

# Trend in Exposure of MFs and Banks to NBFCs

July 11, 2022 | BFSI Research

This report tracks the trend in debt exposure of banks and mutual funds to NBFCs.

## Synopsis

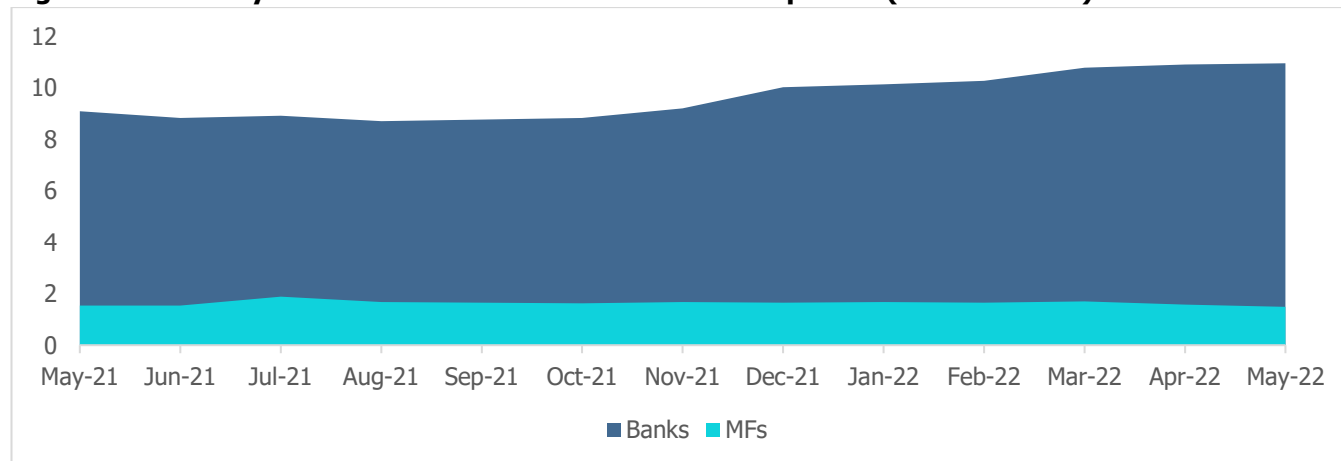
Banks' outstanding credit to Non-Banking Financial Companies (NBFCs) rose by 20.6% (y-o-y) to Rs.11.0 lakh crore in May 2022 due to a low-base effect, pickup in economic activities and shifting of borrowing by NBFCs to the banking system due to rising yields in the capital market. Meanwhile, the MF debt exposure to NBFCs dropped by 3.4% y-o-y to Rs.1.5 lakh crore. Commercial paper (CPs, less than six months) rose by 38.7% in May 2022 whereas other CPs and corporate debt dropped in the same period.

## Banks O/s Credit to NBFCs Begins on Strong Footing in FY23, Short-Term CPs in Focus for MFs

Banks' outstanding credit to NBFCs rose by 20.6% y-o-y to Rs.11.0 lakh crore in May 2022 due to a low-base effect, pickup in economic activities and shifting of borrowing by NBFCs to the banking system from capital markets due to relatively lower borrowing costs. In absolute terms, it expanded by Rs.1.87 lakh crore over the last 12 months.

