

## Trend in Exposure of MFs and Banks to NBFCs

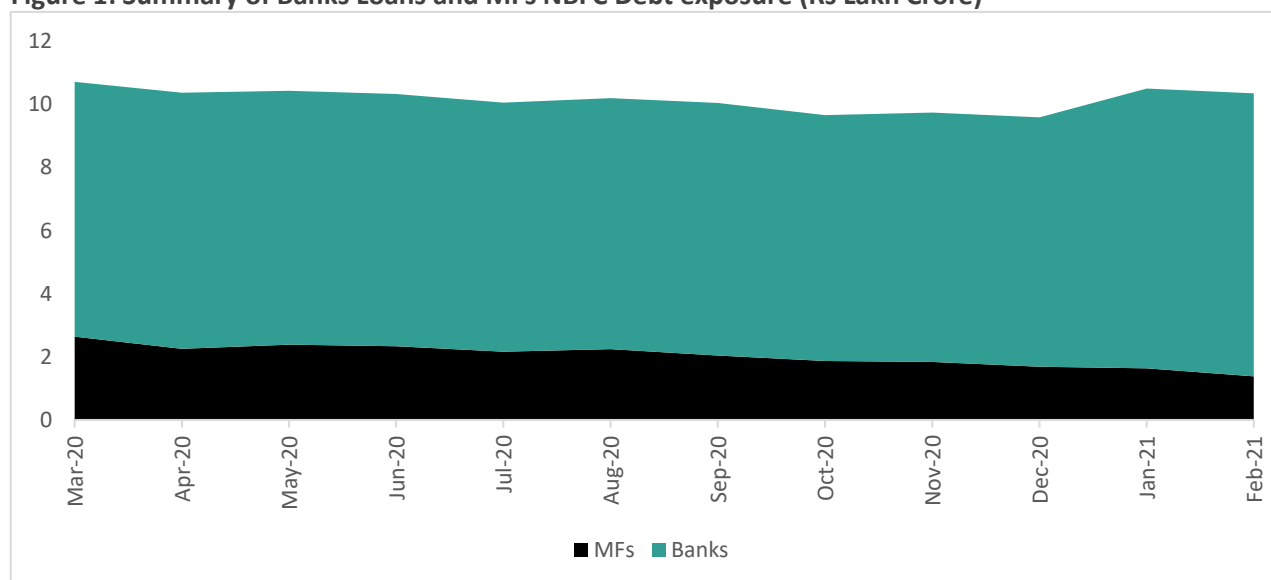
April 09, 2021 | BFSI Research

*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. Recently, the Reserve Bank of India (RBI) has extended the deadline for TLTRO scheme by six months (i.e. till September 2021); this would help in maintaining liquidity. Amidst these challenging times, overall exposure of the banks to NBFCs has been increasing albeit at a slower rate. The Commercial Papers (CPs) and Corporate Debt (CDs) deployed together in NBFCs stood at similar levels witnessed in February 2020.

