Trend in Exposure of MFs and Banks to NBFCs

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This report tracks the trend in debt exposure of Banks as well as Mutual Funds to NBFCs.

Introduction

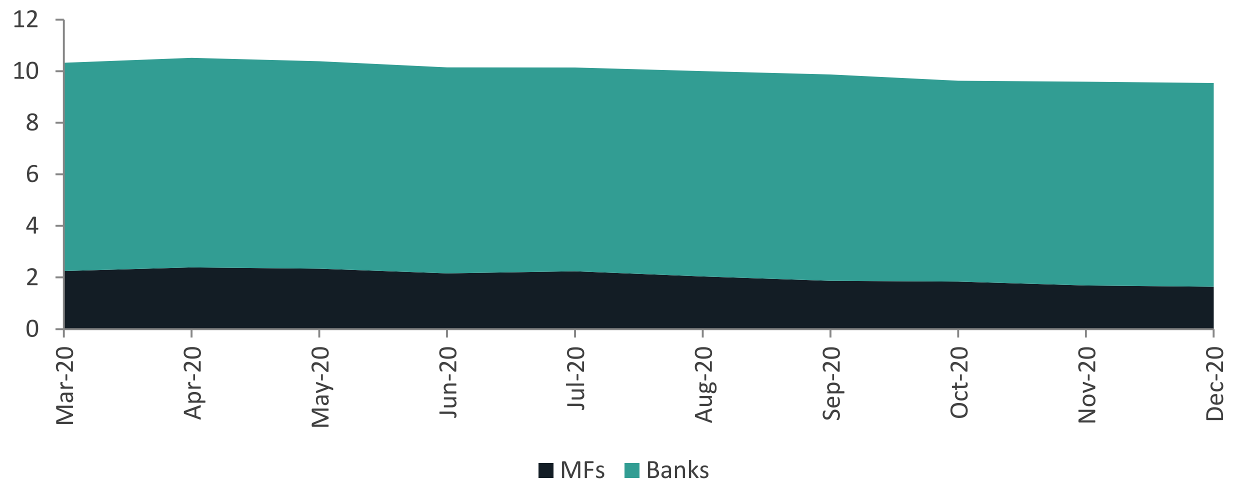
NBFCs were impacted by the pandemic related stress due to uncertainties in the underlying business models. On the supply side, sources of funds, especially for small and mid-size NBFCs, were impacted due to reduced risk appetite of banks for low rated and/or unrated exposures, while top rated NBFCs were able to access funds via multiple sources including TLTROs. On the demand side, the prevailing economic contraction (GDP grew by -15.7% in H1FY21 as compared with 4.8% in H1FY20) contributed to the subdued credit offtake. To pacify the impact of COVID-19 and to provide a liquidity support to NBFC sector, the Reserve Bank of India (RBI) and government have introduced various schemes such as partial credit guarantee scheme (PCGS), targeted long term repo rate (TLTRO) and special liquidity scheme.

The share of NBFCs in total borrowings from financial system was highest as of September 2020. As per RBI's report on 'Trends and Progress of Banking in India 2019-20', Public Sector Banks alone accounts for 64% of total bank lending to NBFCs in H1FY21. The increased preference for long term funds from banks reflects the support through targeted long term repo rate (TLTRO). NBFCs and HFCs are the largest borrowers of funds from the financial system of which a substantial part of funding is done by the banks.

Banks' lending to NBFCs

Banks' outstanding credit to NBFCs registered a slower growth of 8.4% in December 2020 (one third the growth as compared to December 2019) i.e. 27.6% in December 2019, largely due to high base effect, risk aversion in the banking system and investment by banks in NBFCs through various capital market instruments supported by RBI/Government of India. If we compare it with September 2018, banks outstanding to NBFC increased by 44.5% and in absolute terms it increased from Rs.5.5 lakh crore to Rs.7.9 lakh crore in December 2020. However, data in Figure 1 does not include liquidity made available to NBFCs by banks via the securitisation route (DA & PTC) and investments made by banks in the NBFCs capital market issuances.

