

NBFCs HAVE BEEN AN ALTERNATE PLAY IN FIN SERVICES

MFs Stocking Up on NBFCs With Strong Growth Possibilities

Experts advise retail investors to buy the top stocks in the sector for the long-term play

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Mumbai: Mutual funds have been gobbling up non-banking finance stocks in recent months and experts advise investors to buy the top stocks in the sector as growth for non-industrial credit remains strong in India.

As per data from Accord Fintech, fund houses hold NBFC stocks worth Rs 39,000 crore at the end of May 2018, compared to Rs 13,500 crore in December 2016, an almost three-fold rise as they bet big on stocks in the sector. Fund Managers have bought stocks like Bajaj Finance, Reliance Capital, Bharat Financial Inclusion, Cholamandalam Investment, M&M Financial, L&T Finance Holding, Shriram City Union Finance and Shriram Transport Finance. New listings like Indostar Capital, CDSL, demerger of Aditya Birla Capital and AU Small Finance Bank, too, attracted fund managers' attention during this period.

At a time when PSU banks are struggling with their own set of issues and going slow on lending and, fund managers believe NBFCs could play a vital role in fulfilling credit needs in niche segments given their fast turnaround time and quick adaptation of new technology platforms. They have also contained NPAs and understood client profile, experts say.

"NBFCs in India have managed to witness robust credit growth in the past few years, backed by four key catalysts," says Jignesh Shial, analyst, Emkay Global Financial Services.

As the economy enters a high growth phase, fund managers expect credit demand to accelerate, a lot of which could be met by NBFCs. Rising consumption, SME



credit and working capital requirement are likely to push demand for credit, a large part of which could be met by NBFCs.

"As demand for credit picks up, large pockets of opportunity remain in the credit spectrum, where there are specialised needs. For example, credit verification, monitoring and recovering in niche business, like second hand truck financing, gold loans, microfinance, consumer loans, require special expertise, which NBFCs are best suited to fulfil," says Gautam Sinha Roy, fund manager, Motilal Oswal Mutual Fund.

NBFCs have been an alternate play in the financial services space with investors shunning PSUs over the last one year. Valuations have surged sharply post the run-up in prices. Over the last one year, Bajaj Finance gained 63% to Rs 2,283, Cholamandalam Finance gained rose 48% and L&T Finance 12%.

Bajaj Finance trades at a price to book of 7.98, Cholamandalam Finance at 4.89, Sundaram Finance at 3.91 and M&M Financial at 2.96.

While portfolio managers believe valuations look high, given the credit growth expected, huge opportunity in India and niche business verticals, investors with a long-term perspective could accumulate these stocks.