Banks' Lending to NBFCs Rises Nearly 1.5x Compared to Pre-Covid Levels

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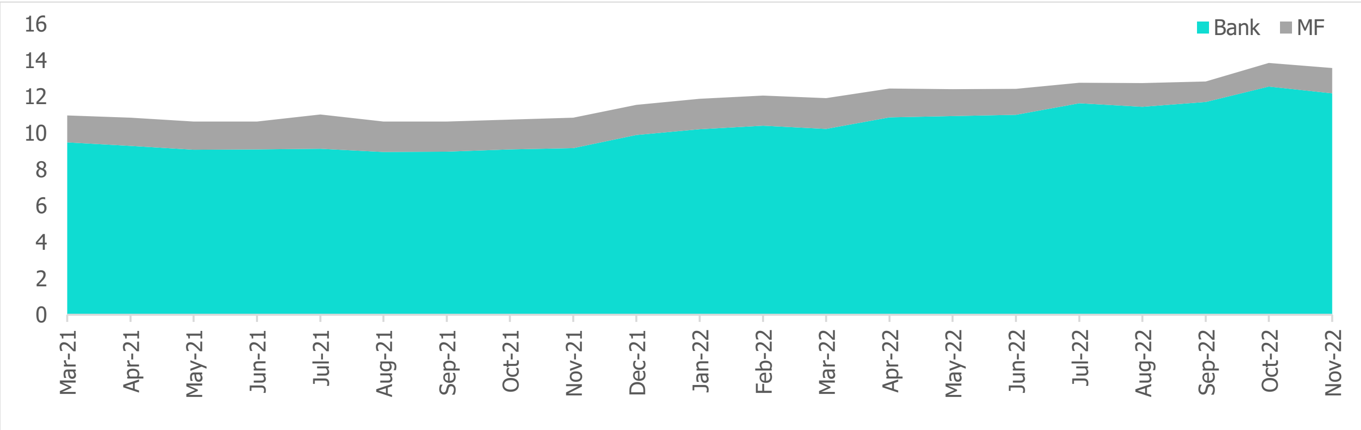
Synopsis

- In November 2022, banks' outstanding credit to NBFCs rose by 33% (y-o-y) to Rs.12.2 lakh crore. The growth remained high due to high growth in the NBFC asset book and additional borrowings moved to banks due to differentials between market yields and interest rates offered by banks and lower borrowings in the overseas market.
  - The banks' outstanding credit to NBFCs has risen nearly 1.5x since February 2020. The credit exposure of the banks to non-banking financial companies (NBFCs) had crossed the threshold of Rs 10 lakh in January 2022 and Rs. 11 lakh crore in June 2022 and Rs 12 lakh crore in October 2022.
- The MF debt exposure to NBFCs sank by 16.9% y-o-y to Rs.1.4 lakh crore as the interest rates in capital markets are not yet competitive with those offered by banks.
  - The share of MFs and Insurance companies have been on a consistent declining trend for the last several quarters. This is due to a mix of higher interest rates in the bonds markets led by higher long-term G-Sec rates and risk aversion in the debt capital markets restricting funding availability for NBFCs rated lower than the highest categories.

Banks O/s Credit to NBFCs Continues its Robust Growth, MFs Pare Exposure

Banks' outstanding credit to NBFCs rose by 33% on y-o-y basis to Rs.12.2 lakh crore in November 2022 due to shifting of borrowing to the banking system on account of cost optimisation (high yields in the capital market). In absolute terms, it expanded by Rs.3.02 lakh crore over the last 12 months and by Rs 1.96 lakh crore from March 2022 levels. On the other hand, MF debt exposure (CPs and Corporate Debt) to NBFCs dropped by 16.9% y-o-y to Rs.1.4 lakh crore in November 2022.

Figure 1: Summary of Banks Loans and MFs NBFC Debt Exposure (Rs. lakh crore)



Source: RBI, SEBI

The data in Figure 1 does not include liquidity made available to NBFCs by banks via the securitization route (direct assignment & pass-through certificates) and investments made by banks in the NBFCs' capital market issuances. Meanwhile, the liquidity availed by NBFCs through the securitisation route reached approximately Rs 0.7 lakh crore in H1FY23.