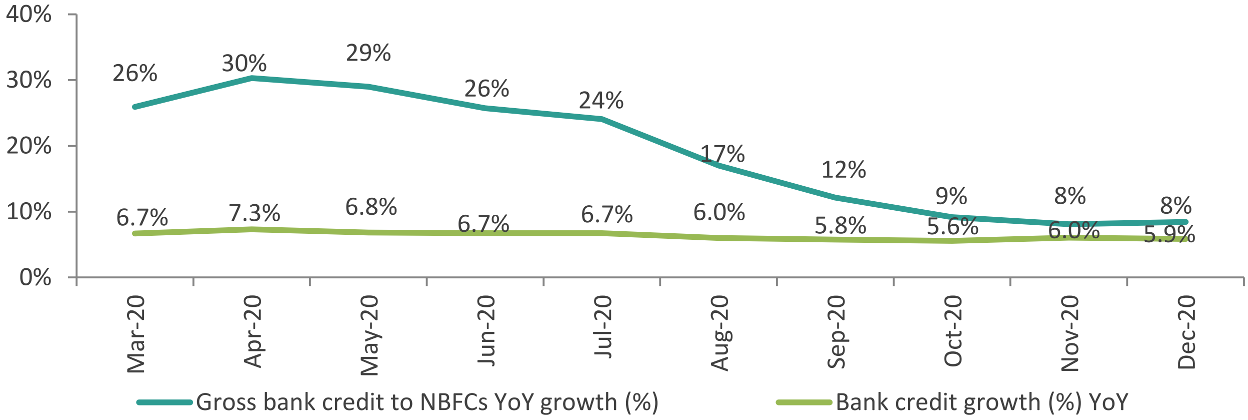
Figure 1: Summary of Banks Loans and MFs NBFC Debt exposure (Rs Lakh Crore)



Source: RBI, SEBI

Growth in bank credit to NBFCs has registered a downward trend as can be seen in Figure 2. However, the share of NBFCs in bank credit increased from 6.9% in September 2018 to 8.5% in December 2020 and remained stable on m-o-m basis (8.6% in November 2020).

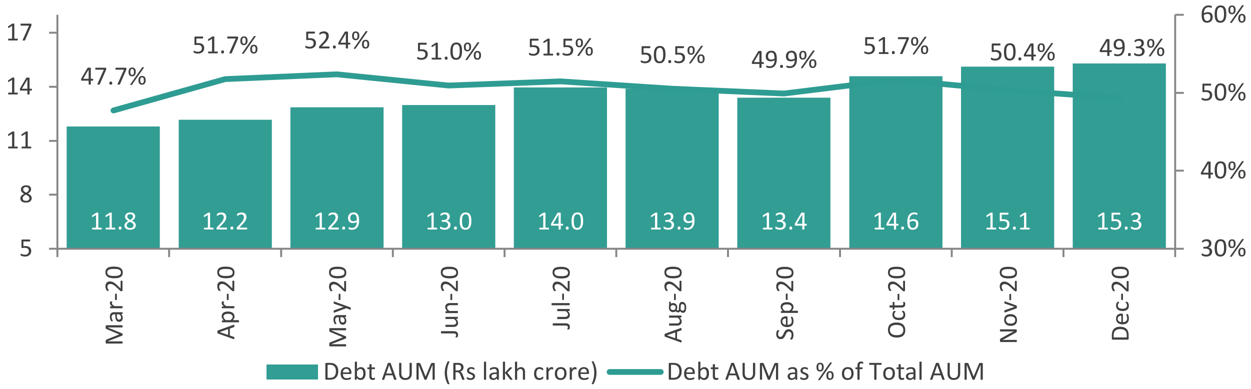
Figure 2: Growth in bank credit to NBFCs vis-à-vis overall bank credit growth



Source: RBI

As can be seen in figure 3, the proportionate share of debt AUM has declined by 110bps (on m-o-m basis) to 49.3% of total industry assets in December 2020 as compared with 50.4% in November 2020; this can be attributed to higher equity valuations vis-à-vis debt. It was 47.7% in March 2020 and 46.9% in December 2019.

