

# Banks' Lending to NBFC Continues to Rise while MFs Trim Exposure



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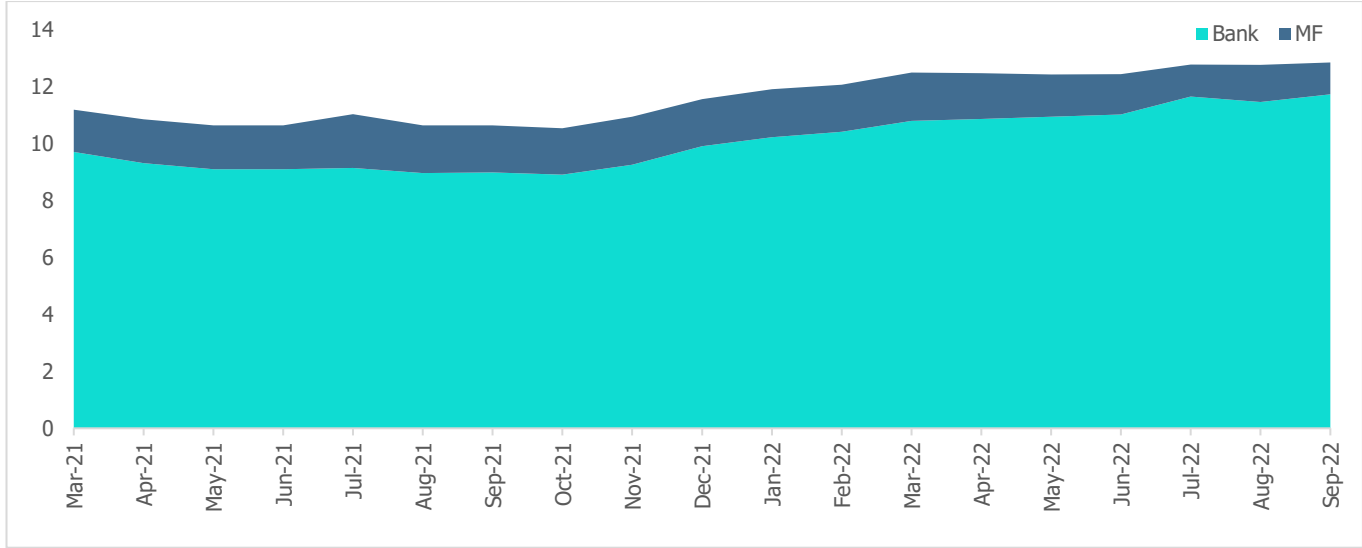
### Synopsis

- Banks' outstanding credit to non-banking financial companies (NBFCs) rose by 30.6% (y-o-y) to Rs.11.7 lakh crore in September 2022 due to a low-base effect (September 2021 data had reduced due to repayments) and shifting of borrowing to the banking system due to elevated yields in the capital market.
- The MF debt exposure to NBFCs sank by 32.6% y-o-y to Rs.1.13 lakh crore as the prevailing rising rate scenario made investors shy away from locking funds for longer.

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

Banks' outstanding credit to NBFCs rose by 30.6% y-o-y to Rs.11.7 lakh crore in September 2022 due to a low-base effect (NBFC exposure had reduced in the same period last year) and shifting of borrowing by NBFCs to the banking system from capital markets due to attractive borrowing costs. In absolute terms, it expanded by Rs.2.74 lakh crore over the last 12 months and by Rs 0.93 lakh crore from March 2022 levels. On the other hand, MF debt exposure (CPs and Corporate Debt) to NBFCs dropped by 32.6% y-o-y to Rs.1.12 lakh crore in September 2022.

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



Source: RBI, SEBI

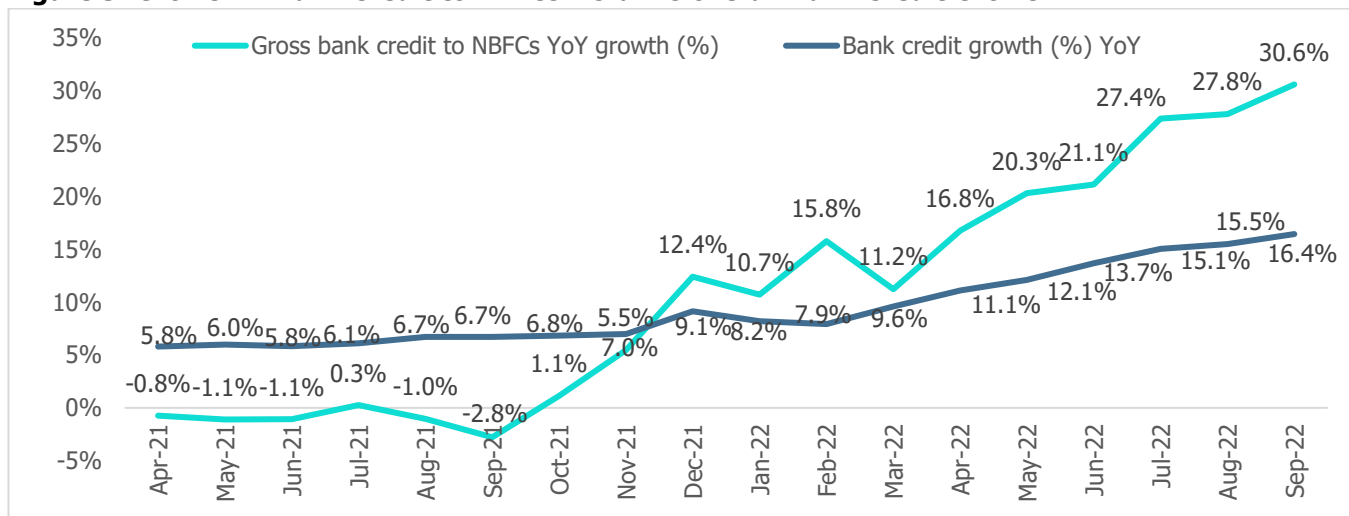
The data in Figure 1 does not include liquidity made available to NBFCs by banks via the securitization route (direct assignment & pass-through certificates) and investments made by banks in the NBFCs' capital market issuances. Meanwhile, the liquidity availed by NBFCs through the securitisation route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