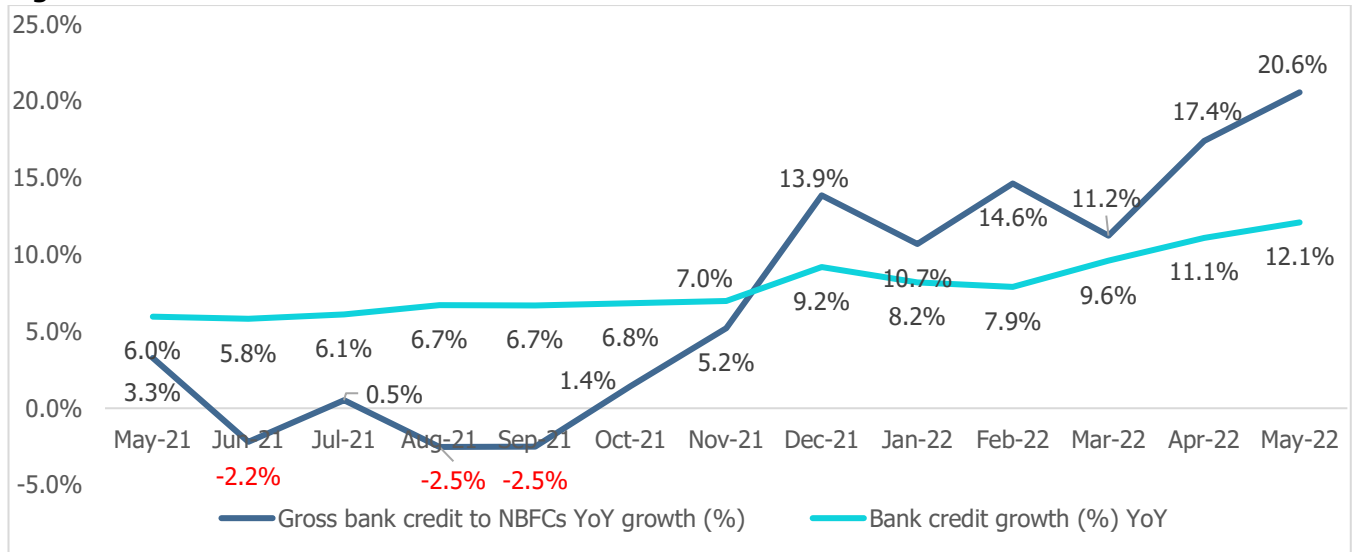
The MF debt exposure (CPs and Corporate Debt) to NBFCs dropped by 3.4% y-o-y to Rs.1.5 lakh crore in May 2022. CPs (less than six months) witnessed a rise of 38.7% y-o-y in May 2022 while CPs (greater than six months), and corporate debt witnessed a drop in May 2022.

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



Source: RBI, SEBI

However, 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.

**Figure 2: Growth in Bank Credit to NBFCs vis-à-vis overall Bank Credit Growth**

Source: RBI

As can be seen in Figure 2, growth in bank credit to NBFCs witnessed a healthy growth of 11.2% at the FY22 end and has continued its upward trajectory reporting a growth of 17.4% in April 2022 and 20.6% in May 2022.

**Figure 3: Debt Schemes' (Asset Under Management) AUM Comparison – Rs. lakh crore**

Sr. No	Debt Schemes	May-21	April-22	May-22	Growth M-o-M	Growth Y-o-Y
<b>Open-Ended Schemes</b>						
1	Short Duration Fund	1.4	1.1	1.0	-8.0%	-27.9%
2	Banking and PSU Fund	1.2	0.9	0.9	-1.7%	-25.7%
3	Low Duration Fund	1.5	1.1	1.1	-5.9%	-26.7%
4	Corporate Bond Fund	1.6	1.3	1.2	-2.2%	-21.6%
5	Others	1.1	1.1	1.1	-4.3%	-6.2%
6	Ultra-Short Duration Fund	1.0	1.0	1.0	-6.8%	-2.9%
7	Money Market Fund	1.2	1.3	1.2	-11.1%	1.0%
8	Liquid Fund	3.3	3.8	3.8	0.8%	13.1%
9	Floater Fund	0.7	0.8	0.8	-6.6%	10.2%
10	Overnight Fund	0.8	1.1	1.2	14.4%	56.9%
		<b>13.8</b>	<b>13.6</b>	<b>13.2</b>	<b>-2.5%</b>	<b>-4.2%</b>
<b>Close Ended Schemes</b>						
1	Fixed Term Plan	0.8	0.3	0.2	-37.1%	-78.2%
2	Others	0.0	0.0	0.0	-15.8%	-34.9%
		<b>0.8</b>	<b>0.3</b>	<b>0.2</b>	<b>-34.8%</b>	<b>-76.0%</b>
	<b>Total Debt AUM</b>	<b>14.6</b>	<b>13.9</b>	<b>13.4</b>	<b>-3.2%</b>	<b>-8.3%</b>