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



Source: RBI, SEBI

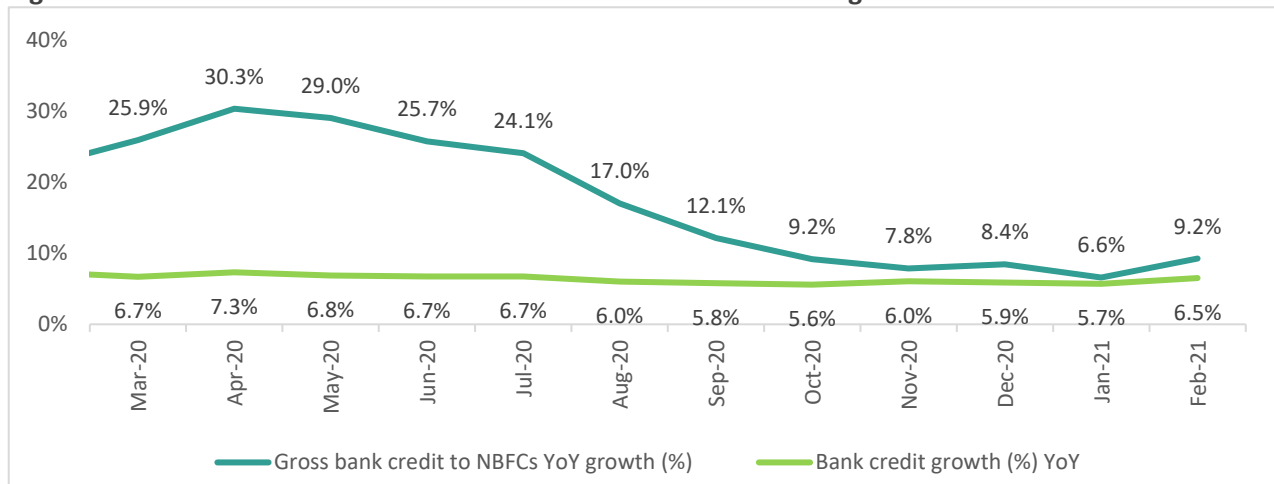
### Banks' lending to NBFCs

Banks' outstanding credit to NBFCs improved on m-o-m basis and registered a y-o-y growth of 9.2% (as compared with 24.6% in February 2020). As per RBI (Bulletin March 2021), 26 stressed sectors identified by the Kamath Committee were brought within the ambit of TLTRO scheme in December which was further expanded to include bank lending to NBFCs (for further on-lending to these sectors) in February 2021. CPs, Bonds and Debentures raised by SCBs stood at Rs.6.5 lakh crore as on January 29, 2021 and at similar levels in December 18, 2020 and January 31, 2020. If we compare it with September 2018, banks outstanding to NBFC increased by 64.0% and in absolute terms, it increased from Rs.5.5 lakh crore to Rs.9.0 lakh crore in February 2021.

The MF debt exposure (CPs and CDs together) to NBFCs witnessed a decline from Rs.1.78 lakh crore in January 2021 to Rs.1.62 lakh crore in February 2021 (at same levels witnessed in February 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 witnessed an upward trend as can be seen in Figure 2, while the share of NBFCs in bank credit (non-food credit) stood at same levels witnessed in February 2020.

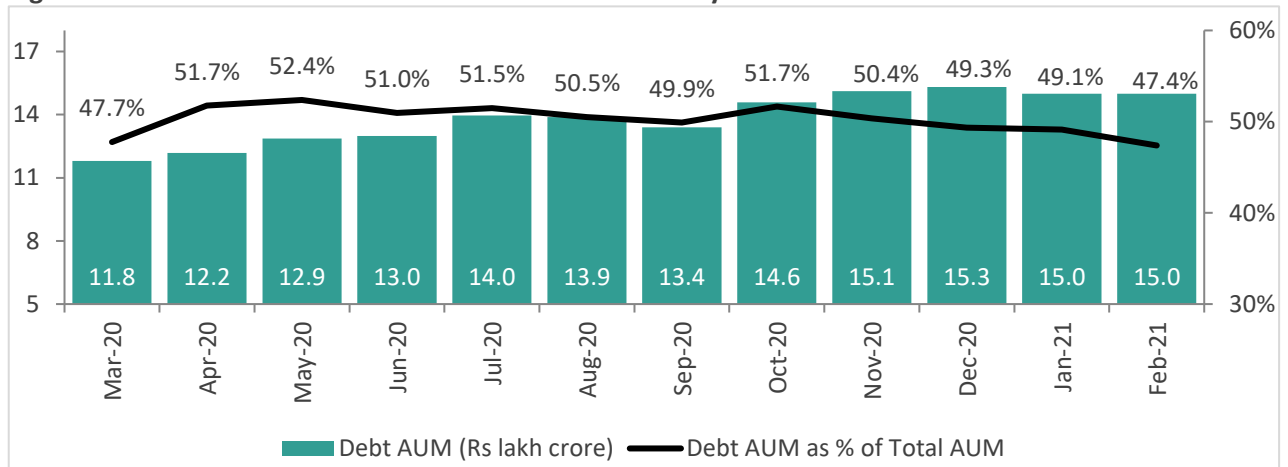
**Figure 2: Growth in bank credit to NBFCs vis-à-vis overall bank credit growth**



Source: RBI

As can be seen in figure 3, the proportionate share of debt AUM has declined (on m-o-m basis) to 47.4% of the total industry assets in February 2021 as compared with 49.1% in January 2021, this was inspite of inflow in debt mutual funds as compared with an outflow in January 2021. It was 47.7% in March 2020 and 48.5% in February 2020.

