livemint

Lenders raise red flags as NBFCs tap credit lines to boost ratings

Shayan Ghosh
shayan.g@livemint.com
MUMBAI

Banks have cautioned rating agencies about some non-bank lenders seeking credit lines that they don't plan to use to hide the true picture of their liquidity position, two executives familiar with such instances said.

Rating companies consider the size of a company's unutilized credit limit as one of the attributes to determine its rating. A higher rating helps companies raise money at a cheaper rate because they are considered less risky.

Banks have asked the credit rating companies to do a deeper analysis of lenders' financial position before assigning ratings, the executives said on condition of anonymity.

Some mid-sized non-bank financiers regularly approach banks for credit lines, promising them they would not utilize these but use them to show liquidity on their books, they said, adding that the practice has gained ground as the pandemic has forced banks to tighten lending to non-bank financiers.

Banks have asked credit rating firms to do a deeper analysis of lenders' financial positions before assigning ratings. MINT

"The quantum of unutilized limit is one of the aspects that rating agencies take into account while assigning ratings. So the higher the amount, the better placed the company is in terms of liquidity, thus making it relatively less risky for investors," one of the two executives said, adding that some shadow banks are using the loophole to secure better ratings. Such arrangements hide the true picture of a company's liquidity situation, the person said.

"Then, there are some non-banking financial companies (NBFCs) that offer to pay a portion of their existing loan in exchange for a higher credit limit. This is another way to show rating agencies they have higher unused limit without disclosing how they are getting it," the person added.

There are two types of credit lines available from banks: committed and uncommitted. As the names suggest, while the first one means the lender is legally bound to advance the credit, an uncommitted line gives the lender the option to withdraw it. The second person added that credit rating agencies assign a weightage on unused credit lines but consider whether it is committed

TURN TO PAGE 6

livemint

Lenders alert credit rating companies

FROM PAGE 1

or uncommitted.

"Some NBFCs and home financiers also go to the extent of utilizing the limit or drawing funds and then parking it in fixed deposits in the same bank. This, too, ensures they can show ample liquidity on their books even as the lender is assured of the loan's safety, given the money is held in its deposits," said the second person cited above.

Emails sent to rating agencies Crisil and India Ratings remained unanswered, while spokespeople for Icra and Brickwork declined to comment.

"The markets have been quite restrictive for non-bank lenders and therefore balance sheet liquidity, owing to maturing obligations, becomes a critical factor when we look at NBFC and housing finance company ratings. So, liquidity is a critical parameter for ratings," said Sachin Gupta, chief rating officer, Care Ratings.

Gupta added that the way Care Ratings measures it is by primarily looking at cash or liquid investments on the balance sheet and is selective in considering unused bank credit lines as liquidity support.

Banks have asked the credit rating companies to do a deeper analysis of lenders' financial position

Stung, first by the initial wave of covid-19 last year and then by the second wave in April and May, India's non-bank lenders are expected to aggressively use the debt recast window to manage stress. The second wave affected collections that were approaching normal levels. As of 31 March, NBFCs reported an improvement in asset quality as gross bad loans declined to 6.4% of total loans, from 6.8% in the same period last year.