Source: AMFI

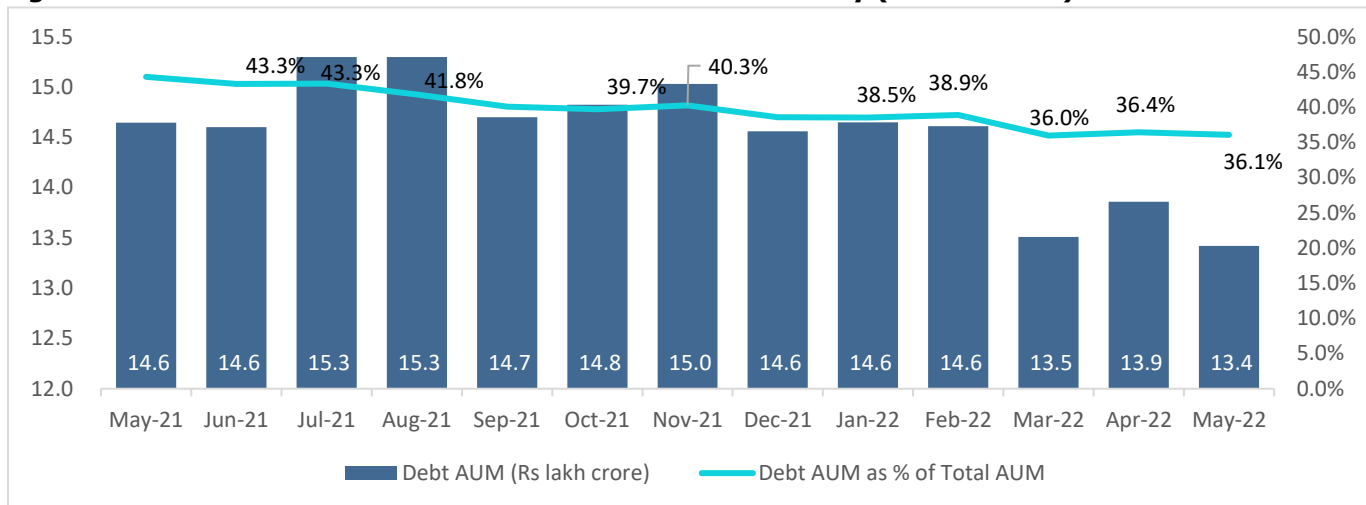
**Figure 4: Debt Schemes Percentage with Debt AUM and Total AUM**

Sr. No	Open-Ended Schemes	May-21	April-22	May-22	May-21	Apr-22	May-22
		<b>Percentage as of Debt AUM</b>			<b>Percentage as of Total AUM</b>		
1	Floater Fund	4.8%	5.9%	5.7%	2.1%	2.2%	2.1%
2	Banking and PSU Fund	8.2%	6.5%	6.6%	3.6%	2.4%	2.4%
3	Ultra-Short Duration Fund	6.8%	7.4%	7.2%	3.0%	2.7%	2.6%
4	Short Duration Fund	9.7%	8.0%	7.6%	4.3%	2.9%	2.8%
5	Others	7.8%	8.1%	8.0%	3.5%	3.0%	2.9%
6	Low Duration Fund	10.0%	8.3%	8.0%	4.4%	3.0%	2.9%
7	Money Market Fund	7.9%	9.4%	8.7%	3.5%	3.4%	3.1%
8	Overnight Fund	5.4%	7.8%	9.2%	2.4%	2.8%	3.3%
9	Corporate Bond Fund	10.8%	9.2%	9.3%	4.8%	3.3%	3.3%
10	Liquid Fund	22.9%	27.1%	28.2%	10.1%	9.9%	10.2%
	<b>Close-Ended Schemes</b>						
1	Fixed Term Plan	5.5%	2.0%	1.3%	2.4%	0.7%	0.5%
2	Others	0.3%	0.2%	0.2%	0.1%	0.1%	0.1%
	<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>44.4%</b>	<b>36.6%</b>	<b>36.2%</b>

