

Trend in Exposure of MFs and Banks to NBFCs

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

Introduction

In the aftermath of liquidity stress post IL&FS and DHFL events, the market funding conditions turned difficult for NBFCs. Recently, the RBI has extended scheme to stressed sectors by making available funds to banks.

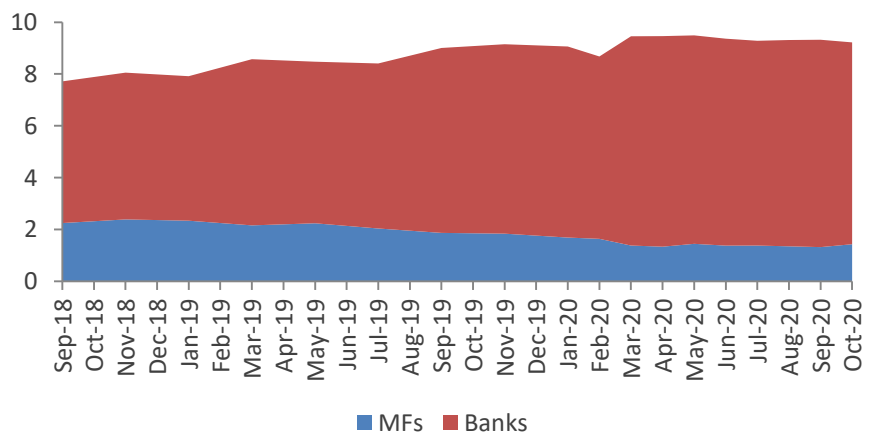
The liquidity covers of NBFCs will be largely dependent on collections and the ability to raise resources. However, amidst this tough time banks have been lending more to them increasing their overall exposure to NBFCs. With the economic activities picking up, the collection efficiency has gradually improved for large NBFCs in September and October 2020.

Banks' lending to NBFCs

Banks' outstanding to NBFCs registered a growth of 42.5% in absolute terms from September 2018 (Rs.5.5 lakh crore) to October 2020 (Rs.7.8 lakh crore). However, data in Figure 1 does not include liquidity made available to NBFCs by banks via the securitisation route (DA & PTC).

The overall composition of NBFCs in bank credit increased from 6.9% in September 2018 to 8.5% in October 2020 and remained stable on m-o-m basis (8.7% in September 2020). However, growth in bank credit to NBFCs has registered a downward trend as seen in figure 2, due to the base effect, risk aversion in banking system due to the COVID-19 pandemic and due to investment by banks in NBFCs through capital market instruments supported by RBI/Government of India.

