Home >News >India >Non-banking financiers diversify funding sources

For some large non-banks, bank loans as a percentage of total borrowings declined in Jun-Sep period. Mahindra Finance's borrowings in the form of bank loans was down to 26% in Q2 FY21 from 28% in Q1 FY21

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Shayan Ghosh

NBFCs' market borrowings rose from 41.8% to 42.7% between Jun and Sep last year

Non-bank financiers are steadily increasing market borrowings to diversify their funding sources even though they remain heavily dependent on bank loans, showed data from the Reserve Bank of India (RBI).

Between June and September last year, non-banking financial companies' (NBFCs') share of market borrowings rose from 41.8% to 42.7%, while the share of bank borrowings grew from 29.7% to 31.2% in the same period. This comes after several quarters of decline in share of market borrowings for NBFCs.

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“As the Reserve Bank required NBFCs to adopt a Liquidity Risk Management Framework from December 2020, NBFCs gradually swapped their short-term borrowings for long-term borrowings with the aim of maintaining adequate liquidity. In 2020-21 (up to September), share of both market and bank borrowings inched up," a central bank report said on 29 December.

According to RBI, between April and September, overall bank exposure to NBFCs continued to grow due to higher direct lending by banks as well as their investments in debentures. The latter, RBI said, was shored up by ample liquidity and the return of market confidence with the Partial Credit Guarantee Scheme (PCGS), Targeted Long-Term Repo Operations (TLTRO) and Special Liquidity Scheme (SLS).

To be sure, bank borrowings continue to grow faster than those from market sources. The market, as in the case of other companies, has been more conducive for larg... well-rated non-banks.

For some large non-banks, bank loans as a percentage of total borrowings have declined between June and September. Mahindra Finance had 28% of its borrowings in the form of bank loans in the June quarter of FY21. In the September quarter, it was down to 26%.

NBFCs has registered a downward trend due to the base effect, risk aversion in banking system due to the covid-19 pandemic and due to investment by banks in NBFCs through capital market instruments supported by RBI and the government," a Care Ratings report said on 9 December.

The report pointed out that the liquidity covers of NBFCs will be largely dependent on collections and the ability to raise resources. “With economic activities picking up, the collection efficiency has gradually improved for large NBFCs in September and October 2020," it said. Most large non-banks have said their collection efficiencies have crossed 90%, in a sign that their liquidity situation is improving.