

Liquidity Crunch Puts Brakes on Digital Lending Journey

Limited access to credit is resulting in higher rates for fintech startups

Pratik.Bhakta@timesgroup.com

Bengaluru: After a few years of rapid growth, technology-enabled lending startups are reeling under the liquidity crunch affecting India's banking and related sectors that has limited access to credit and is resulting in higher interest rates.

With investor confidence in the non-banking financial (NBFC) sector at a low because of the crisis at Infrastructure Leasing & Financial Services (IL&FS), fintech lending startups have been affected majorly, said several industry executives ET spoke with.

"A lot of fintech NBFCs are being forced to slow down their businesses due to lack of liquidity and limited access to credit line from their lending partners," said Aditya Kumar, founder, Qbera, a Bengaluru-based digital lending startup.

The startups are also staring at rising interest rates since the constraint in supply has not caused a proportionate fall in demand.

"On the overall spectrum of loans, we can see an average jump of

45-50 basis points on the annual rate of interest because of the situation around NBFCs," said Tushar Aggarwal, chief executive officer, Stashfin, a New Delhi-based digital lending startup. A basis point is one-hundredth of a percentage point.

Echoing Aggarwal, Naveen Kukreja, CEO of digital lending marketplace Paisabazaar, said interest rates have specifically jumped for salaried sub-prime borrowers and for business loans, where banks were very conservative and NBFCs had a higher share. "Business loans have seen a jump of 150-200 basis points for their rate of interest mainly because of a supply constraint, but for sub-prime retail borrowers, the pain is because of liquidity constraints and eKYC issues (ban on Aadhaar-linked customer verification)," said Kukreja. With technology emerging as one of the biggest enablers in the lending space, several large NBFCs began

experimenting with new sectors with small-value, short-tenure loans and testing out delinquencies. The experiments have stopped and lenders are not keen on extending credit lines to tech platforms anymore, industry experts said.

"Rather than assessing the entire loan book of fintech companies, banks are trying to evaluate each borrower so that they have full control over whether their lending parameters are being met," said Aggarwal from Stashfin.

Highlighting the fact that digital lenders were sometimes too aggressive in their efforts to gain market share, Manavjeet Singh, founder of loan originating platform Rubique, said there was always a case for asset-tenure mismatch. NBFCs were borrowing short-term money and lending out longer-tenure ones, he said.

"As long as liquidity was not an issue, there were no repayment problems. But the moment there was a supply crunch, banks and traditional NBFCs realised there was a mismatch in asset and liability," he said.

"First, these players will get their own house in order (and only then will) they lend to fintech players for onward lending." Platforms with strong balance sheets, though, will survive because there is huge demand in the market and the overall economy is still going strong, Singh said.



TUSHAR AGGARWAL
Chief Executive Officer, Stashfin

Rather than assessing the entire loan book of fintech companies, banks are trying to evaluate each borrower