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



Source: RBI, SEBI

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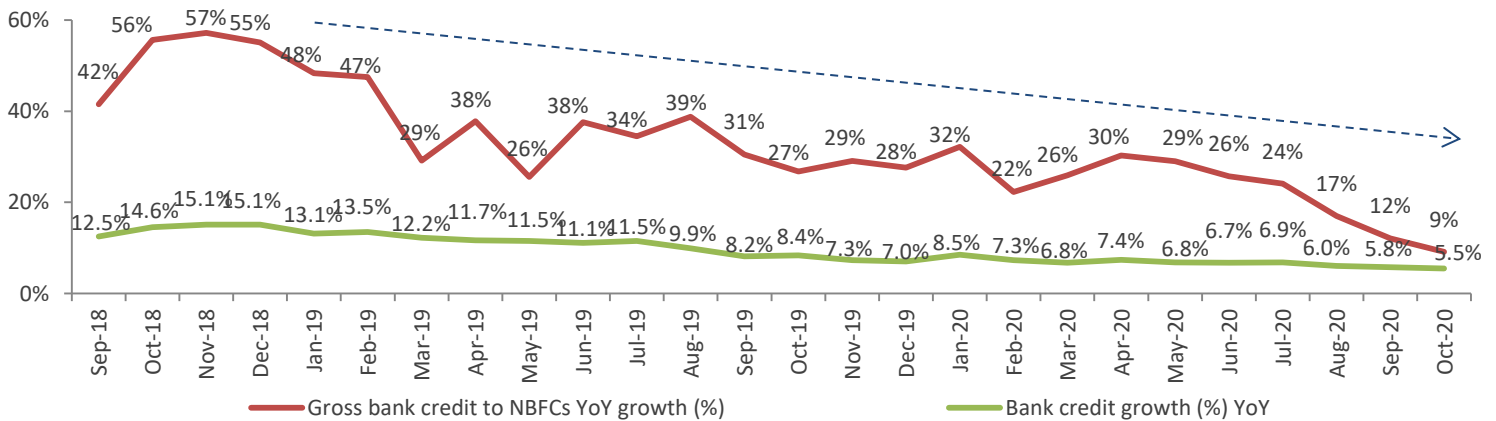
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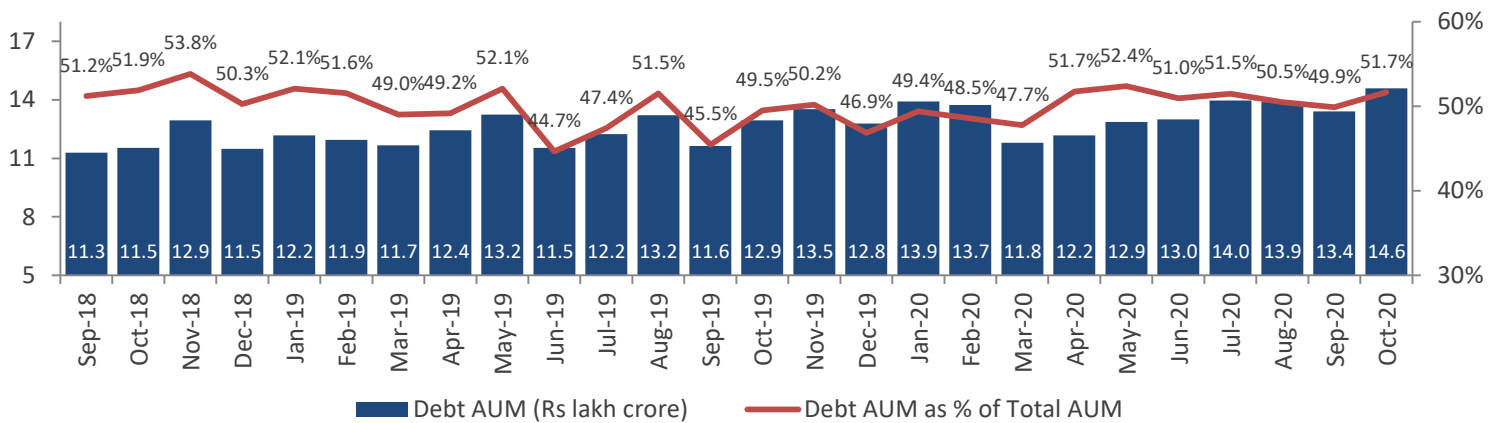
Figure 2: Growth in bank credit to NBFCs vis-à-vis bank credit growth



Source: RBI

As can be seen in figure 3, the proportionate share of debt AUM has improved to 51.7% of total industry assets in October 2020 as compared with 49.5% in October 2019. It was 47.7% in March 2020.

