011-12

While interest spreads are expected to contract, operating efficiencies and declining credit costs will support profitability

Executive Summary

The improvement in profitability of retail non-banking financial companies (NBFCs) seen in 2009-10 (refers to financial year, April 1 to March 31) and in the half year ended September 30, 2010, is expected to be maintained in the current year and through 2011-12; in fact, the profitability of the sector as a whole as measured by net profitability margin (NPM; *refer to Box 1*) will turn positive in 2011-12 for the first time in five years. While an increase in borrowing costs is expected to result in a contraction in interest spreads, declining credit costs and improving operating efficiencies will offset the impact of a fall in interest spread.

However, any excessive price competition, either from banks looking to grow their retail portfolio afresh, or from new players, may constrain the profitability of retail NBFCs over the medium term. Retail NBFCs with a strong competitive niche, comfortable resource profile, and prudent credit standards even in periods of high growth, will be best placed to withstand such challenges.

In this opinion piece, the profitability of three segments of retail NBFCs has been analysed- asset financing companies[1], gold financing companies, and NBFCs engaged primarily in unsecured personal loans. The difference seen in the past three years in the earnings performance of these segments is expected to continue. The profitability of asset financing companies is subject to their ability to maintain interest spreads and control credit costs. For instance, within asset financing companies, large, independent (non-captive) vehicle financiers[2] did not experience a significant deterioration in profitability even during the economic downturn, and are expected to demonstrate superior earnings performance over the medium term. While the growth and profitability of gold financing companies are expected to moderate from current levels due to the recent regulatory development[3], their ability to earn high yields and maintain low credit costs will allow them to maintain higher profitability margins than other segments. In the case of NBFCs engaged primarily in unsecured personal loans, while extent of losses may substantially reduce, overall profitability is expected to remain subdued.

Profitability of retail NBFCs continues to recover in 2010-11 after a sharp fall in 2008-09

The profitability of retail NBFCs recovered in 2009-10 and the half year ended September 30, 2010 after a sharp fall in 2008-09 because of the economic slowdown. The improvement in earnings during this period was driven by declining borrowing costs, reduction in credit costs, and control over operating expenses. Tables 1 and 2 present a snapshot of the aggregate profitability trends of retail NBFCs over the past three years.

Despite the improvement, the NPM of retail NBFCs as a whole has remained negative; this is mainly because the earnings of NBFCs engaged primarily in unsecured personal loans remained constrained by high credit costs as their portfolio of impaired assets continued to run down. Income from fee-based activities has remained subdued for retail NBFCs; the low credit offtake in 2008-09 had resulted in players reducing their processing charges in order to incentivise customers. Despite a pick-up in demand in 2009-10 and 2010-11, the competitive scenario has not permitted many retail NBFCs to raise their fee levels.

Box 1: Net Profitability Margin (NPM)

NPM = Interest yield - Cost of borrowings - Operating expense ratio + Fee income - Credit Cost

Where

Interest yield = Interest Income / Average Funds Deployed

Cost of borrowings = Interest Expense / Average borrowings

Operating expense ratio = Operating expenses / Average Funds deployed

Fee income = Fee income / Average Funds Deployed

Credit Cost = Credit Cost / Average Funds Deployed

And where Funds deployed = Loans and advances + Investments + Cash and bank balances

[1]Includes asset financing companies and loan companies

[2]NBFCs for which vehicle financing constitutes over 50 per cent of the loan book; excludes captive financiers.

[3]The Reserve Bank of India has announced the removal of the priority sector lending (PSL) benefit available to commercial banks, under the agriculture classification, for loans to (and assignment portfolios from) gold loan companies.