Source: AMFI

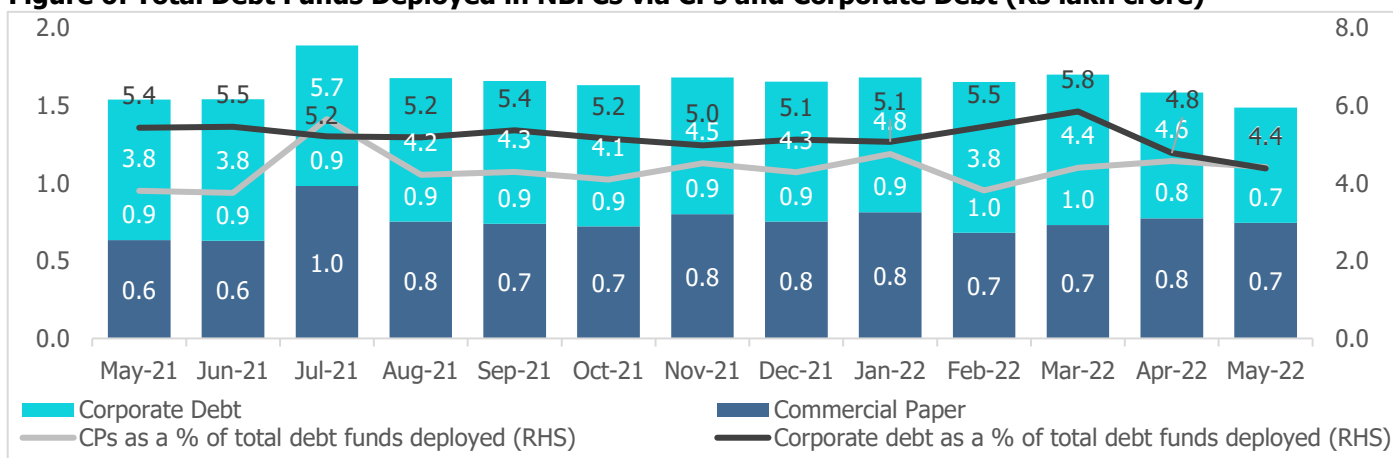
As can be seen in Figure 3, debt assets under management (AUM) of mutual funds witnessed a drop of 8.3% y-o-y to Rs.13.4 lakh crore in May 2022. This drop was due to the shifting of investors to equity schemes for better returns on account of uncertainties related to interest rates in the debt market and fixed-term plans (FMP) losing popularity. This drop was muted to some extent by the rise in AUM of the overnight, liquid and floater funds. The overnight fund AUM rose by 56.9% to Rs.1.2 lakh crore. The FMPs, part of closed-ended schemes, witnessed a major redemption of 78.2% to Rs.0.2 lakh crore in May 2022 as these plans faced liquidity issues, thus no major issuances occurred in FMPs.

In terms of AUM percentage, the debt schemes' percentage to total AUM dropped to 36.2% in May 2022 from 44.4% over a year-ago period. The FMP's AUM percentage to the debt AUM dropped to 1.3% in May 2022 from 5.5% over a year-ago period. Whereas liquid fund's percentage to debt AUM increased to 28.2% from 22.9% over a year ago period as the investor shifted to short-term investments from long-term investments.

**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 18.1% y-o-y to Rs.0.74 lakh crore in May 2022. The percentage share of total corporate debt to NBFCs too declined to 4.4% in May 2022 from 5.4% in May 2021. 1 year and above debt investment dropped by 26.1% y-o-y to Rs.0.38 lakh core in May 2022 whereas short-term debt (less than 90 days) dropped by 28% to Rs.0.085 lakh crore in the same period.