Figure 3: Movement in Debt AUM of Mutual Fund Industry

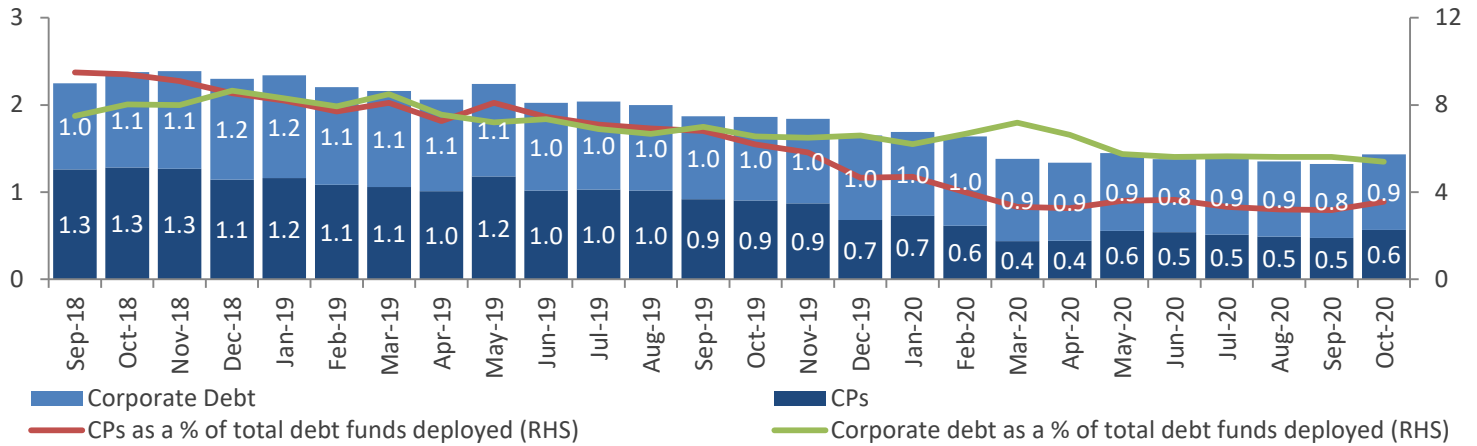


Source: AMFI

As can be seen in figure 4, outstanding investments in CPs of NBFCs have been largely flat in October 2020 on m-o-m basis and were Rs.0.9 lakh crore in the same period previous year. The percentage share of funds deployed by MFs in CPs of NBFCs in October 2020 stood at 3.6% of debt AUMs (compared with 9.5% in September 2018) and the amount held stood at Rs.0.57 lakh crore (Rs. 1.26 lakh crore in September 2018).

The investments in corporate debt paper of NBFCs also remained largely stable on m-o-m basis at Rs.0.86 lakh crore in October 2020, while it is lower compared with 0.94 lakh crore in Mar 2020 and lowest since September 2018 (Rs.0.99 lakh crore). The percentage share declined to 5.4% (lowest since September 2018) compared with 7.2% in March 2020.

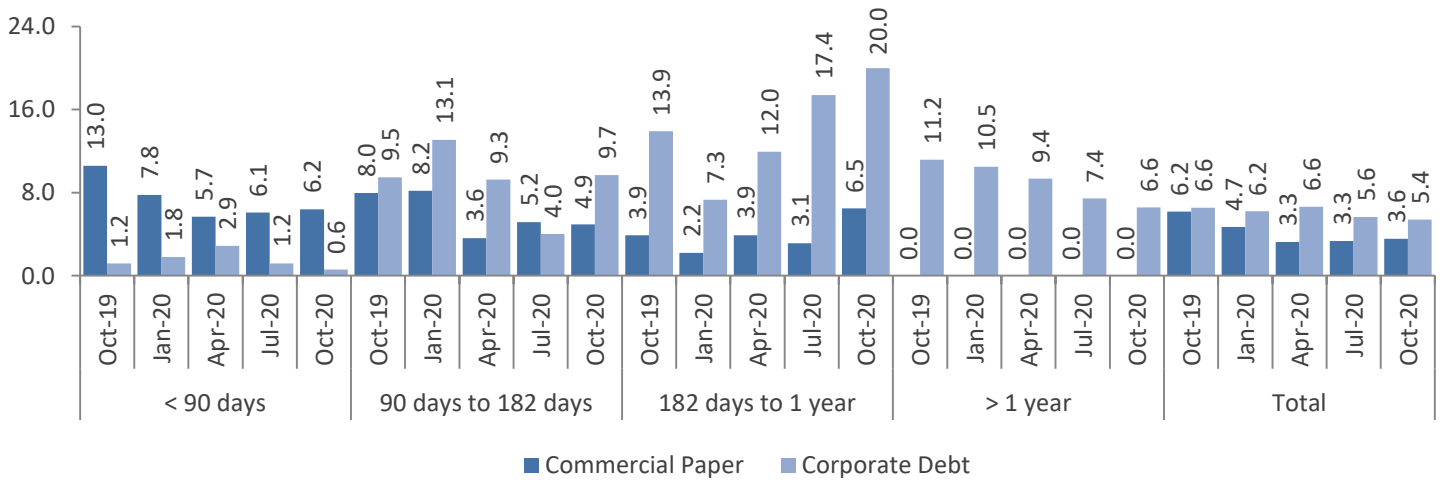
Figure 4: Total debt funds deployed in NBFCs via CPs and corporate debt (Rs lakh crore)