Table 1: NPM of retail NBFCs*

Per cent

Particulars\ Financial Year	2007-08	2008-09	2009-10
Yield	14.88	15.34	14.18
Cost of borrowings	8.88	10.20	8.67
Interest spread	**6.00**	**5.14**	**5.52**
Operating expense ratio	5.50	4.64	4.09
Fee income	1.37	0.85	0.64
Pre-credit cost NPM	**1.87**	**1.35**	**2.06**
Credit costs	2.37	3.15	3.00
Post-credit cost NPM	**-0.49**	**-1.80**	**-0.93**

*- 25 largest CRISIL-rated NBFCs

Table 2: Aggregate financial performance of retail NBFCs*

Rs.Billion

Particulars\ Financial Year	2007-08	2008-09	2009-10
Interest income	153.8	201.4	203.2
Non-interest income	31.6	26.9	32.2
Total income	185.4	228.4	235.5
Interest expense	75.1	109.4	101.7
Operating expenses	56.8	61.0	58.6
Credit costs	24.4	41.3	42.9
Profit before tax	**28.9**	**11.8**	**31.4**
Profit after tax	**19.1**	**0.9**	**17.1**
Key profitability indicators			
Return on average assets (%)	1.8	0.1	1.1
Return on average net worth (%)	10.7	0.4	6.4

Focus on core competencies and superior credit control key differentiators for profitability

While on an overall basis, the profitability of retail NBFCs was severely constrained, their performance varied widely from segment to segment. In this section, we discuss the trends in profitability of asset financing companies, gold financing companies, and NBFCs engaged primarily in unsecured personal loans.

The profitability of asset financing companies is vulnerable in an economic downturn (*refer to Table 3*). The NPMs of these companies witnessed a sharp decline in 2008-09 with a contraction in interest spread, fall in fee income, and rise in credit costs. However, as pressure on liquidity eased in 2009-10, their cost of borrowing declined, driving an improvement in NPM despite credit costs remaining high.

However, within this segment, the NPM of large, independent vehicle financiers was, on an average, substantially higher and more stable than multi-asset financing companies (*refer to Table 3*). This was because these companies have established healthy competitive positions by being more specialised in terms of product portfolio, or by serving specific geographies or customer segments. Moreover, they have built strong origination and collection capabilities with their experience and better understanding of regional dynamics and customer needs.

Table 3: NPM of asset financing companies

Per cent

Particulars\ Financial Year	2007-08	2008-09	2009-10
Pre-credit cost NPM	1.95	1.67	2.53
Post-credit cost NPM	-0.16	-0.71	0.03
Of which, large independent vehicle financiers			
Pre-credit cost NPM	2.59	2.27	2.45
Post-credit cost NPM	1.27	0.82	1.09

Gold financing companies are able to earn high yields as they offer good customer service to small-ticket borrowers in terms of short turnaround times, lesser documentation, and ability to conduct cash transactions. Operating expenses tend to be higher than in other segments because of the higher infrastructure costs related to branch network, security costs and cash management. But with the high interest spread, and low credit costs due to the collateralised and highly liquid nature of the underlying collateral, these entities are able to earn substantial returns (*refer to Table 4*).

Table 4: NPM of gold financing companies

Per cent

Particulars\ Financial Year	2007-08	2008-09	2009-10
Pre-credit cost NPM	4.24	4.49	6.03
Post-credit cost NPM	4.08	4.15	5.85

Companies that ventured into the unsecured segments and/or relaxed their credit standards to ride the retail finance boom, witnessed a sharp deterioration in profitability. While charge-offs on unsecured retail loans have persisted as the portfolio continues to run down, fresh business volumes have also remained modest with several of these companies downsizing their operations. This trend can be seen most clearly in the NPM of those NBFCs promoted by global financial institutions that were expanding strongly in the unsecured personal loan segment (*refer to Table 5*).

Table 5: NPM of NBFCs promoted by global financial institutions

Per cent

Particulars\ Financial Year	2007-08	2008-09	2009-10
Pre-credit cost NPM	1.47	0.04	-1.15
Post-credit cost NPM	-1.64	-5.79	-7.30

Outlook: Fall in credit costs and control on operating expenses to offset expected contraction in interest spreads

With a steady increase in domestic interest rates, the cost of borrowings for retail NBFCs is estimated to have increased in the second half of 2010-11, and is expected to continue increasing in 2011-12. Given the retail NBFCs' limited ability to fully pass on such sharp increases in borrowing costs, the interest spreads in most segments are expected to contract. However, continued improvement in operating efficiencies and a fall in credit costs[4] in 2011-12 are expected to offset lower interest spreads, resulting in an improvement in the NPM. Given the competitive landscape, the improvement in fee-based income of retail NBFCs, primarily derived from processing fees, will be gradual (*refer to Table 6*).

