

## Trend in Exposure of MFs and Banks to NBFCs

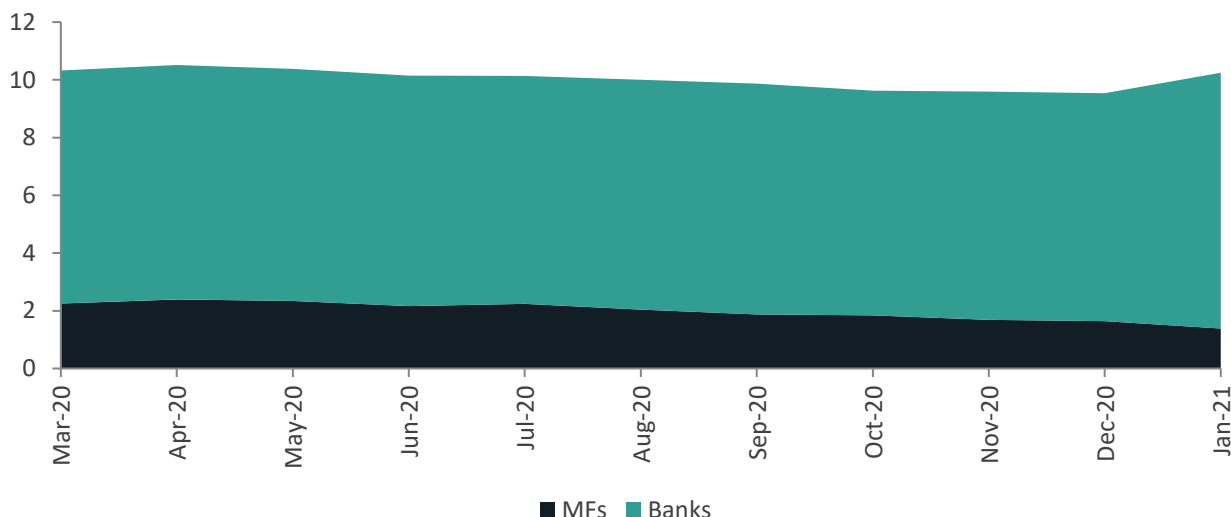
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*This report tracks the trend in debt exposure of Banks as well as Mutual Funds to NBFCs.*

### Introduction

In the aftermath of NBFC crisis and pandemic, the sources of funds, especially for small and mid-size NBFCs, affected due to risk aversion of banks, while top rated large NBFCs were able to access funds via multiple sources including targeted long-term repo rates (TLTROs). The increased preference for long-term funds from banks reflects the support through TLTRO. As mentioned in the RBI's Financial Stability Report, NBFCs and HFCs continue to be the largest borrowers of funds from the financial system of which a substantial part of funding is done by the banks. Amidst these challenging times, overall exposure of the banks to NBFCs has been increasing. The Commercial Papers (CPs) and Corporate Debt (CDs) deployed together in NBFCs increased in January 2021 and reached at level witnessed in January 2020.

