Mutual Funds

MUTUAL FUNDS

Mutual funds increase exposure to NBFC debt papers

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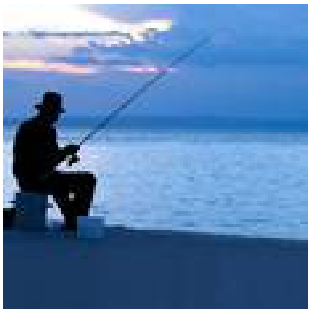
Amid growing optimism for economic recovery and visible green shoots of credit demand due to unlocking of the economy after the second wave of the pandemic

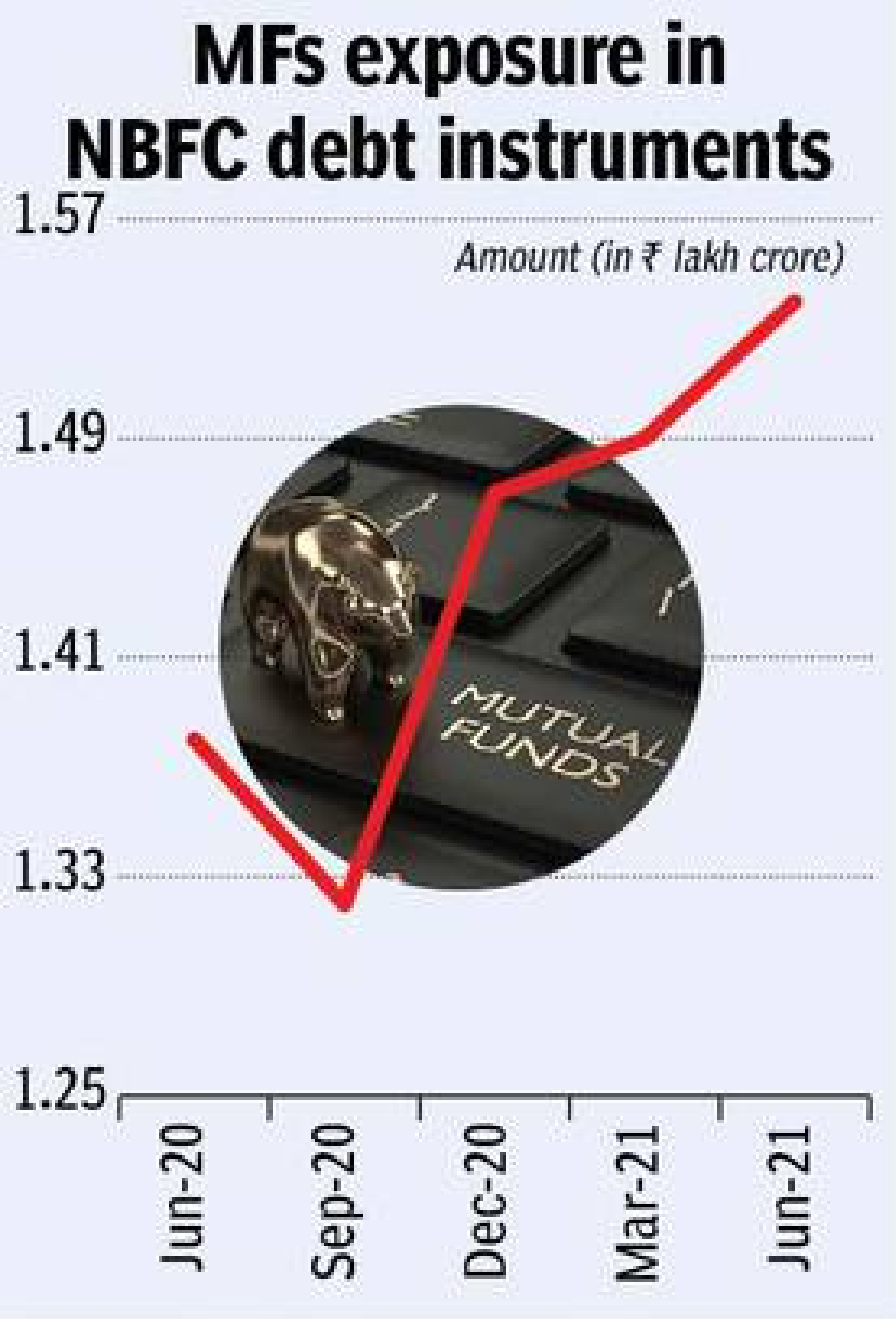
Debt mutual funds are gradually increasing their exposure to non-banking finance companies (NBFCs) amid visible signs of recovery, pent-up demand for credit with unlocking of the economy and less-than-expected asset-quality concerns after the second wave of the Covid-19 pandemic.

According to latest data, the overall exposure of mutual funds (MFs) in NBFC debt papers increased to ₹1.54-lakh crore as of June 2021 from ₹1.38-lakh crore during the same period last year. Of the total exposure as of Q1FY22, share of Commercial Papers (CPs) stood at ₹62,845 crore (from ₹54,233 crore in June 2020) while exposure to NBFC bonds and NCDs stood at ₹91,295 crore (₹83,612 crore).



There's byte beyond FAANGs

Mutual funds exposure to debt instruments of NBFCs was as high as ₹2.66-lakh crore or 19.04 per cent of their total AUM at the end of July 2018. However, after a spate of high-profile defaults starting with the IL&FS crisis in August 2018, mutual funds began to sharply cut their exposure to the shadow banking sector. As of September 2020, MF exposure more than halved to ₹1.32-lakh crore.



Source : SEBI # Includes Commercial Papers, Corporate Debt(Including Floating Rate Bonds, NCDs and Others)

Hike in exposure since September 2020

The exposure of debt mutual funds to NBFCs is gradually increasing since September 2020 to touch ₹1.49-lakh crore as of March 2021 and ₹1.54-lakh crore as of June 2021 accounting for 9.2 percent of the total debt mutual fund AUM.

According to CARE Ratings, "Mutual fund investments in CPs of NBFCs increased from a year-ago level of ₹0.54 lakh crore in June 2020, after having declined for the better part of the previous year. The percentage share of funds deployed by MFs in CPs of NBFCs in June 2021 stood at 3.8% of debt AUMs. The percentage share of funds deployed by MFs in corporate debt paper of NBFCs in June 2021 have moderated compared with last year as well as on a m-o-m basis."

Also read: **Mutual funds' exposure to bank certificates of deposits declines 67%**

The increase in mutual fund exposure to NBFCs comes amid growing optimism for economic recovery and visible green shoots of credit demand due to unlocking of the economy after the second wave of the pandemic.

In its Q1FY22 preview for the BFSI sector, Emkay Research said it expects moderate growth in AUM of NBFCs under its coverage due to lockdown and seasonal weakness. However, it also added that it expects growth momentum to improve as unlocking accelerates and the asset-quality pain in commercial retail could be partly suppressed via restructuring. "We believe growth should gradually recover as the unlocking process accelerates, and meaningful asset-quality normalization could be seen in H2. We retain a positive stance on financials but recommend a bottom-up approach," the report said.

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