The relative stability of the overall interest spread for retail NBFCs, as seen in Table 6, and the improvement in NPM reflect the changing landscape in the retail NBFC sector-with the increasing share of newer segments such as gold financing (refer to CRISIL article, 'NBFCs' growing role in retail finance') which earn significantly higher interest spreads than other segments.

Table 6: Projected profitability for retail NBFCs

Per cent

	2009-10	2010-11 (E)	2011-12 (P)
Interest yield	14.18	14.63	15.03
Cost of borrowings	8.67	8.98	9.48
Interest spread	**5.52**	**5.65**	**5.56**
Operating expense ratio	4.09	3.55	3.38
Fee-income	0.64	0.69	0.74
Pre-credit cost NPM	**2.06**	**2.79**	**2.91**
Credit cost	3.00	2.96	2.41
Post-credit cost NPM	**-0.93**	**-0.18**	**0.50**

[4]In its estimate of credit costs, CRISIL has factored in the impact of the recent Reserve Bank of India guideline mandating a 25-basis point provision for standard assets

Table 7: Key profitability trends among different NBFC sub-segments

	Asset financing companies	Large independent vehicle financiers	Gold financing companies
Interest spread	❑ Spreads to contract given the shift towards secured asset classes and limited ability of financiers to fully pass on increases in cost of borrowings due to intensifying competition.	❑ Spreads to contract with a rise in borrowing costs and competitive pressures. ❑ However, some companies with a presence in niche segments such as used commercial vehicle financing, and/ operating in semi-urban/rural areas will be able to manage any pressure on spreads better.	❑ Increase in cost of borrowings expected in 2011-12 with removal of priority sector benefit for loans to, and assignment portfolios from, gold financiers. ❑ Spreads to contract with only partial passing on of rise in costs.
Operating expense ratio	❑ As companies reinvest in human resources and infrastructure, absolute operating expenses are expected to increase; however, given the expected growth in business volumes, operating expense ratio is expected to reduce. ❑ Reduction in operating expense ratio will not be as sharp as witnessed in the pastas cost containment measures by many NBFCs during the downturn had resulted in a low increase in absolute operating expenses.		❑ Operating expenses to decline as gold financiers control non-interest expenses to offset contraction in spreads, and contain expansion with expected moderation in growth. ❑ However, given the business model, operating expenses will remain higher than in other segments.
Credit costs	❑ Credit costs remain high in 2010-11, given the one-time impact of standard asset provisioning; however, provisions for non-performing assets and bad debts are declining with the improved economic scenario. ❑ Significant reduction in credit costs expected in 2011-12 with continued economic buoyancy, gradual shift towards secured asset classes, and tightening of credit standards.	❑ Credit costs were close to steady-state level in 2009-10; hence, the one-time standard asset provisioning will result in an increase in 2010-11. ❑ Credit costs will remain within a narrow range in 2011-12 as these companies maintain prudent credit standards through economic cycles.	❑ Credit costs to remain significantly lower than other asset segments given the collateralised and highly quid nature of the asset.
Post-credit costs NPM	❑ Despite improvement, the NPM remains subdued in 2010-11 due to the impact of standard asset provisioning. ❑ Real improvement will be seen in 2011-12 as credit costs show a sharp decline and operating efficiencies continue to play out.	❑ The NPM is expected to improve in 2011-12, after the decline in 2010-11 due to the one-time standard asset provisioning ❑ However, extent of improvement is lower as these entities are able to maintain NPMs at relatively stable levels through economic cycles	❑ The NPM is expected to decline from current levels, but will remain between 4 and 5 per cent over the medium term.