Source: SEBI

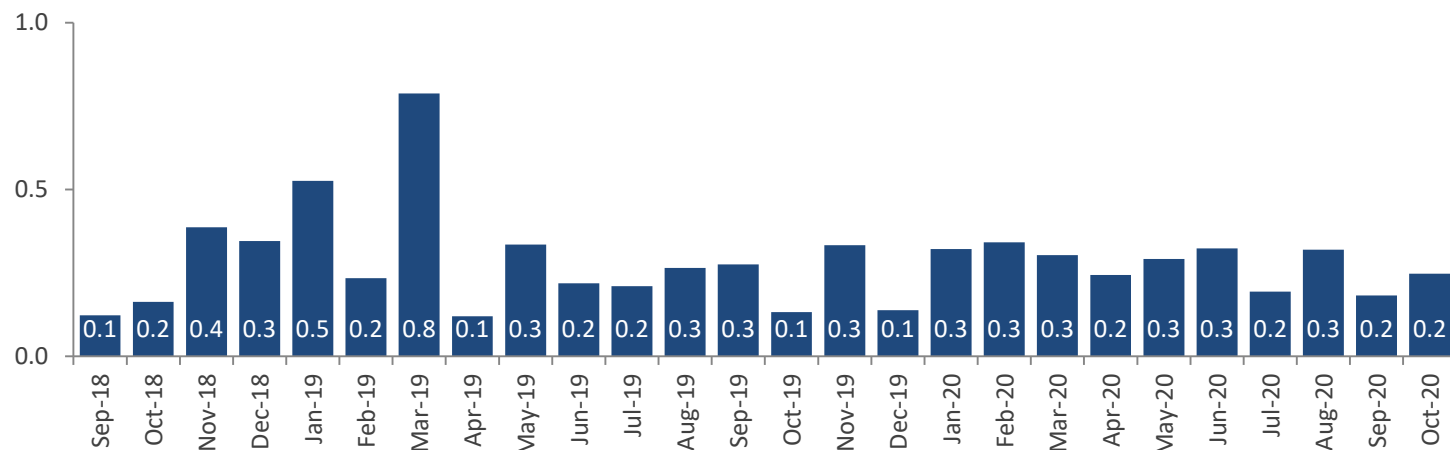
The proportion of CPs deployed in NBFCs for less than 90-day period has seen moderation since October 2019 to October 2020, whereas corporate debt remained largely stable m-o-m at Rs.0.86 lakh crores in October 2020 (Rs.0.84 lakh crores in September 2020) and declined compared with the previous year. The proportion of CPs and corporate debt deployed together in NBFCs as a percent of total debt funds witnessed a declining trend from 12.8% in October 2019 to 9.0% in October 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 stood at Rs 0.2 lakh crore in October 2020 as compared with Rs 0.8 lakh crore in March 2019, as banks became the major source of their financing needs (refer figure 1) following the NBFC crisis.

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

The weighted average yield of corporate bond issuances in primary market declined in October 2020 by 47 basis points to 6.48% compared with the previous month (6.95% in September 2020) and 60 bps lower than that in April 2020 (7.08%). It was however, 162 bps lower than 8.10% in September 2019 (refer Annexure). On the other hand, the cost of borrowing for NBFCs stood stable to 5.98% (m-o-m) and 174 bps lower y-o-y whereas that of HFCs increased by 89 bps (m-o-m) to 6.93% and fell by 104 bps on y-o-y basis. (Refer report '[Debt Market Review - October 2020](#))

Concluding Remarks

During this challenging time, banks overall exposure to NBFCs have been increasing, while the share of CPs and corporate debt deployed together in NBFCs witnessed a declining trend from October 2019 to October 2020. Also the cost of borrowings for NBFCs and HFCs witnessed a declining trend on YoY basis.

Furthermore, the external commercial borrowings (ECBs) registrations in financial services declined to USD 0.43 bn, (21.0% of total ECBs registrations) in October 2020 as compared to USD 1.35 bn (66.0% of total ECBs registration) in October 2019.

Annexure

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

AAA rated	Corporate Bonds	NBFCs	HFCs
Sep-19	8.10	8.19	7.35
Oct-19	7.87	7.72	7.97
Nov-19	8.35	7.79	7.25
Dec-19	8.60	8.34	7.36
Jan-20	7.92	8.05	7.36
Feb-20	7.56	7.78	7.24
Mar-20	8.02	7.57	7.70
Apr-20	7.08	7.64	7.21
May-20	7.19	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	6.48	5.98	6.93

Source: Prime Database; CARE Ratings' Calculation, (refer report '[Debt Market Review - October 2020](#))