Smaller NBFCs may face liquidity problems: CARE Ratings

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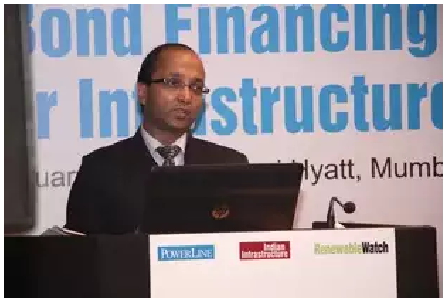

The NBFCs have some level of liquidity today especially in the AA, AAA brackets and even in the single A bracket. (Photo: Company website)

Do you sense that Asset liability mismatch (ALM) is a given considering the situation that NBFCs are in right now?
So we have a situation where RBI has asked the NBFCs to give moratorium to the customers who need the moratorium. So the way the whole structure has evolved is that NBFCs have generally spoken to most of the customers and wherever the moratorium is required, they have given the moratorium. In other cases, the payments are coming. So it depends on a company to company basis and on an industry to industry basis.

Another thing is, in case of cash collections, the collection teams have not been able to go on ground; so in that case, the cash collections are generally very low. It has been pretty negligible. But once the lockdown is lifted to a certain extent, then the cash collections will come up. The other thing is, generally, the NBFCs have some level of liquidity today especially in the AA, AAA brackets and even in the single A bracket. The smaller NBFCs could have a larger challenge compared to larger NBFCs.

What exactly is the outlook in terms of the NPAs? Do you think higher NPA concerns will continue to remain? What kind of issues do you see pertaining to overall funding concerns?
The asset quality is likely to deteriorate because it is not just the moratorium period. Post the moratorium period, when the collection starts, obviously it would not start at a full scale. The recovery will take some time and in the due course, there would be some deterioration in the asset quality.

It obviously depends from asset class to asset class. A secured prime housing loan asset, for example, is less likely to be impacted compared to let us say an unsecured personal loan. So it depends on an asset class to asset class basis. But in terms of the liquidity, in the last 15 to 18 months, most of the NBFCs have increased the liquidity cover that they have. The ALM have been pretty well prepared and we did a whole assessment. If you see AAA-rated NBFC on a medium level, today they are sitting at more than two times the liquidity cover. Similarly AA NBFCs which had a 2.8 cover in September 2018 has a cover of 3.42 times today. So liquidity and the NPA are two different aspects. The liquidity can still be managed with some support from the liability providers whereas in the asset cover, it will depend on how the lockdown goes, how the whole situation related to Covid evolves; only then we can have the assessment of the quality of assets. But there would be deterioration in all asset categories; that is for sure.

Do you think that we will see the NBFCs dip into their cash balances if the collection efficiencies drop to say 60%?
It also depends on where they are able to raise the liability from but some level of liquidity means people will have to dip into the liquidity to a certain extent. There is a risk aversion in terms of the lenders to provide funding to the NBFCs and that aversion has been there for some time and now it is slightly aggravated and there is a limited set of liability providers to the NBFCs. So NBFCs will be required to dip into the cash reserves but it depends on how the COVID situation goes. If it is over within a couple of months, then I think the situation will be far better; if it extends, then we will have to see how it goes.