Conclusion

Retail NBFCs are expected to maintain the improving trend in profitability in 2011-12. This improvement will be driven primarily by control on operating expenses and declining credit costs. The differential in performance across various segments will continue; NBFCs with a strong competitive position and prudent credit standards will be better placed to maintain profitability through economic cycles. Irrational pricing pressure due to intensifying competition, and unexpected regulatory developments could, however pose a challenge to NBFC profitability over the medium term.

FINANCIAL COMPARISON -

As on/ For the year ended March 31, 2010		Ace Finlease Pvt. Ltd.	Ad-Manum Finance Ltd.	Almondz Finanz Ltd. #	Arman Financial Services Ltd.	AU Financiers (India) Pvt. Ltd.	Bajaj Finance Ltd.	Bansal Credits Ltd.	Barclays Investments & Loans (India) Ltd.	Canbank Factors Ltd.	Cholaman-dalam Investment & Finance Company Ltd.
Asset under Management	Rs. Billion	0.1	0.6	-	0.2	4.9	40.3	0.4	16.5	9.0	71.8
Reported Networth	Rs. Billion	0.03	0.1	1.1	0.1	1.2	11.5	0.1	3.8	1.5	7.9
Total Borrowings	Rs. Billion	0.1	0.5	0.5	0.2	1.1	32.3	0.2	22.9	7.4	54.0
Profit After Tax	Rs. Billion	0.004	0.02	0.1	0.01	0.1	0.9	0.01	-2.8	0.2	0.2
Cost of Borrowing (Yearly average)	(%)	10.5	11.6	10.4	13.3	12.1	8.4	11.3	4.7	5.5	9.3
Gross Non-Performing Assets	(%)	0.6	3.7	-	2.0	0.5	7.3	2.2	10.0	2.8	6.3^
Net Non-Performing Assets	(%)	0.1	3.2	-	1.8	0.1	2.2	1.9	-	0.8	1.8^
Capital Adequacy Ratio	(%)	-	22.8	-	33.2	31.2	26.0	35.0	20.8	15.4	14.8
Return on Assets	(%)	3.2	3.2	7.1	3.5	6.8	2.0	3.3	-0.1	3.1	0.2
Networth coverage for Net-Non Performing Assets	Times	267.0	6.2	-	19.7	177.2	13.0	16.7	-	21.0	6.5
Gearing	Times	4.0	4.3	0.4	2.4	3.9	2.8	2.3	6.0	5.1	6.9
Overall Rating & Outlook		**BB-/ Stable**	**BBB+/ Stable**	**BBB-/ Stable**	**BB/Stable**	**BBB+/ Positive**	**AA+/FAAA/ Stable/P1+**	**FA-/ Stable**	**AA+r*/AA+/ Stable**	**P1+**	**AA-/ Stable/P1+**

