# 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

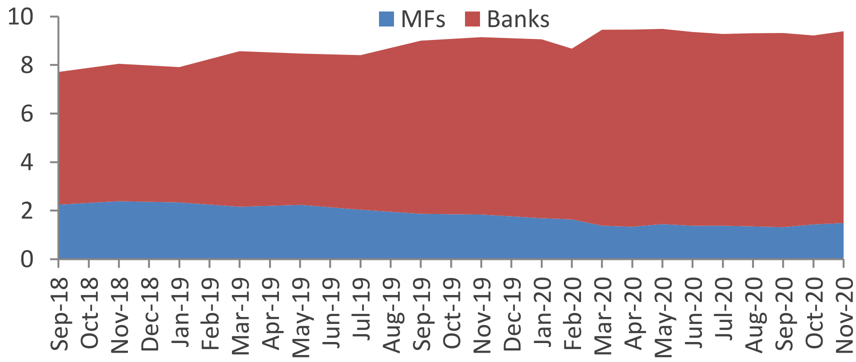
The challenges for the NBFCs have moved from the liability to the asset side in terms of liquidity and asset quality with the outbreak of Covid-19. The liquidity covers of NBFCs will be largely dependent on collections and the ability to raise resources. However, amidst this tough time banks have been lending more to them increasing their overall exposure to NBFCs. As per RBI's report on 'Trends and Progress of Banking in India 2019-20', Public Sector Banks remained the dominant lender amongst all SCBs accounting for 64% of total bank lending to NBFCs followed by Private Sector Banks (30%), Foreign Banks (5%) and Small Finance Banks (1%) in H1FY21.

The collections of NBFCs witnessed decline due to RBI's six month moratorium on the payment of instalments in respect of all term loans to their borrowers for the period from March 1, 2020 to August 31, 2020 as ~45% of total outstanding loans were under moratorium as on August 31, 2020 (RBI's report on 'Trends and Progress of Banking in India 2019-20'). However, anecdotally the collection percentage of the banking sector as well as NBFCs (especially those in retail lending) has largely been much better, even when compared with 'normalised demand (i.e. assuming that moratorium was not extended). With the economic activities picking up the collection efficiency has gradually improved further for NBFCs during September to December 2020.

## Banks' lending to NBFCs

Banks' outstanding to NBFCs registered a growth of 44.5% in November 2020 (vs. 42.5% in October 2020) compared to September 2018 and in absolute terms increased from Rs.5.5 lakh crore in September 2018 to Rs.7.9 lakh crore in November 2020. However, data in Figure 1 does not include liquidity made available to NBFCs by banks via the securitisation route (DA & PTC).

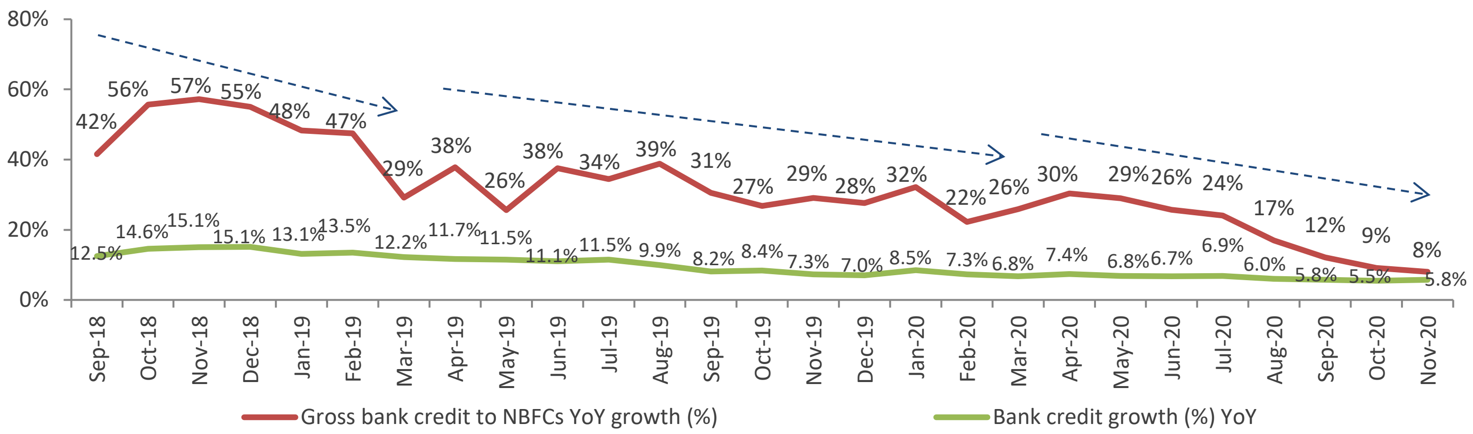
**Figure 1: Summary of Banks and MFs NBFC exposure (Rs Lakh Crore)**




