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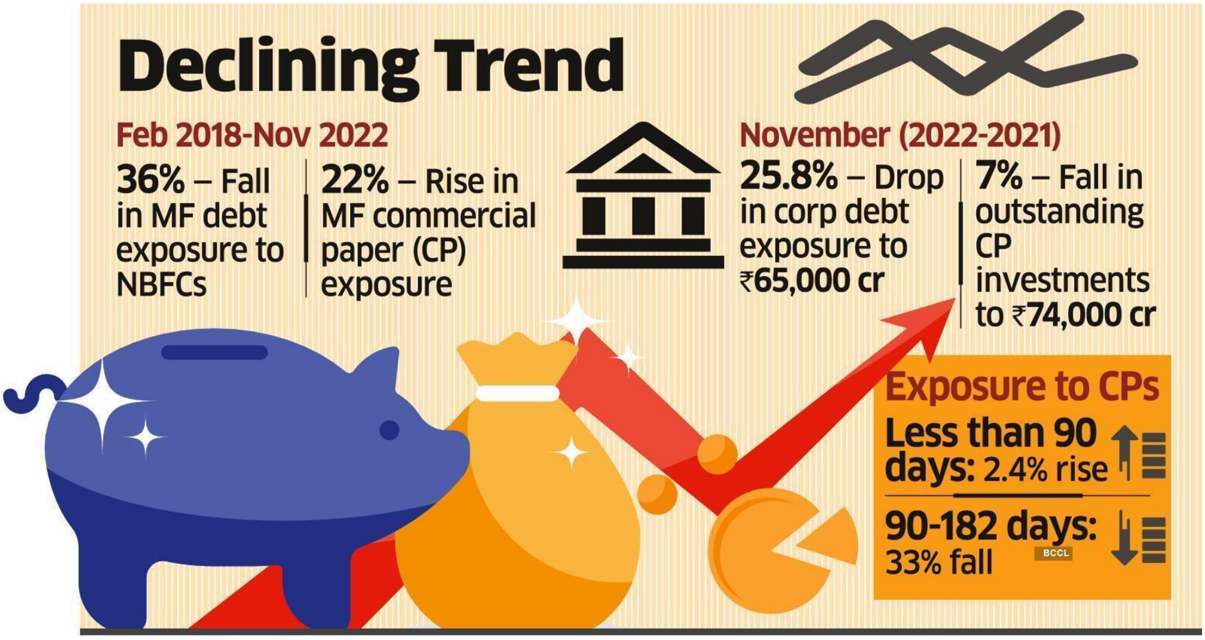
Mutual funds continue to pare exposure to NBFCs

Saloni Shukla /Jan 13, 2023,

Mutual funds have been reducing exposure to non-banking financial companies (NBFC). Debt exposure to NBFCs from funds declined about 17% on year to ₹1.4 lakh crore in November 2022, with capital market interest rates trailing bank offers in attractiveness.

An analysis by CARE Ratings showed that since February 2018, bank lending to NBFCs has tripled, while MF exposure has reduced over the past four years. If November 2022 data is compared with February 2020 numbers, bank borrowings of NBFCs have increased by over 45%, while MF corporate debt exposure has reduced by over 36% and MF commercial paper (CP) exposure increased by nearly 22%.



"The share of MFs and insurance companies has been on a consistent declining trend for the last several quarters," said Sanjay Agarwal, senior director, CARE Ratings. "This is due to a mix of higher interest rates in the bonds markets led by higher long-term G-Sec rates and risk aversion in the debt capital markets restricting funding availability for NBFCs rated lower than the highest categories."

Also, investments in corporate debt of NBFCs dropped by 25.8% over last year to ₹65,000 crore in November 2022. The percentage share of total corporate debt to NBFCs, too, declined to 4.1% in November 2022 from 5% in November 2021.

Outstanding investments in commercial papers of non-banks also witnessed a drop of 7% on year to ₹74,000 crore in November 2022. CPs (less than 90 days) only rose by 2.4% in a year while CPs of 90-182 days reduced by a third and fell by 33%. In fact, such papers of more than 6 months dropped by 17.6% over last year. The total quantum of funds deployed by MFs in CPs of NBFCs in November 2022 stood at 4.6%.