As on/ For the year ended March 31, 2010		Citicorp Capital Markets Ltd.	Citicorp Finance (India) Ltd.	CitiFinancial Consumer Finance India Limited	Deutsche Investments Pvt Ltd.	DSP Merrill Lynch Capital Ltd.	Easyaccess Financial Services Ltd.	ECL Finance Ltd.	GE Money Financial Services Ltd.	GE Capital Services India	Geojit Credits Pvt. Ltd. #	Geo's V/P/L Financial Services Pvt. Ltd.	Hero Honda Finlease Ltd.	India Infoline Investment Services Ltd.	Indiabulls Financial Services Ltd.	Indiabulls Infrastructure Credit Ltd.
Asset under Management	Rs. Billion	-	23.0	74.1	5.9	5.8	5.8	14.5	23.7	11.6	-	0.2	2.1	17.8	99.4	1.2
Reported Networth	Rs. Billion	1.5	14.0	16.2	8.6	16.0	2.4	11.2	14.1	5.6	3.9	0.03	0.8	12.6	40.5	4.4
Total Borrowings	Rs. Billion	0	28.2	71.9	7.6	15.1	3.3	11.1	14.4	13.8	0.1	0.2	1.8	9.2	69.5	0
Profit After Tax	Rs. Billion	0.2	0.6	-4.6	0.4	0.5	0.1	0.8	-2.8	-2.3	0.5	0.01	0.2	0.5	2.6	0.1
Cost of Borrowing (Yearly average)	(%)	-	9.3	8.4	2.7	-	3.2	5.5	7.5	8.9	10.8	12.4	7.7	5.0	8.0	-
Gross Non-Performing Assets	(%)	-	4.7	14.2	-	0	0	0.9	4.9	10.4	-	0	0	0.5	1.8	-
Net Non-Performing Assets	(%)	-	2.2	12.6	-	0	0	0.8	3.9	5.8	-	0	0	0.4	0.8	-
Capital Adequacy Ratio	(%)	-	43.0	20.2	86.0	59.9	41.0	49.5	41.4	29.3	-	-	30.3	47.6	32.4	91.4
Return on Assets	(%)	12.9	1.1	-4.0	2.5	1.4	2.8	4.6	-7.2	-6.1	6.9	2.6	5.4	2.1	2.4	2.7
Networth coverage for Net-Non Performing Assets	Times	-	18.5	-	-	-	-	95.2	11.7	8.9	-	-	-	260.0	52.2	-
Gearing	Times	0	2.0	4.4	0.9	1.0	1.4	1.0	1.0	2.5	0.03	7.3	2.1	0.7	1.7	-
Overall Rating & Outlook		**AA+/ Negative/ P1+**	**AA+/AA+r*/ Negative /P1+**	**AA+r*(SO)/ AA+(SO)/ P1+(SO)/ Negative**	**AA+/AA+r*/ Stable/P1+**	**AA+/AA+r* (so)/AA+r (fso)/P1+/ Negative**	**A+/Stable /P1+**	**AA-/AA-r*/ Stable/P1+**	**AAA/ Stable/P1+**	**AAA/ Stable/P1+**	**P1**	**BB+/ Stable**	**AA+/FAAA/ Stable/P1+**	**P1+**	**AA/ Stable/P1+**	**AA/Stable/ P1+**

As on/ For the year ended March 31, 2010		Infina Finance Pvt. Ltd.	J.M. Financial & Investment Consultancy Services Pvt. Ltd.	JM Financial Products Pvt. Ltd.	Kotak Mahindra Prime Ltd.	Mahindra & Mahindra Financial Services Ltd.	Manappuram General Finance & Leasing Ltd.	MAS Financial Services Ltd.	Motilal Oswal Financial Services Ltd.	Muthoot Capital Services Ltd.	Muthoot Finance Ltd.	Muthoot Fincorp Ltd.	Nagarjuna Credits and Capitals Ltd.	PKF Finance Ltd./Punjab Kashmir Finance Ltd. #	Rabo India Finance Ltd.	SBI Cards & Payment Services Pvt. Ltd.
Asset under Management	Rs. Billion	9.0	0	13.4	83.1	103.3	26.0	3.9	1.7	1.0	74.4	23.1	0.2	1.0	4.0	18.0
Reported Networth	Rs. Billion	8.7	1.4	7.1	11.2	17.3	6.1	0.7	4.7	0.2	5.8	2.7	0.1	0.2	6.7	1.8
Total Borrowings	Rs. Billion	0.01	0	15.4	73.1	64.6	18.3	2.8	0.6	0.8	52.8	14.5	0.01	0.8	2.0	14.9
Profit After Tax	Rs. Billion	0.1	0.1	0.6	1.7	3.4	1.2	0.1	0.4	0.1	2.3	1.1	0.01	0.03	0.1	-1.5
Cost of Borrowing (Yearly average)	(%)	-	0	5.3	8.1	8.5	10.1	12.1	4.8	10.6	8.5	9.2	13.1	9.8	4.7	7.6
Gross Non-Performing Assets	(%)	0	0	0	0.8	7.0	1.2	0.8	0.2	0.8	0.6	0.7^	4.3	5.5	22.2	10.4
Net Non-Performing Assets	(%)	0	0	0	0.7	1.0	0.6	0.7	0.2	0.6	0.6	0.4^	0.9	3.6	14.4	1.6
Capital Adequacy Ratio	(%)	161.0	80.9	31.2	13.7	18.5	29.2	35.5	83.0	20.9	14.8	22.9	-	-	105.4	14.1
Return on Assets	(%)	0.6	4.3	3.8	2.2	4.2	7.5	3.6	8.0	7.6	4.5	7.8	4.8	2.4	1.2	-0.1
Networth coverage for Net-Non Performing Assets	Times	-	-	-	13.9	20.8	48.3	26.4	485.9	35.1	19.1	27.8	74.1	6.7	11.6	5.8
Gearing	Times	0	0	2.2	6.5	3.7	4.2	4.0	0.1	3.7	12.5	9.5	0.2	3.6	0.3	9.1
Overall Rating & Outlook		**P1+**	**P1+**	**P1+**	**AA/ Stable/P1+**	**AA+/Stable/ /FAAA/P1+**	**A+/Stable/ P1+**	**BBB+/ Stable**	**P1+**	**A+/ Stable/P1+**	**AA-/ Stable/P1+**	**A+/Stable/ P1+**	**BB /Stable**	**FA-/Stable**	**AAA/ Stable/P1+**	**AAA/ Stable/P1+**