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

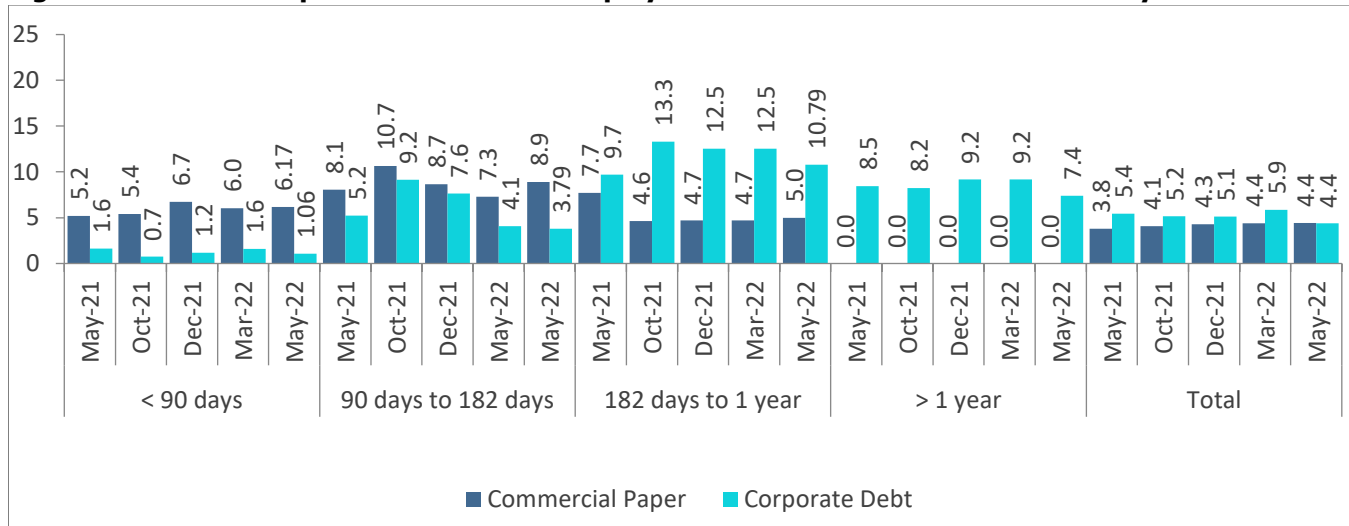
Source: SEBI

The outstanding investments in CPs of NBFCs witnessed a growth of 17.5% y-o-y to Rs.0.74 lakh crore in May 2022. In absolute terms, it expanded by Rs.0.11 lakh crore from May 2021.

CPs (less than 90 days) grew by 32.9% y-o-y to Rs.0.5 lakh crore in May 2022 and CPs (90 days to 182 days) also grew by 63% to Rs.0.15 lakh crore, while the balance of more than 6 months (CPs) dropped by 41.1% to Rs.0.10 lakh crore in the reporting period. The percentage share of funds deployed by MFs in CPs of NBFCs in May 2022 stood at 4.4% of debt AUMs (compared with 3.8% in May 2021).

The proportion of CPs (less than 90 days) deployed in NBFCs as a percentage of total debt funds increased to 6.2% in May 2022 as compared to 5.2% over a year ago period, CPs (90 days to 182 days) percentage also increased to 8.9% from 8.1% over a year ago. However, CPs (greater than six months) percentage declined to 5.5% in May 2022 as compared to 7.7% over a year-ago period. The proportion of CPs and corporate debt (182 days to 1 year) deployed together in NBFCs as a percentage of total debt funds also declined to 15.8% in May 2022 as compared to 17.4% in May 2021.

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



Source: SEBI

### Conclusion

The credit exposure of the banks to the NBFCs crossed the threshold of 10.0 lakh crore in December 2021 and it continued its upward trajectory in May 2022 reaching Rs.11.0 lakh crore as the NBFCs additional borrowings moved to comparatively cheaper bank loans due to rising yield.

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