*Source: RBI, SEBI*

The overall composition of NBFCs in bank credit increased from 6.9% in September 2018 to 8.5% in November 2020 and remained stable on m-o-m basis (8.5% in October 2020). However, growth in bank credit to NBFCs has registered a downward trend as seen in figure 2, due to the high 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.

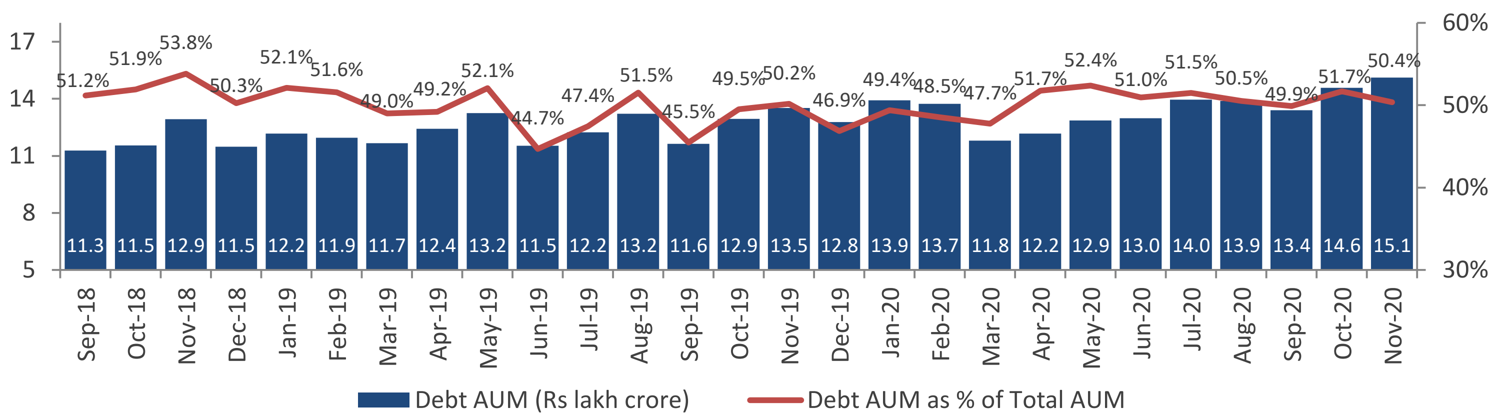
**Figure 2: Growth in bank credit to NBFCs vis-à-vis bank credit growth**




*Source: RBI*

As can be seen in figure 3, the proportionate share of debt AUM has improved to 50.4% of total industry assets in November 2020 as compared with 50.2% in November 2019. It was 47.7% in March 2020.