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



Source: RBI, SEBI

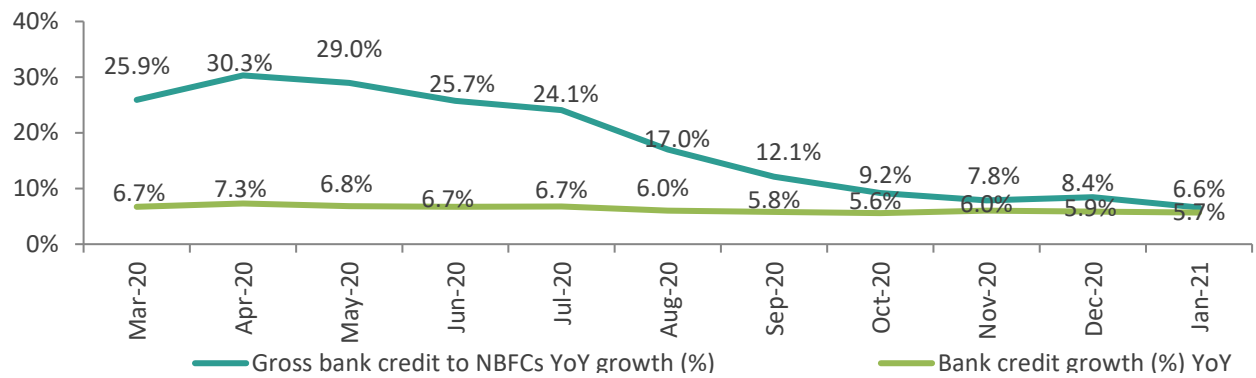
### Banks' lending to NBFCs

Banks' outstanding credit to NBFCs registered a slower growth of 6.6% in January 2021 (as compared with 35.8% in January 2020) largely due to high base effect and investment by banks in NBFCs through various capital market instruments supported by RBI/Government of India. CPs, Bonds and Debentures raised by SCBs stood at Rs.6.6 lakh crore as on December 18, 2020 and November 20, 2020 (Rs.6.5 lakh crore as on December 20, 2019). If we compare it with September 2018, banks outstanding to NBFC increased by 62.0%, and in absolute terms, it increased from Rs.5.5 lakh crore to Rs.8.9 lakh crore in January 2021.

The MF debt exposure (CPs and CDs together) to NBFCs witnessed an increase from Rs.1.47 lakh crore in December 2020 to Rs.1.78 lakh crore in January 2021 (at highest level since January 2020). However, data in Figure 1 do 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.

Growth in bank credit to NBFCs has registered a downward trend due to risk aversion in the banking system, as can be seen in Figure 2. The share of NBFCs in bank credit also declined from 9.8% in March 2020 to 9.4% in January 2021.

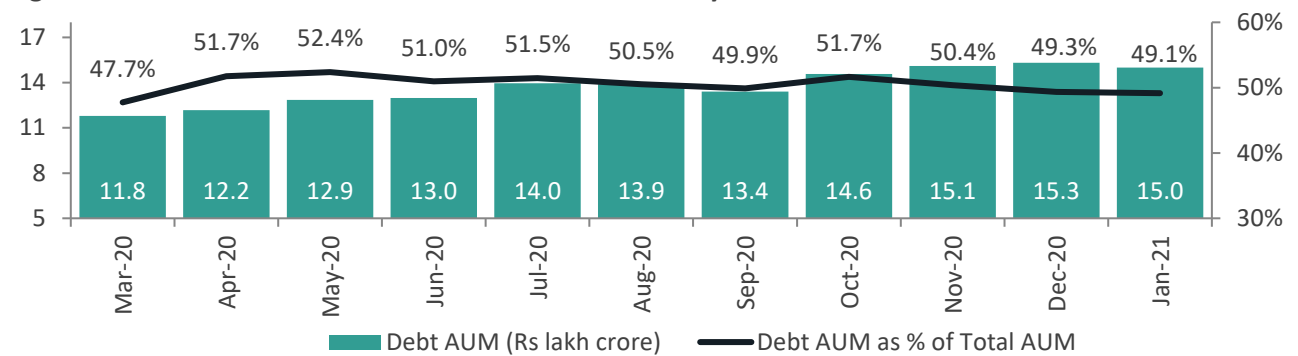
**Figure 2: Growth in bank credit to NBFCs vis-à-vis overall bank credit growth**



Source: RBI

As can be seen in figure 3, the proportionate share of debt AUM has declined marginally (on m-o-m basis) to 49.1% of the total industry assets in January 2021 as compared with 49.3% in December 2020, as debt mutual funds witnessed an outflow of Rs.33,409 crore as compared with an inflow in December 2020. It was 47.7% in March 2020 and 49.4% in January 2020.

**Figure 3: Movement in Debt AUM of Mutual Fund Industry**



Source: AMFI

The outstanding investments in CPs of NBFCs witnessed an increase of Rs.0.3 lakh crore to reach Rs.0.9 lakh crore in January 2021 on m-o-m basis and were Rs.0.6 lakh crore in December 2020 and Rs.0.7 lakh crore in January 2020. The percentage share of funds deployed by MFs in CPs of NBFCs in January 2021 stood at 5.2% of debt AUMs (compared with 9.5% in September 2018) and the amount held stood at Rs.0.88 lakh crore in January 2021 compared with Rs.0.44 lakh crore in March 2020 (Rs.1.26 lakh crore in September 2018).

