

Trend in Exposure of MFs and Banks to NBFCs

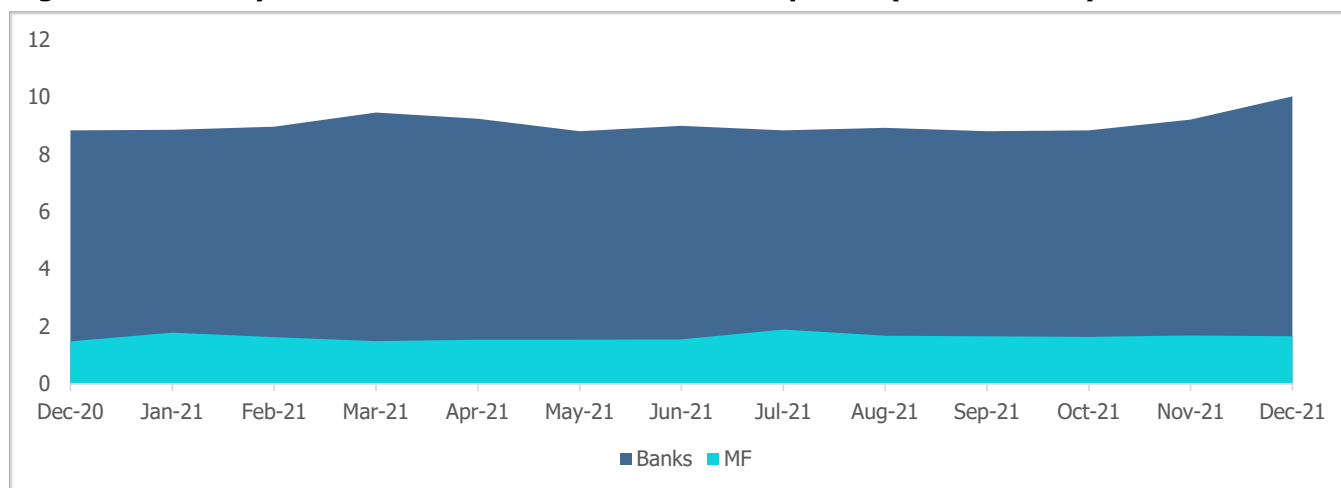
February 11, 2022 | BFSI Research

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, especially for small and mid-size NBFCs faced funding issues due to risk aversion of banks, while large NBFCs were able to access funds via multiple sources including targeted long-term repo rates (TLTROs) and private placements. 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 an elevated level compared to the level witnessed in December 2020.

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



Source: RBI, SEBI

Banks' lending to NBFCs

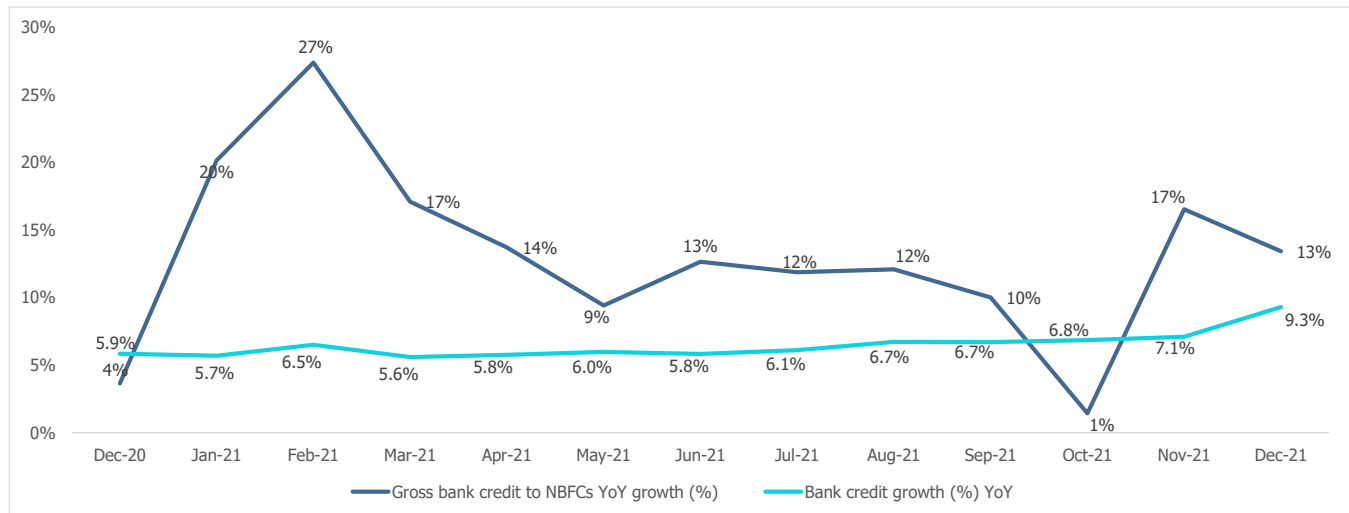
Banks' outstanding credit to NBFCs registered a y-o-y growth of 13% (as compared with 4% in December 2020). If we compare it with September 2018, banks outstanding to NBFC increased by 83.3% and in absolute terms, it increased from Rs.5.5 lakh crore to Rs.10 lakh crore in September 2021.