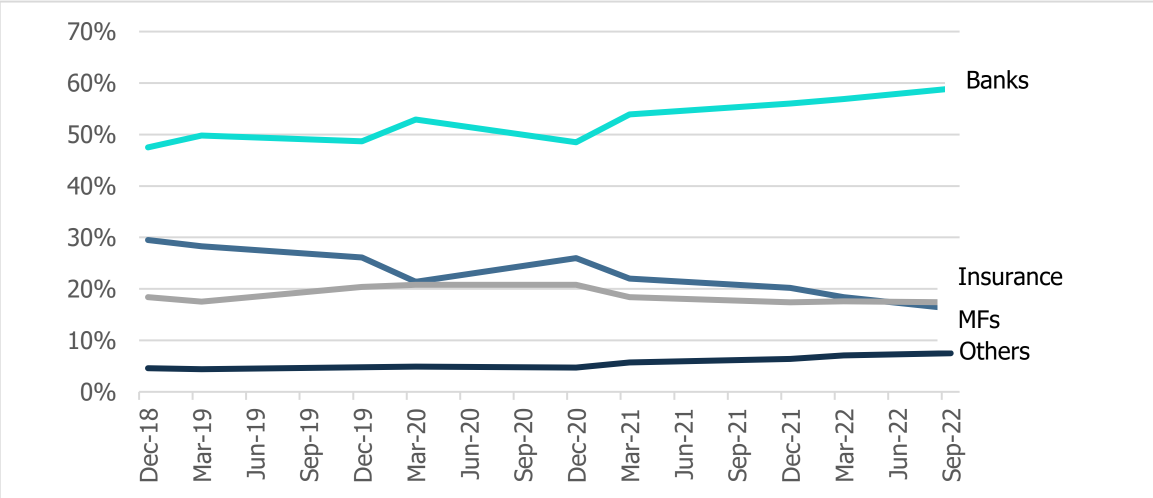
Figure 2: NBFC Debt Exposure (Rs lakh crore)

	Feb-2018	Feb-2020	Nov-2022	Ab. Change (%)	
				vs. Feb-2018	vs. Feb-2020
Bank	3.90	8.40	12.19	212.4%	45.1%
MFs	2.31	1.64	1.40	-39.5%	-14.8%
Corporate Debt	1.18	1.03	0.65	-44.7%	-36.5%
Commercial Paper	1.13	0.61	0.74	-33.9%	21.9%
Total (Bank +MF)	**6.21**	**10.04**	**13.59**	**118.8%**	**35.3%**

Source: RBI, SEBI

Compared to February 2018 numbers, bank lending to NBFCs has tripled, while MF exposure has reduced over the last four years. If November 2022 data is compared with February 2020 numbers, bank borrowings have increased by over 45%, while MF Corporate Debt exposure has reduced by over 36% and MF CP exposure has increased by nearly 22%. Another key provider of funds to the NBFCs has been the Insurance sector.

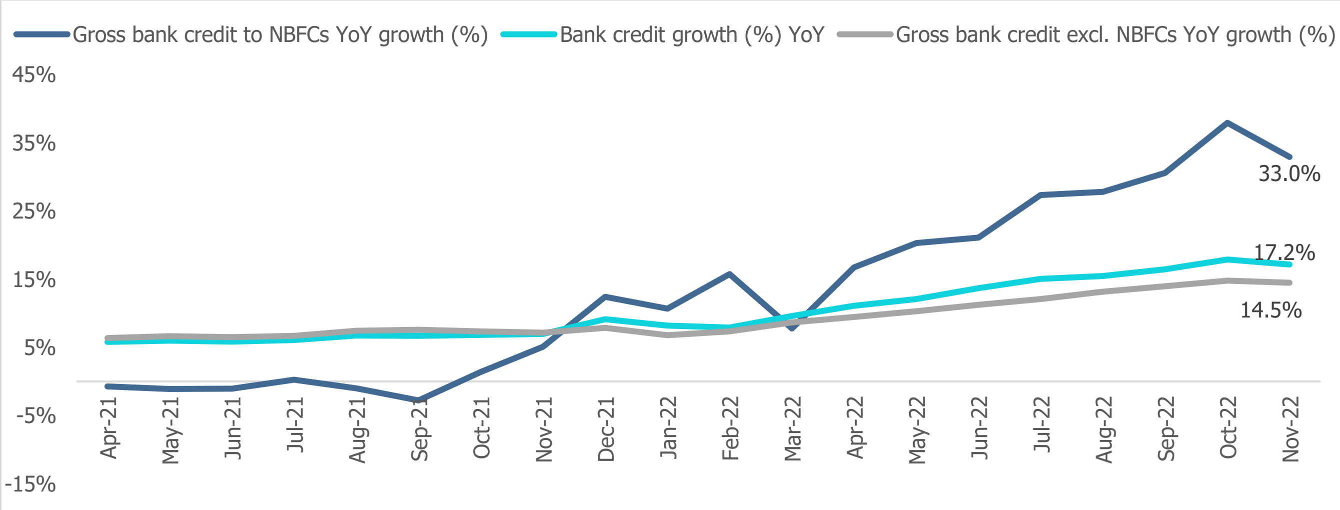
Figure 3: NBFCs – Share of Banks on a Rise