The investments in corporate debt of NBFCs remained relatively stable on m-o-m basis at Rs.0.90 lakh crore in January 2021, while it is lower compared with Rs.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)**

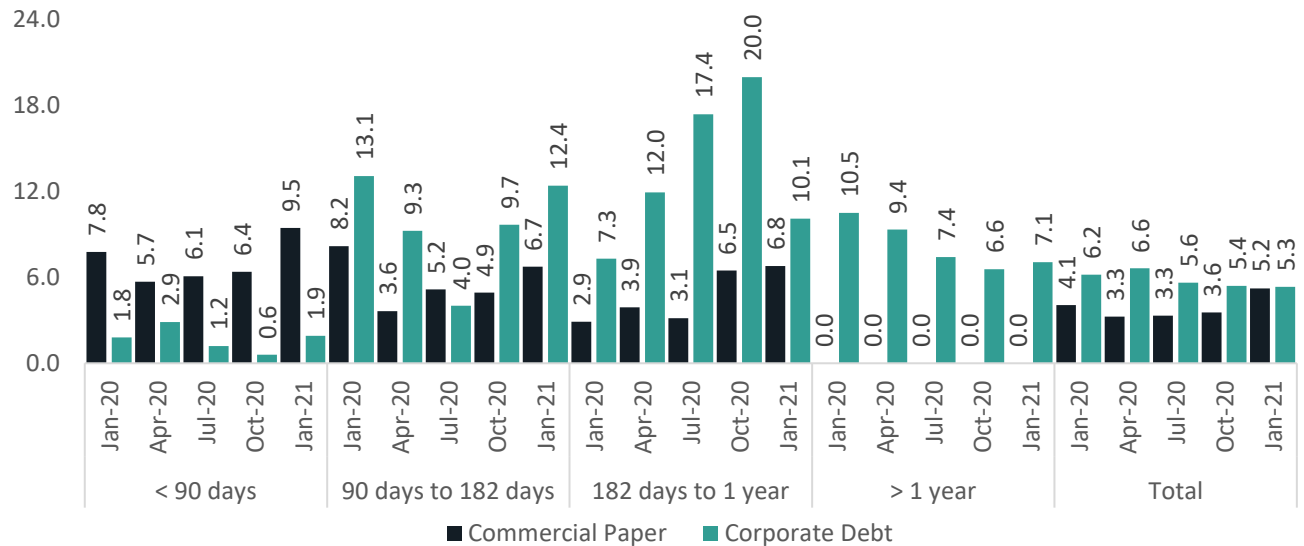


Source: SEBI

The proportion of CPs deployed in NBFCs for less than 90-day period increased in January 2021 as compared with January 2020 due risk aversion, while the proportion of corporate debt stood stable compared with same period previous year.

The proportion of CPs and corporate debt (by duration) deployed together in NBFCs as a percentage of total debt funds stood largely at similar levels in January 2020 (10.3%) and January 2021 (10.5%) as compared with 8.9% 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.0.40 lakh crore in January 2021 as compared with Rs.0.30 lakh crore in March 2020 and January 2020.

**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); Note: total funds raised by NBFCs from primary market includes debt and equity.  
Source: CMIE

### Concluding Remarks

In January 2021, the weighted average yield of corporate bond issuances (primary market) declined by 34 basis points to 6.29% compared with the previous month (6.63% in December 2020) and was 95 bps lower than that in April 2020 (7.24%), while the cost of borrowing by AAA rated NBFCs and HFCs increased by 49 bps and 174 bps m-o-m. Furthermore, the external commercial borrowings (ECBs) registrations in financial services declined to USD 2.3 billion,

(60.3% of total ECBs registrations) in January 2021 as compared with USD 4.1 billion (52.3% of total ECBs registration) in January 2020.

Amidst these challenging times, overall exposure of the banks to NBFCs has been increasing. The Commercial Papers (CPs) and Corporate Debt (CDs) deployed together in NBFCs increased in January 2021 and reached at level witnessed in January 2020. The total monthly funds raised by NBFCs from primary market is largely at similar levels as compared with previous month, as banks became the major source of financing needs following the NBFC crisis.

## 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	7.24	7.77	6.97
May-20	7.20	8.09	7.29
Jun-20	7.56	8.38	7.13
Jul-20	7.15	8.33	7.49
Aug-20	6.86	7.87	6.30
Sep-20	6.95	7.99	6.61
Oct-20	6.56	6.85	6.93
Nov-20	6.83	7.66	5.91
Dec-20	6.63	7.02	4.95
Jan-21	6.29	7.51	6.69

Source: Prime Database; CARE Ratings' Calculation, (refer report '[Debt Market Review](#)')

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