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

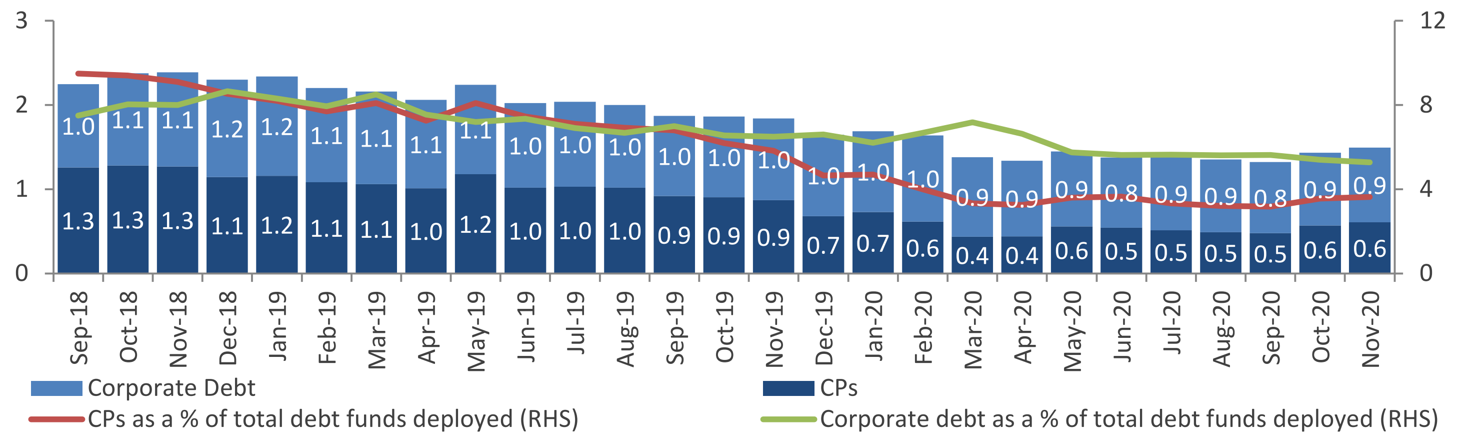



*Source: AMFI*

As can be seen in figure 4, outstanding investments in CPs of NBFCs have been flat in November 2020 on m-o-m basis and were Rs.0.9 lakh crore in the same period previous year compared with Rs.0.6 lakh crore in the period under review. The percentage share of funds deployed by MFs in CPs of NBFCs in November 2020 stood at 3.6% of debt AUMs (compared with 9.5% in September 2018) and the amount held stood at Rs.0.61 lakh crore 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 largely stable on m-o-m basis at Rs.0.88 lakh crore in November 2020, while it is lower compared with 0.94 lakh crore in March 2020 and lowest since September 2018 (Rs.0.99 lakh crore). The percentage share declined to 5.3% (lowest since September 2018) compared with 7.2% in March 2020.

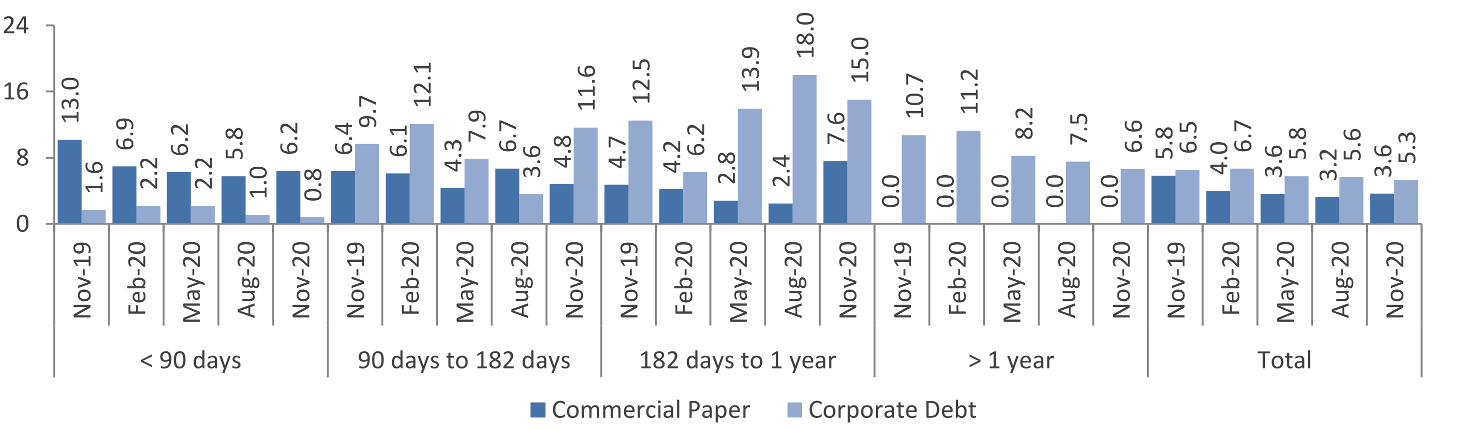
**Figure 4: Total debt funds deployed in NBFCs via CPs and corporate debt (Rs lakh crore)**