Source: RBI Financial Stability Report December 2022

As at the end of September 2022, NBFCs are the largest net borrowers of funds from the financial system. NBFCs owed close to 59% (57% in FY22, i.e. 31.3.2022) to Banks followed by 16.2% (18.4% in FY22) to MFs and 17.4% (17.6% in FY22) to insurance companies. The share of Banks has continued to rise as yields hardened in the bond market. The share of MFs and Insurance companies have been on a consistent declining trend for the last several quarters. This is due to a mix of higher interest rates in the bonds markets led by higher long-term G-Sec rates and risk aversion in the debt capital markets restricting funding availability for NBFCs rated lower than the highest categories. If the funding mix is considered, the share of SCBs would be even higher due to the significant loan asset sell-down (direct assignment) as a funding source which is not included in the above computation (PSBs were significant acquirers of these assets).

Figure 4: Growth in Bank Credit to NBFCs vis-à-vis overall Bank Credit Growth

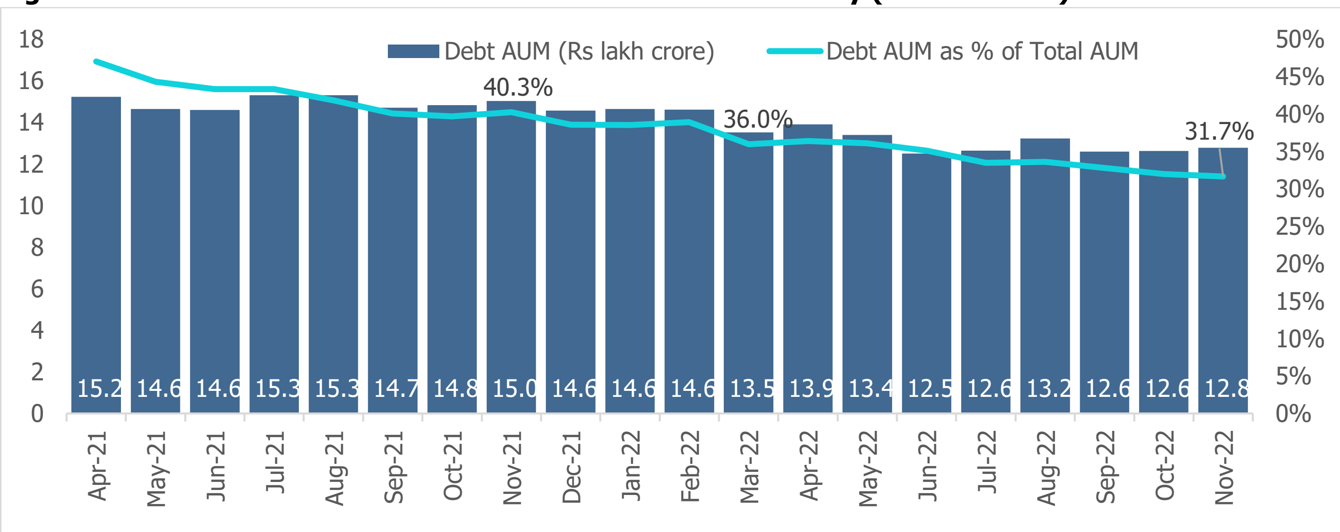


Source: RBI

Growth in bank credit to NBFCs witnessed healthy growth in the later part of FY22 which has continued its upward trajectory in FY23 reporting a growth of over 30% in the last three months. This growth can be attributed to the base effect, better financial position & growth visibility of NBFCs and the fact that rates offered by banks continue to be favourable compared to the capital market yields. Till November 2022, lending to NBFCs constituted 18.6% of incremental lending of aggregate credit.

The debt assets under management (AUM) of mutual funds decreased 15% y-o-y to Rs.12.8 lakh crore in November 2022. This decrease can be attributed to equity funds gaining popularity, fixed-term plans (FMP) losing popularity, and outflows from credit risk funds.