**Figure 2: NBFC Debt Exposure (Rs lakh crore)**

	February 2020	September 2022	Ab. Change (%)
Bank	8.4	11.7	39.3%
MFs	1.64	1.12	-31.7%
Corporate debt	1.03	0.50	-51.5%
Commercial Paper	0.61	0.61	0.0%
<b>Total (Bank +MF)</b>	<b>10.04</b>	<b>12.82</b>	<b>27.7%</b>

Source: RBI, SEBI

On the other hand, if we compare September 2022 data with February 2020 numbers, we can observe that in Figure 2, bank borrowings have increased by close to 40%, while MF Corporate Debt exposure has reduced by over 50% and MF CP exposure has remained constant.

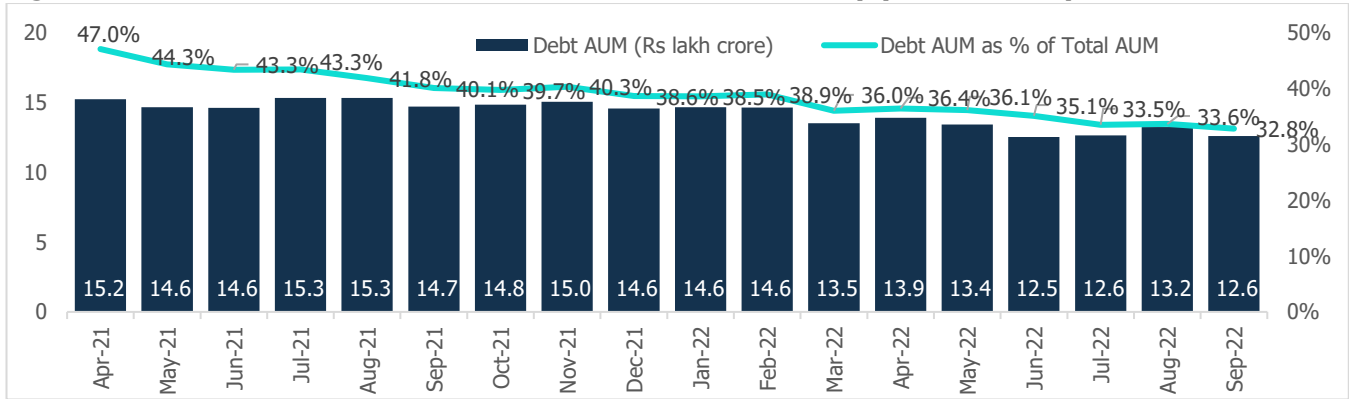
**Figure 3: Growth in Bank Credit to NBFCs vis-à-vis overall Bank Credit Growth**

Source: RBI

As can be seen in Figure 3, growth in bank credit to NBFCs witnessed healthy growth in the later part of FY22 end which has continued its upward trajectory in FY23 reporting a growth of over 20% in the last four months and has breached the 30% mark in September 2022. This growth can be attributed to the base effect (businesses were impacted due to the delta variant, and NBFCs had reduced their borrowings) and the fact that bank rates continue to be favourable compared to the capital market yields, especially for better-rated players.

The debt assets under management (AUM) of mutual funds decreased 17.4% y-o-y to Rs.12.6 lakh crore in September 2022. This decrease can be attributed to fixed-term plans (FMP) losing popularity, and regular quarter-end outflows from liquid funds.