The MF debt exposure (CPs and CDs together) to NBFCs witnessed a marginal decline on m-o-m basis to Rs.1.65 lakh crore in December 2021 from Rs.1.68 lakh crore in November 2021 (but was higher than the Rs 1.47 lakh crore witnessed in December 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.

As can be seen in Figure 2, growth in bank credit to NBFCs has generally witnessed a downward trajectory before increasing in November 2021, but resumed at a lower growth rate in December 2021, while the share of NBFCs in bank credit (non-food credit) increase by around 30 bps from December 2020.

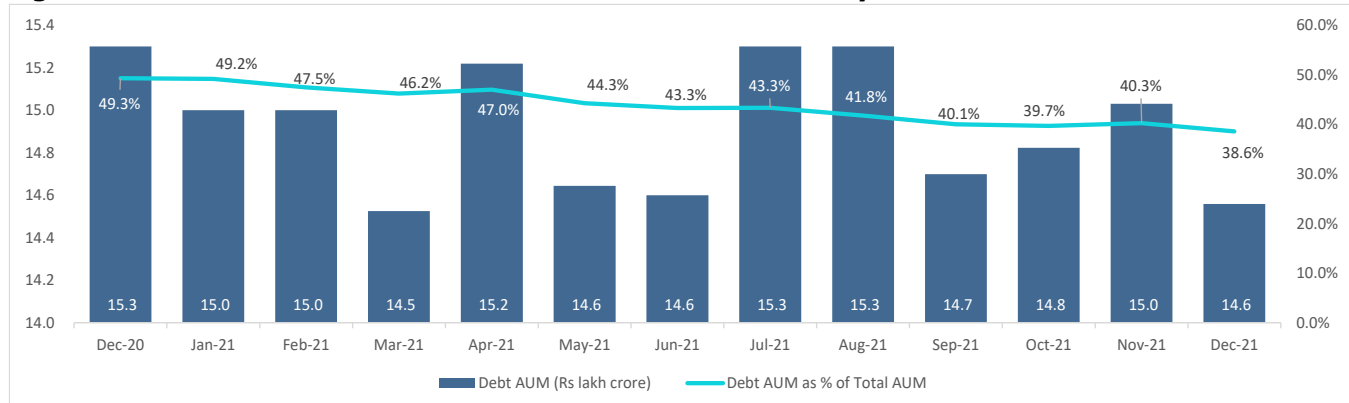
Figure 2: Growth in bank credit to NBFCs vis-à-vis overall bank credit growth



Source: RBI

As can be seen in figure 3, the proportionate share of debt funds AUM has declined (on m-o-m basis) to 38.6% of the total industry assets in December 2021 as compared with 40.3% in November 2021, while the absolute assets in Rs crores decreased marginally. The decrease can be attributed to continued inflows into equity.

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

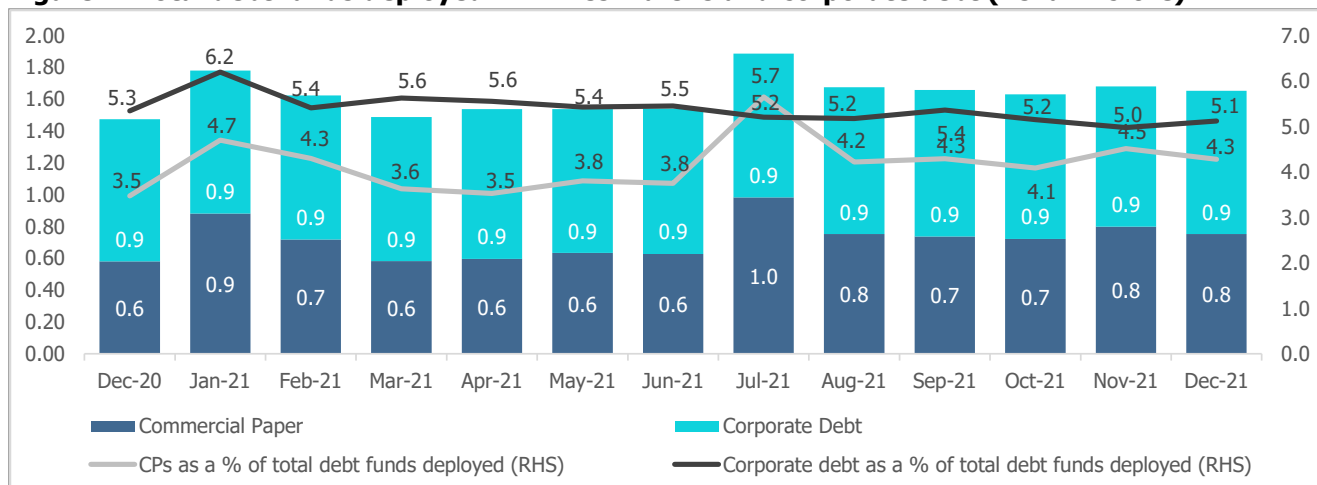


Source: AMFI

The outstanding investments in CPs of NBFCs witnessed a marginal fall of Rs.0.05 lakh crore (on m-o-m basis) and stood at Rs.0.75 lakh crore in December 2021. It was Rs.0.80 lakh crore in November 2021 and Rs.0.58 lakh crore in December 2020. The percentage share of funds deployed by MFs in CPs of NBFCs in October 2021 stood at 4.3% of debt AUMs (compared with 9.5% in September 2018 and 3.5% in December 2020).