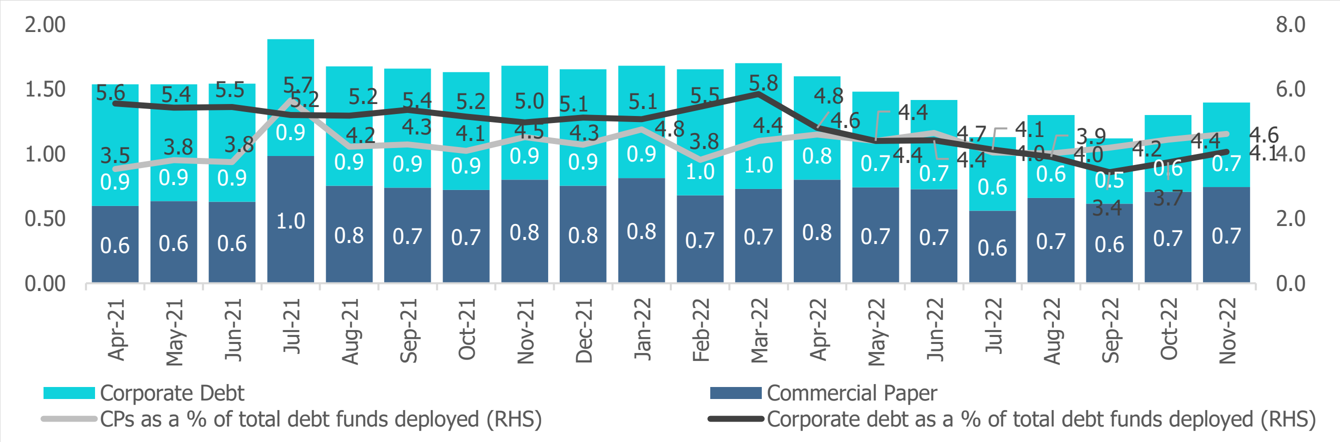
Figure 5: Movement in Debt Funds AUM of Mutual Fund Industry (Rs lakh crore)



Source: AMFI

The investments in corporate debt of NBFCs dropped by 25.8% y-o-y to Rs.0.65 lakh crore in November 2022. The percentage share of total corporate debt to NBFCs too declined to 4.1% in November 2022 from 5% in November 2021.

Figure 6: Total Debt Funds Deployed in NBFCs via CPs and Corporate Debt (Rs lakh crore)

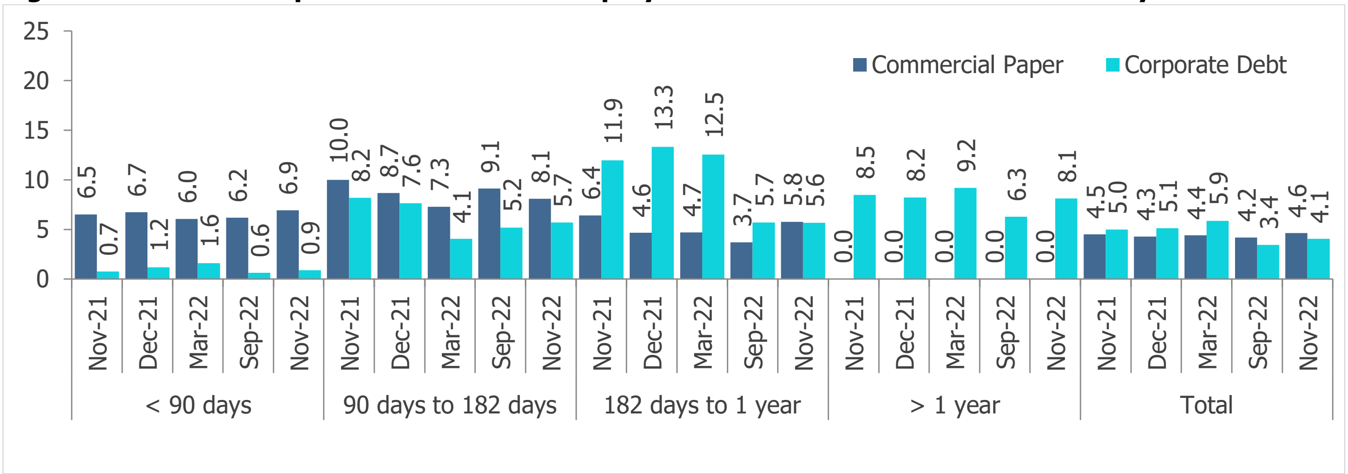


Source: SEBI

The outstanding investments in CPs of NBFCs witnessed a drop of 7% y-o-y to Rs.0.74 lakh crore in November 2022. In absolute terms, it reduced by Rs.0.06 lakh crore from November 2021. CPs (less than 90 days) rose by 2.4% y-o-y to Rs.0.56 lakh crore in November 2022, CPs (90 days to 182 days) reduced by a third and fell by 33% to Rs.0.131 lakh crore, and the more than 6 months (CPs) dropped by 17.6% to Rs.0.6 lakh crore in the reporting period. The percentage share of funds deployed by MFs in CPs of NBFCs in November 2022 stood at 4.6% (compared with 4.5% in November 2021).

The proportion of CPs (less than 90 days) deployed in NBFCs as a percentage of total debt funds increased to 6.9% in November 2022 as compared to 6.5% over a year ago period. Meanwhile, CPs (90 days to 182 days) percentage declined to 8.1% from 9.98% over a year ago, and CPs (greater than six months) percentage too reduced to 5.8% in November 2022 as compared to 6.4% over a year-ago period.

Figure 7: Trend in Proportion of CPs & CD Deployed in NBFCs as a % of Debt Funds by Duration



Source: SEBI

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