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

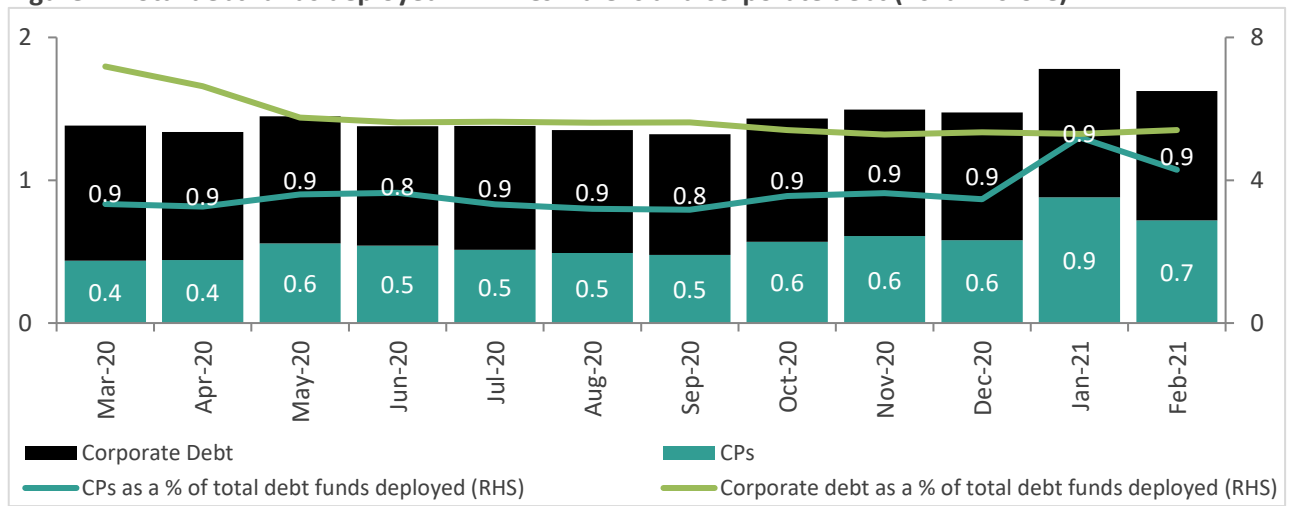


Source: AMFI

The outstanding investments in CPs of NBFCs witnessed a fall of Rs.0.2 lakh crore (on m-o-m basis) and stood at Rs.0.7 lakh crore in February 2021. It was Rs.0.9 lakh crore in January 2021 and Rs.0.6 lakh crore in February 2020. The percentage share of funds deployed by MFs in CPs of NBFCs in February 2021 stood at 4.3% of debt AUMs (compared with 9.5% in September 2018 and 4.0% in March 2020).

The investments in corporate debt of NBFCs remained relatively stable on m-o-m basis at Rs.0.90 lakh crore in February 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). The percentage share improved sequentially to 5.4% (at similar level witnessed in October 2020). It is still lower as compared with 7.2% in March 2020.

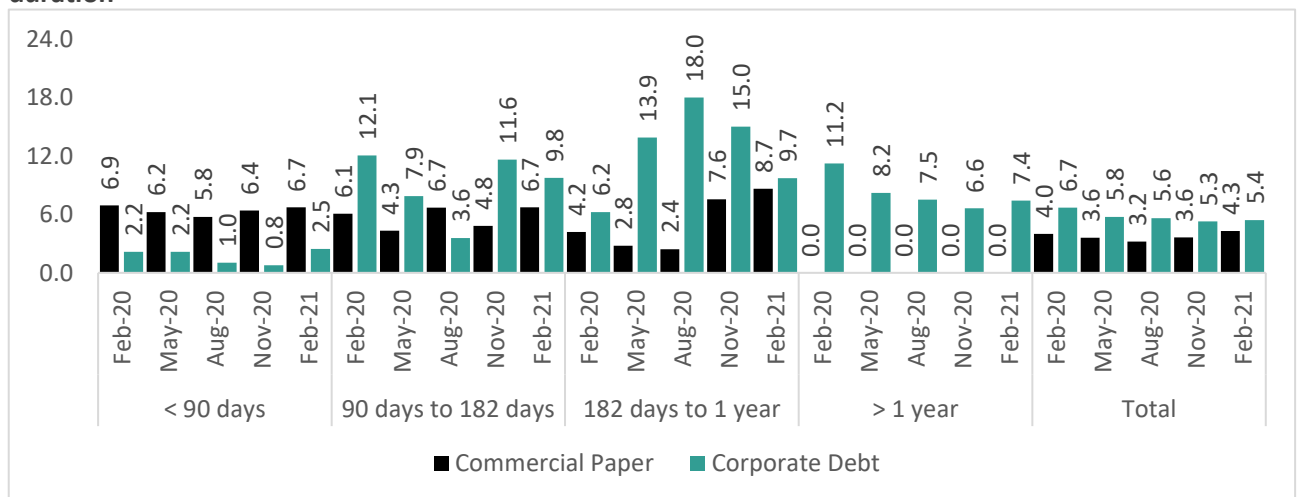
**Figure 4: Total debt funds deployed in NBFCs via CPs and corporate debt (Rs lakh crore)**