As on/ For the year ended March 31, 2010		SBI Global Factors Ltd.	Sheikh Farid Finvest Ltd.	Shri Ram Auto Loan Pvt. Ltd.	Shriram City Union Finance Ltd.	Shriram Transport Finance Company Ltd.	Standard Chartered Investments & Loans Ltd.	Sundaram Finance Ltd.	Tata Capital Ltd.	Tata Investment Corporation Ltd.	Tata Motors Finance Ltd.	Thakur Finvest Pvt. Ltd.	Transcorp Internati-onal Ltd.	Transworld Hire Purchase India Ltd.
Asset under Management	Rs. Billion	30.3	0.1	0.1	51.7	291.0	4.0	84.9	102.2	-	128.1	0.7	-	0.2
Reported Networth	Rs. Billion	5.7	0.1	0.1	10.0	38.4	4.7	13.2	21.7	15.3	13.7	1.2	0.1	0.1
Total Borrowings	Rs. Billion	25.8	0.01	0.04	47.4	184.6	1.6	84.9	98.4	0	73.7	0.002	0.1	0.1
Profit After Tax	Rs. Billion	0.1	0.003	0.001	1.9	8.7	0.2	2.3	0.5	1.9	0.4	0.1	0.01	0.01
Cost of Borrowing (Yearly average)	(%)	7.2	10.7	20.5	10.2	11.4	5.7	8.6	-	-	8.3	9.8	16.2	14.5
Gross Non-Performing Assets	(%)	20.2	0	0.4	2.3	2.8	0	1.3	2.3	-	7.4	0	-	1.8
Net Non-Performing Assets	(%)	-	0	0.3	0.7	0.7	0	0.5	1.8	-	2.4	0	-	1.0
Capital Adequacy Ratio	(%)	19.9	90.0	56.5	26.3	21.4	78.0	16.9	21.4	107.0	13.5	-	-	35.7
Return on Assets	(%)	0.2	4.1	0.9	3.3	3.4	3.1	2.5	0.4	12.9	0.5	6.6	2.0	4.3
Networth coverage for Net-Non Performing Assets	Times	1.1	-	202.7	30.0	30.8	-	36.8	12.1	-	5.9	-	-	41.5
Gearing	Times	4.6	0.2	0.8	4.7	4.8	0.4	6.4	4.5	0	5.4	0.002	1.0	1.5
Overall Rating & Outlook		**AAA/ Stable/P1+**	**FB+/Stable**	**BB-/Stable**	**AA-/ Stable/P1+**	**AA/FAA+/ Stable/P1+**	**AA+/AA+r/ Stable/ P1+**	**AA+/ FAAA/ Stable/P1+**	**AA-@/ Stable**	**AAA/ Stable**	**AA-/A@/ Stable/P1+**	**BBB-/ Stable**	**BBB-/ Stable**	**D**

'-' Not applicable / Not available

'@' For perpetual bonds

'^' As a percentage of managed assets

'#' Consolidated numbers for the group

'' For equity / commodity linked debentures*

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