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# Curbs on NBFC lending to squeeze sm

## Credit deals may shift from NBFCs towards banks

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Mumbai

Small businesses run by self-employed entrepreneurs are set to bear the brunt of the northward movement in interest rates.

And the Reserve Bank of India's move to increase risk weightage (from 100% to 125%) and provisioning requirements for non-banking finance companies (NBFCs) from 0.40% to 2% would only crimp loan flows further, raising their cost of funds.

That leaves NBFCs with little choice but to hike their own interest rates, which, in turn, makes financing difficult for small businesses that borrow from them.

Does it mean the small fry will now start looking at banks in order to fulfil their capital requirements?

V Ravi, CFO, Mahindra Finance Ltd, an NBFC, says small businesses will have to face the music as the cost of money rises. He fears these businesses may start looking at banks for their capital requirements, who can charge more competitive rates.

Ashvin Parekh, partner & na-

tional leader, global financial services, Ernst & Young, agrees. He says small borrowers who are currently favouring NBFCs will shift to banks in the long run.

But, Sujan Sinha, senior vice-president with UTI Bank, has a different story to tell. He feels it is a little difficult to say if small borrowers would prefer banks over NBFCs.

"Of late we are seeing that, though NBFCs are facing increasing competition from banks, they have proved themselves in areas like capital market financing and used-vehicle financing, where banks are yet to gain importance. This is despite the fact that the cost of funds for NBFCs is higher than banks."

"Small businesses used to borrow from NBFCs at slightly higher rates because they didn't have enough documents to borrow from banks. But now with the NBFC rates rising, they have no choice but to pay much higher prices," Ravi points out.

He says NBFCs charge about 12-13% from small businessmen, while banks charge around 11-12%. Ravi sees a 100-150 basis points fresh upward pressure on NBFC rates.

E&Y's Parekh thinks NBFCs will not go that high - he sees them raising rates by 50-75 bps. Some-



## Money gets dearer for small fr

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thing Sinha of UTI Bank concurs with. A Cholamandalam DBS official also says a 50 basis points hike would be more than enough.

Mahesh Thakkar, head of Finance Industry Development Council, an NBFC regulatory body, believes that, ultimately, higher rates would dissuade small borrowers and their number will decline.

None of them, however, see the traditional sharks — the money

lenders - gaining pug-following- "They charge exorim India? It's a about 48%, they stion, for that is chance," said Ravi. luation experts

NBFCs feel intereutch brand is sonal loans would al to 200 basis points ion figure is de- from the 15-20% ranglecom industry

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