Source: SEBI

The proportion of CPs and CDs deployed in NBFCs for less than 90-day period increased in February 2021 as compared with February 2020 due to risk aversion. The proportion of CPs and corporate debt (by duration) deployed together in NBFCs as a percentage of total debt funds marginally declined in February 2021 (9.7%) as compared with 10.6% in January 2021 and 10.7% in February 2020.

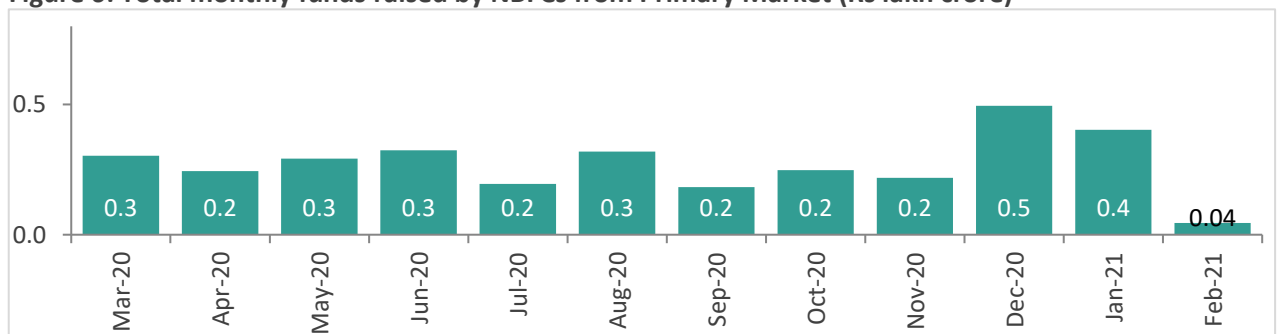
**Figure 5: Trend in proportion of CPs and corporate debt deployed in NBFCs as a % of debt funds by duration**



Source: SEBI

As can be seen in figure 6, total monthly funds raised by NBFCs from primary market declined to Rs.0.04 lakh crore in February 2021 as compared with Rs.0.40 lakh crore and Rs.0.30 lakh crore in January 2021 and March 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 February 2021, the weighted average yield of corporate bond issuances (primary market) declined by 13 basis points to 6.33% compared with the previous month (6.46% in January 2021) and was 123 bps lower than that in February 2020 (7.56%), while the cost of borrowing by AAA rated NBFCs and HFCs declined by 246 bps and 93 bps m-o-m. Furthermore, the external commercial borrowings (ECBs) registrations in financial services declined to USD 1.5 billion, (57.0% of total ECBs registrations) in February 2021 as compared with USD 3.2 billion (77.5% of total ECBs registration) in February 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 stood at similar levels witnessed in February 2020. The total monthly funds raised by NBFCs from primary market declined in February 2021 as compared with January 2021 and March 2020, as banks became the major source of financing needs for NBFCs.

## 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	7.17	7.77	6.97
May-20	7.26	8.09	7.30
Jun-20	7.55	8.35	7.13
Jul-20	7.12	8.29	7.35
Aug-20	6.87	7.99	6.30
Sep-20	6.97	8.20	6.61
Oct-20	6.45	6.93	6.93
Nov-20	6.80	7.63	5.92
Dec-20	6.55	7.04	4.96
Jan-21	6.46	9.58	6.68
Feb-21	6.33	7.12	5.75

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

### Contact:

Sanjay Agarwal	Senior Director	sanjay.agarwal@careratings.com	+91-22- 6754 3582	+91- 81080 07676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careratings.com	+91-22-6754 3573	+91- 90049 52514
Pravin Mule	Research Analyst – BFSI Research	pravin.mule@careratings.com	+91-22-6754 3553	+91- 98192 80043
Mradul Mishra	Media Contact	mradul.mishra@careratings.com	+91-22-6754 3631	

*Disclaimer: This report is prepared by CARE Ratings Limited. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report*

### CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel. : +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect:

