

POSITIVE IMPACT OF RBI'S LIQUIDITY MEASURES

After April 2020, Bank Credit to NBFCs Again Picks Up in Feb

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Mumbai: Bank credit to non-banking finance companies (NBFCs) has picked up for the first time during FY21 in February, indicating a positive impact of Mint Road's liquidity measures and less risk aversion at banks.

Growth in bank credit to NBFCs had been continuously falling in FY21 after peaking in April 2020 as the economic uncertainties of Covid-19 made banks risk-averse even as they scrambled to provide for possible defaults due to the crisis.

As a result, after clocking a brisk 30.3% year-on-year growth as of April 2020, lending to NBFCs by banks dropped steadily to 24.1% in July 2020, 9.2% in October 2020 and 6.6% in January 2021. In February, this growth rate has improved to 9.2% indicating easier funding conditions for NBFCs, though it is lower than 24.6% reported a year earlier.

"Overall exposure of the banks to NBFCs has been increasing. The commercial papers (CPs) and corporate debt (CDs) deployed together in NBFCs stood at similar levels witnessed in February 2020. The total monthly funds raised by NBFCs from primary market declined in February 2021 as compared with Janu-



ary 2021 and March 2020, as banks became the major source of financing needs for NBFCs," CARE Ratings said in a note on Friday.

The impact of Covid was a second blow to NBFCs just about recovering from tight liquidity conditions after the collapse of IL&FS in September 2018. Bank credit to NBFCs is up 64% and in absolute terms at ₹9 lakh crore in February 2021 from ₹5.5 lakh

crore in September 2018.

Even as bank credit availability has gone up, the debt exposure of mutual funds to NBFCs has declined from ₹1.78 lakh crore in January 2021

to ₹1.62 lakh crore in February 2021 and is at the same levels witnessed in February 2020.

The exposure of mutual funds to commercial papers (CPs) of NBFC is down at 4.3% of the debt assets under management, from 9.5% in September 2018 when IL&FS imploded. However, it is still higher than the level of 4% in March 2020.

Scars of risk aversion to NBFCs post-IL&FS crisis remain as outstanding investments in CPs of NBFCs fell by ₹20,000 crore to ₹70,000 crore in February 2021 from ₹90,000 crore in January 2021.

Investments into corporate bonds of NBFCs are also lower from a year ago at ₹90,000 crore in February 2021 down from ₹94,000 crore in March 2020 and lowest since ₹99,000 crore reported in September 2018.

While bank credit to non-banks went up, mutual funds' exposure to the sector fell to the levels of Feb 2020