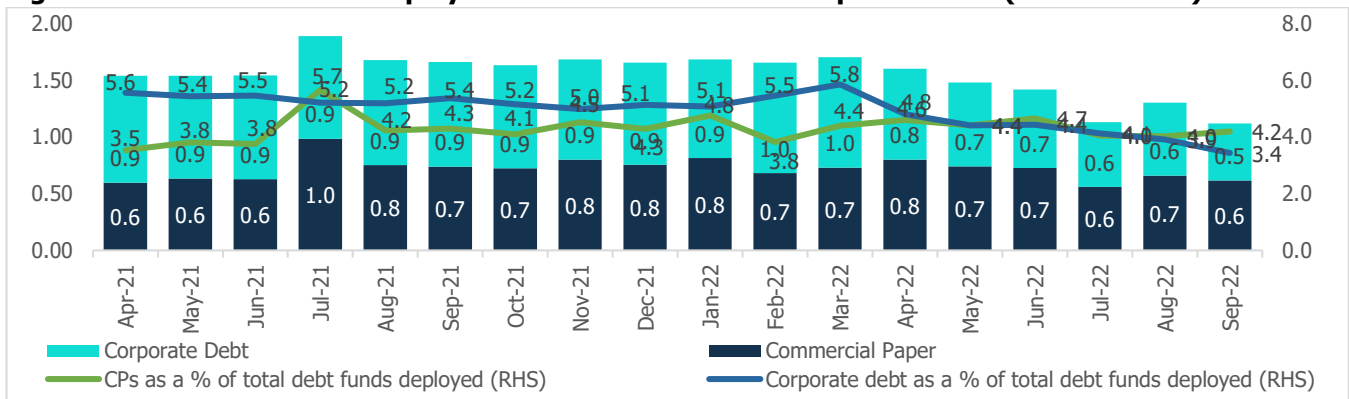
**Figure 4: Movement in Debt Funds AUM of Mutual Fund Industry (Rs lakh crore)**



Source: AMFI

The investments in corporate debt of NBFCs dropped by 45.3% y-o-y to Rs.0.50 lakh crore in September 2022. The percentage share of total corporate debt to NBFCs too declined to 3.4% in September 2022 from 5.4% in September 2021. The fall has been steeper in the one year and above corporate debt compared to the fall in short-term debt (less than 90 days) in the same period.

**Figure 5: Total Debt Funds Deployed in NBFCs via CPs and Corporate Debt (Rs lakh crore)**

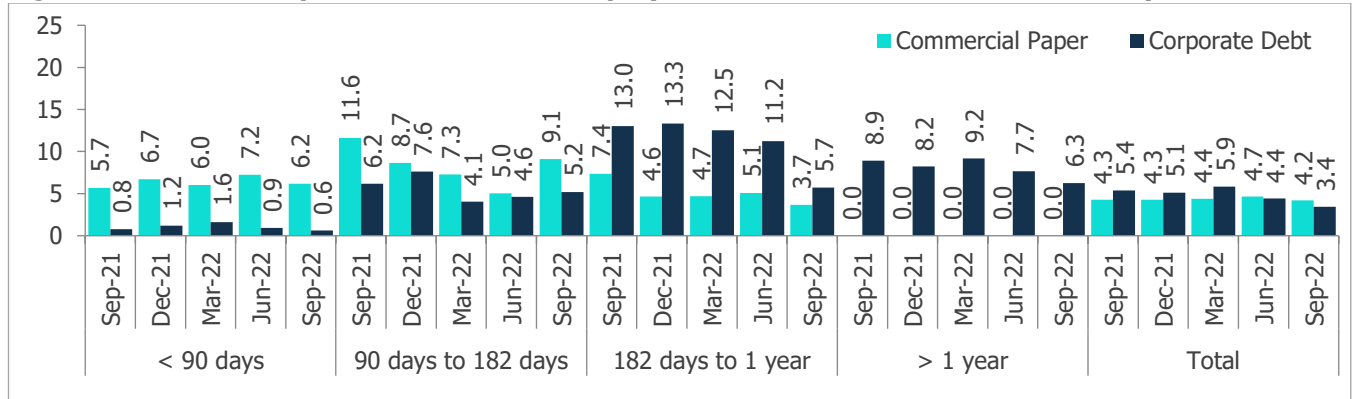


Source: SEBI

The outstanding investments in CPs of NBFCs witnessed a drop of 16.6% y-o-y to Rs.0.61 lakh crore in September 2022. In absolute terms, it reduced by Rs.0.12 lakh crore from September 2021. CPs (less than 90 days) reduced marginally by 0.4% y-o-y to Rs.0.43 lakh crore in September 2022, CPs (90 days to 182 days) reduced by a third and fell by 33% to Rs.0.13 lakh crore, and the more than 6 months (CPs) dropped by 54.5% to Rs.0.05 lakh crore in the reporting period. The percentage share of funds deployed by MFs in CPs of NBFCs in September 2022 stood at 4.19% (compared with 4.29% in September 2021).

The proportion of CPs (less than 90 days) deployed in NBFCs as a percentage of total debt funds increased to 6.19% in September 2022 as compared to 5.7% over a year ago period. Meanwhile, CPs (90 days to 182 days) percentage declined to 9.11% from 11.6% over a year ago, while CPs (greater than six months) percentage too reduced to 3.68% in September 2022 as compared to 7.37% over a year-ago period.

**Figure 6: 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 had crossed the threshold of 11.0 lakh crore in June 2022 and it has continued its upward trajectory in September 2022 reaching Rs.11.7 lakh crore as NBFCs have witnessed growth in the post-pandemic period and as additional borrowings moved to banks due to differentials between market yields and interest rates offered by banks.

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