*Source: SEBI*

The proportion of CPs deployed in NBFCs for less than 90-day period has seen moderation since November 2019 to November 2020, whereas corporate debt declined further compared with the last few months. The proportion of CPs and corporate debt deployed together in NBFCs as a percent of total debt funds witnessed a declining trend from 12.3% in November 2019 to 8.9% in November 2020.

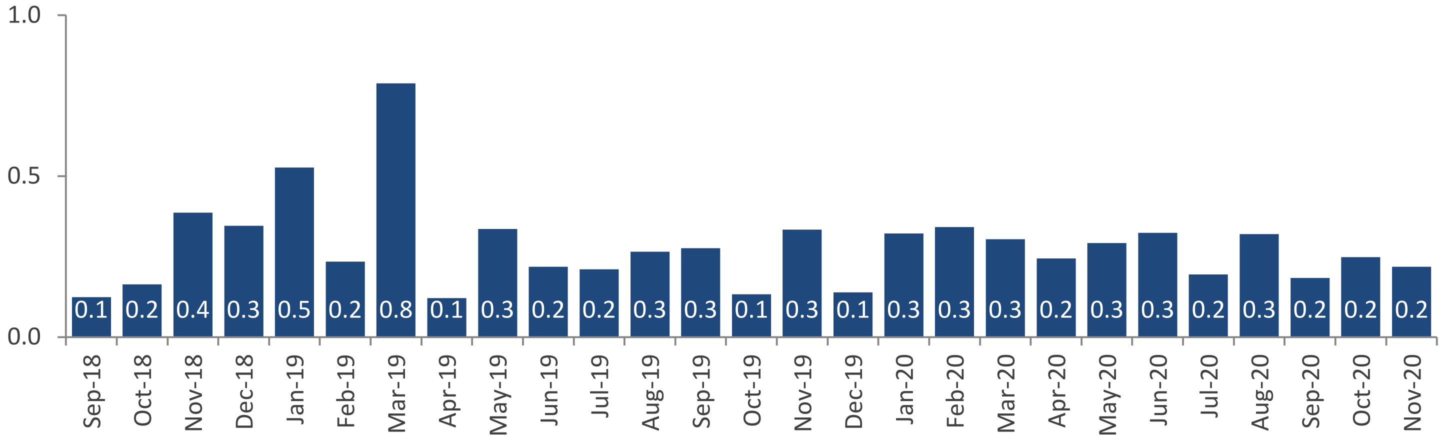
**Figure 5: Trend in proportion of CPs and corporate debt deployed in NBFCs as a % of debt funds by duration**




*Source: SEBI*

As can be seen in figure 6, total monthly funds raised by NBFCs from primary market stood at Rs 0.22 lakh crore in November 2020 as compared with Rs 0.79 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*

## Concluding Remarks

Amidst 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 during November 2019 to November 2020. Additionally, in November 2020 the weighted average yield of corporate bond issuances in primary market increased by 44 basis points to 6.88% compared with the previous month (6.44% in October 2020) and was 15 bps lower than that in April 2020 (7.03%). It was however, 147 bps lower than 8.35% in November 2019 (refer Annexure). On the other hand, the cost of borrowing by AAA rated NBFCs increased by 65 bps m-o-m and decreased by 116 bps y-o-y whereas that of HFCs decreased considerably by 1.22% m-o-m to 5.71% also it was 154 bps lower on y-o-y basis *(refer report 'Debt Market Review – November 2020'*). Furthermore, the external commercial borrowings (ECBs) registrations in financial services declined to USD 0.04 bn, (2.2% of total ECBs registrations) in November 2020 as compared to USD 0.13 bn (6.4% of total ECBs registration) in November 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 | 7.03 | 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 | 6.44 | 5.98 | 6.93 |
| Nov-20 | 6.88 | 6.63 | 5.71 |

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