Access to funding improves for NBFCs but not yet at pre-IL&FS level

Debt capital markets continue to shy away from the shadow banking sector

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India's shadow banking sector seems to be coming out of its blues and banks have opened their credit tap. However, the bond markets continue to be suspicious as some non-banking finance companies (NBFCs) continue to default or are struggling to get buyers in resolution processes.

NBFCs are certainly not as flush with liquidity as they were in the pre-IL&FS period, but Reserve Bank of India (RBI) Governor Shaktikanta Das said on Tuesday that the stress had been contained to three-four large firms, from 10-12 a few months ago.

Das said in an interview to *Bloomberg* that, overall, there was improvement in the NBFC space as they were able to access funds both from the market and banks. Things broadly seem to be under control, the governor said.

Data supports this view at least as far as banking liquidity is concerned. Bank credit to NBFCs, as of January 2020, saw a 32 per cent increase year-on-year, while non-food credit growth was merely 8.5 per cent, RBI data showed. Credit deployment to NBFCs by the banking sector from March 2019 to January 2020 saw a 15 per cent growth as opposed to 12.3 per cent growth in the year ago period.

Dinanath Dubhashi, managing director & chief executive officer of L&T Finance Holdings, said, "High rated NBFCs with strong parentage and prudent business practices have put the challenges of the past year well behind them. Their robust ALM policies have ensured that they were not only able to tide over the difficult period, but actually emerge stronger".

"We are seeing bank sanctions rising in the last three months or so and are seeing an increase in the drawdowns by NBFCs. Bank credit growth to NBFCs is 4 times the overall credit growth," said Krishnan Sitaraman, senior director, CRISIL Ratings.

Industry experts said banks were getting more comfortable with lending to NBFCs, but were also segregating them into categories. They are more comfortable lending to NBFCs backed by strong parentage or ones that are part of a strong corporate group. In such cases, funding is back to normal. Similarly, NBFCs that are more into retail have seen funding normalise.

It is NBFCs that have a considerable wholesale portfolio that are struggling as there are concerns on the asset class they have on their books, because much of their loans are to developers, a portion of which is under moratorium.

"While liquidity for NBFCs has improved in the past few months, we need to bring back confidence and encourage banks to release money into the system on a continuous basis. Otherwise, the lack of credit flow will continue to hurt the economy. An economy cannot function effectively without sufficient money supply," said Rakesh Kumar Bhutoria, CEO, Srei Infrastructure Finance.

While bank funding to NBFCs has increased, access to funds from the debt capital market remains muted.

"The debt capital market is still not comfortable in providing funds to NBFCs with a huge wholesale book. Debt capital market continues to remain selective to the ones that are backed by a strong parent and the ones that have a sizeable retail portfolio," said Anil Gupta, vice-president & sector head, ICRA.

"In terms of pricing, it has declined over the last one year and if we look at the debt capital market, the bond issuances yields has declined over last year and is largely in line with the market trend but the credit spread continues to remain over 100 bps over government securities for AAA-rated issuers," he added.

NBFCs had a good run for five years till September 2018, when access to both debt and equity funding was fairly smooth and at relatively cheap rates. Then IL&FS defaulted on its debt obligations, and this became an inflection point after which funding access tightened considerably.

In the current financial year (financial year 2019-20, or FY20), the assets under management (AUM) of NBFCs have grown about 6-8 per cent, while in the pre-2018 era they grew at a CAGR (compound annual growth rate) of 16 per cent.

With muted funding from debt capital market, NBFCs are trying to balance the fall by looking at alternate sources.

"NBFCs are looking at alternative funding sources like securitisations and retail bond issuances. Some of them are also doing overseas bond issuances like Masala Bonds, ECBs (external commercial borrowing)," Sitaraman said.

"NBFCs have taken steps to improve the ALM position and it is looking a more balanced now than 15 months back. Earlier, the short-term borrowings by NBFCs had shot up and now that has come down as dependence on commercial papers has reduced," Sitaraman added.

Also, NBFCs are holding more liquidity on their balance sheet, so their liquidity profile has improved. This has, however, come at the expense of growth, which at 6-8 per cent this fiscal will be at a decadal low. They are also now co-originating loans with banks, wherein they will service the loans and get a fee, but their borrowing requirements will be lower as this will be an asset-light growth model.

Industry experts say, over time, there have been some policy measures from RBI and Ministry of Finance that have gradually improved the scenario, especially from the banking side.

The last default was Altico Capital, which was 4-5 months ago and since then there hasn't been a major default. But if there is a default in the near future, then the normalisation will be pushed back a few quarters.

With inputs from Namrata Acharya

BANK CREDIT TO NBFC SECTOR (in ₹crore)

■ YoY growth% ■ YTD growth%

Sector	Jan 19	Mar 19	Jan-20	
Non-food	820,4289	863,3419	890,0136	8.50
				3.10
NBFCs	557,602	641,208	737,198	32.20
				15

YoY: year-on-year, YTD: year-to-date Source: RBI

Non-bank lenders defying caution

The non-bank lenders' segment is "defying caution" and growing the riskier unsecured loans portfolio at a pace of 25 per cent in the current fiscal, a report said.

A rising propensity for personal loans and attractive risk-adjusted returns are the possible reasons driving the non-banking finance companies (NBFC) to grow on such loans, domestic rating agency Crisil said.

The going has been very difficult for the NBFC segment since the crisis at infra-focused lender IL&FS in September 2018. PTI