On the other hand, the investments in corporate debt of NBFCs increased marginally by Rs 0.02 lakh crore on m-o-m basis at Rs.0.90 lakh crore in December 2021 and increased from Rs 0.89 lakh crore in December 2020. The percentage share too increased to 5.1% in December 2021 from 5.0% in November 2021 but reduced from the 5.3% in December 2020.

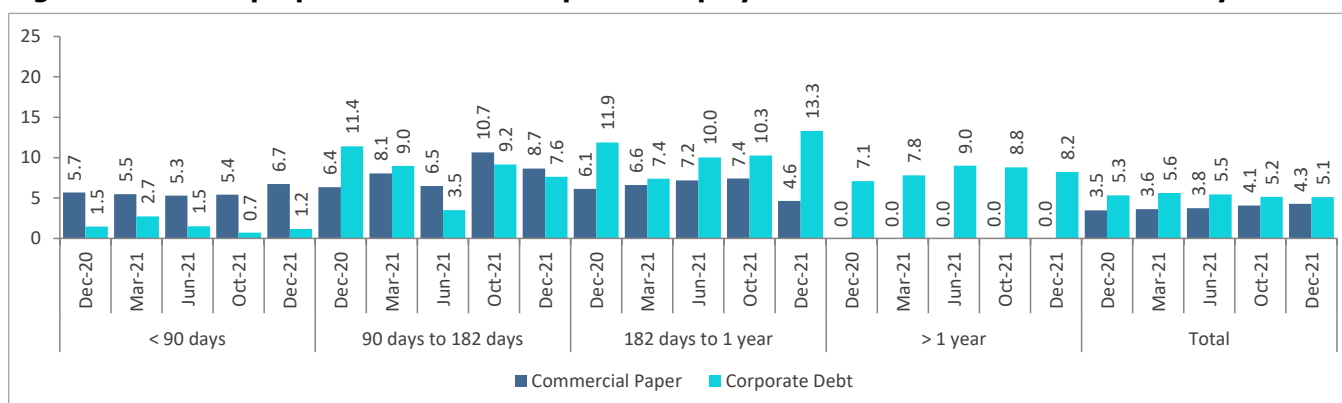
Figure 4: Total debt funds deployed in NBFCs via CPs and corporate debt (Rs lakh crore)



Source: SEBI

In December 2021, proportion of CPs deployed in NBFCs for less than 90-days increased as NBFCs issued higher quantum of CPs for funding IPOs, while CDs deployed in NBFCs for less than 90-day marginally decreased as compared with December 2020. The proportion of CPs and corporate debt (by duration) deployed together in NBFCs as a percentage of total debt funds increased in December 2021 (9.4%) compared 8.8% in December 2020.

Figure 5: Trend in proportion of CPs & Corp. Debt deployed in NBFCs as a % of debt funds by duration



Source: SEBI

Concluding Remarks

In December 2021, the weighted average yield of corporate bonds (across tenure and rating category) at 7.01% was 80 bps higher than November 2021. The cost of borrowing via CPs in December 2021 reached the highest levels since May 2020. The weighted average yield of CPs at 4.57% was 50 bps higher than that in November 2021 and 84 bps higher than April 2021. The CP issuances in December 2021 were concentrated in the ultra-short-term tenure i.e., 7 to 10 days and accounted for 53% of total issuances. These issuances were floated by NBFCs primarily towards IPO funding. NBFC's were the largest issuers of CPs during the month and accounted for 48% of the issuances. In the secondary markets, the spreads over GSecs across rating categories narrowed for NBFC bonds.

Amidst these challenging times, overall exposure of the banks to NBFCs has remained in the 8.8 -9.2 lakh crores for the last 9 months barring December 2021 when the same shot up to Rs 10 lakh crore. The CPs and CDs deployed together in NBFCs by MFs were higher by around 60 bps compared to December 2020. The bond issuances in December 2021 albeit lower compared to December 2020 continued to be dominated by the BFS sector (share of around 75%).

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91-22-6754 3582 / +91-81080 07676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careedge.in	+91-22-6754 3519 / +91-90049 52514
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91-22-6754 3596

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

Connect :



Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | New Delhi | Pune

About:

CareEdge (CARE Group) is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics capability and detailed research methods. CareEdge (CARE Ratings Limited) is one of the leading credit rating agencies in India. It has an impressive track record of rating companies for almost three decades and has played a pivotal role in developing the corporate debt market in India. CareEdge provides near real time research on all domestic and global economic developments. The wholly owned subsidiaries include CareEdge Advisory & Research arm focused on providing advisory and consultancy services and CareEdge Risk solutions a platform that provides risk management solutions

Disclaimer:

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