Figure 3: Movement in Debt AUM of Mutual Fund Industry

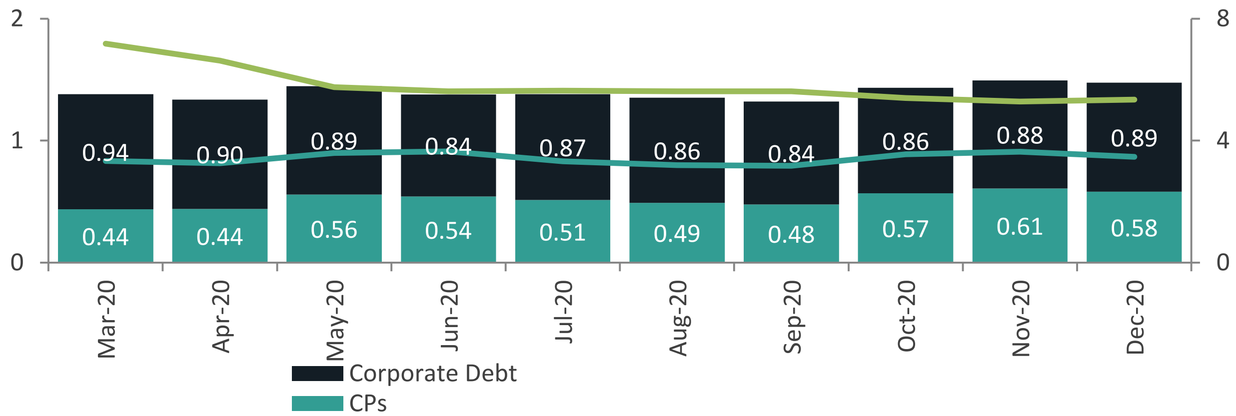


Source: AMFI

The outstanding investments in CPs of NBFCs have been flat in December 2020 on m-o-m basis and were Rs.0.7 lakh crore in December 2019 compared with Rs.0.6 lakh crore in December 2020. The percentage share of funds deployed by MFs in CPs of NBFCs in December 2020 stood at 3.5% of debt AUMs (compared with 9.5% in September 2018) and the amount held stood at Rs.0.58 lakh crore in December 2020 compared with Rs.0.44 lakh crore in March 2020 (Rs. 1.26 lakh crore in September 2018).

The investments in corporate debt paper of NBFCs also remained relatively stable on m-o-m basis at Rs.0.89 lakh crore in December 2020, while it is lower compared with 0.94 lakh crore in March 2020 and lowest since September 2018 (Rs.0.99 lakh crore). There has been a steady, albeit marginal growth every month since September 2020. The percentage share declined to 5.3% compared with 7.2% in March 2020.

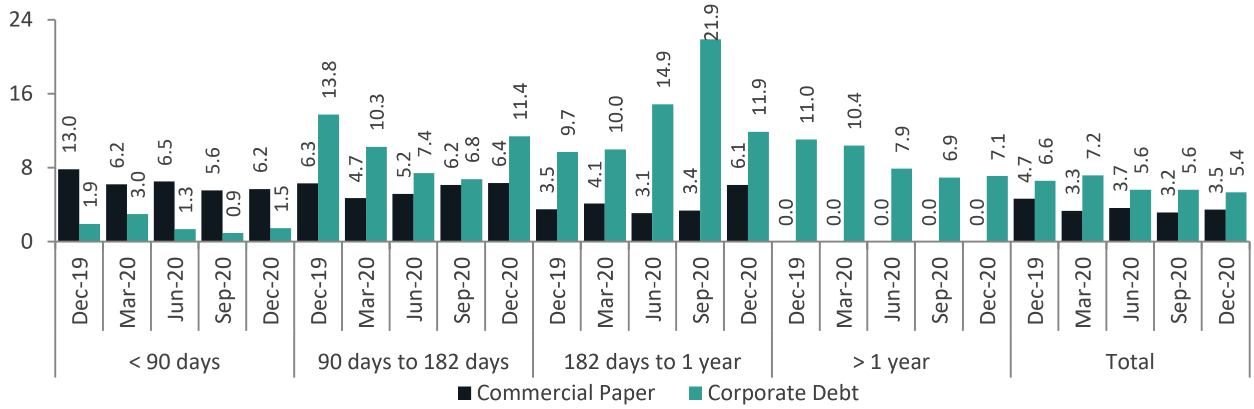
Figure 4: Total debt funds deployed in NBFCs via CPs and corporate debt (Rs lakh crore)



Source: SEBI

The proportion of CPs deployed in NBFCs for less than 90-day period has seen marginal moderation since December 2019 to December 2020. Corporate debt also declined compared with same period previous year. The proportion of CPs and corporate debt deployed together in NBFCs as a percent of total debt funds witnessed a declining trend from 11.3% in December 2019 to 8.8% in December 2020.

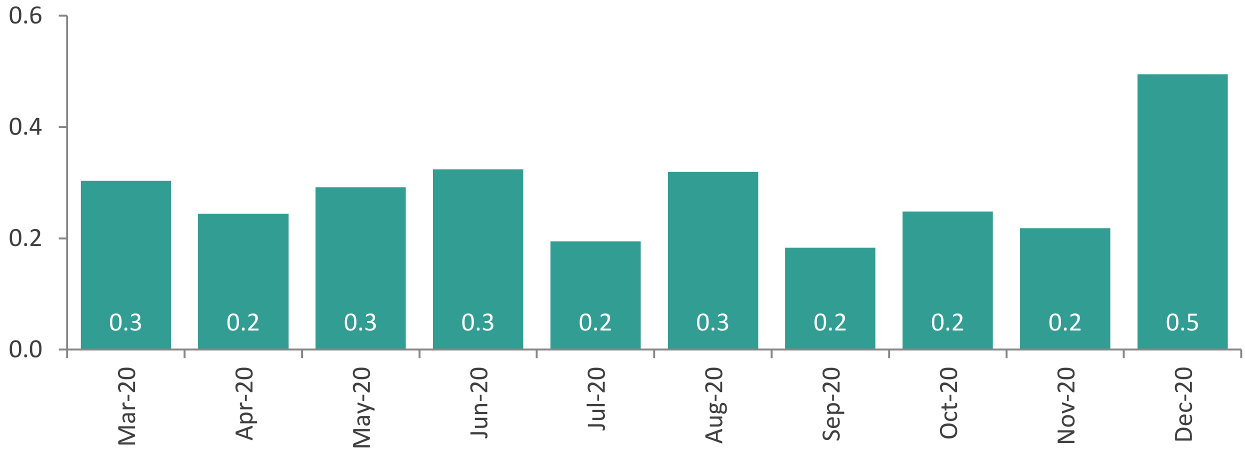
Figure 5: Trend in proportion of CPs and corporate debt deployed in NBFCs as a % of debt funds by duration



Source: SEBI

As can be seen in figure 6, total monthly funds raised by NBFCs from primary market increased to Rs 0.50 lakh crore in December 2020 (highest since April 2019) as compared with Rs 0.30 lakh crore in March 2020 and Rs.0.14 lakh crore in December 2019.

Figure 6: Total monthly funds raised by NBFCs from Primary Market (Rs lakh crore)



Note: 1) NBFCs include Asset Financing Services Industry, Other Financial Services Industry and Other Fund Based Financial Services Industry 2) Excludes Commercial paper (CPs)
Source: CMIE

Concluding Remarks

In December 2020 the weighted average yield of corporate bond issuances in primary market declined by 26 basis points to 6.55% compared with the previous month (6.81% in November 2020) and was 64 bps lower than that in April 2020 (7.19%). Similarly, the cost of borrowing by AAA rated NBFCs and HFCs also declined by 69 bps m-o-m & 256 bps y-o-y and 73 bps m-o-m and 243 bps y-o-y. Furthermore, the external commercial borrowings (ECBs) registrations in financial services declined to USD 0.08 bn, (2.7% of total ECBs registrations) in December 2020 as compared to USD 0.5 bn (25.0% of total ECBs registration) in December 2019.

Amidst this challenging times, banks overall exposure to NBFCs has been increasing, while the share of CPs and corporate debt deployed together in NBFCs witnessed a declining trend during December 2019 to December 2020. While this has seen minor reversal lately, the long term trend is to be seen. Interestingly, total monthly funds raised by NBFCs from primary market witnessed a substantial increase, which is at highest level since April 2019.

Annexure

Figure A1: Average Yields in Primary Markets (in %)

AAA rated	Corporate Bonds	NBFCs	HFCs
Mar-20	8.02	7.57	7.70
Apr-20	7.19	7.64	7.21
May-20	7.18	7.48	7.12
Jun-20	7.55	7.03	6.62
Jul-20	7.19	7.24	7.28
Aug-20	6.63	5.93	5.41
Sep-20	6.95	5.98	6.04
Oct-20	6.44	5.98	6.88
Nov-20	6.81	6.47	5.66
Dec-20	6.55	5.78	4.93

Source: Prime Database; CARE Ratings' Calculation, (refer report 'Debt Market Review – December 2020')

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