

# Trend in Exposure of MFs and Banks to NBFCs

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

## Synopsis

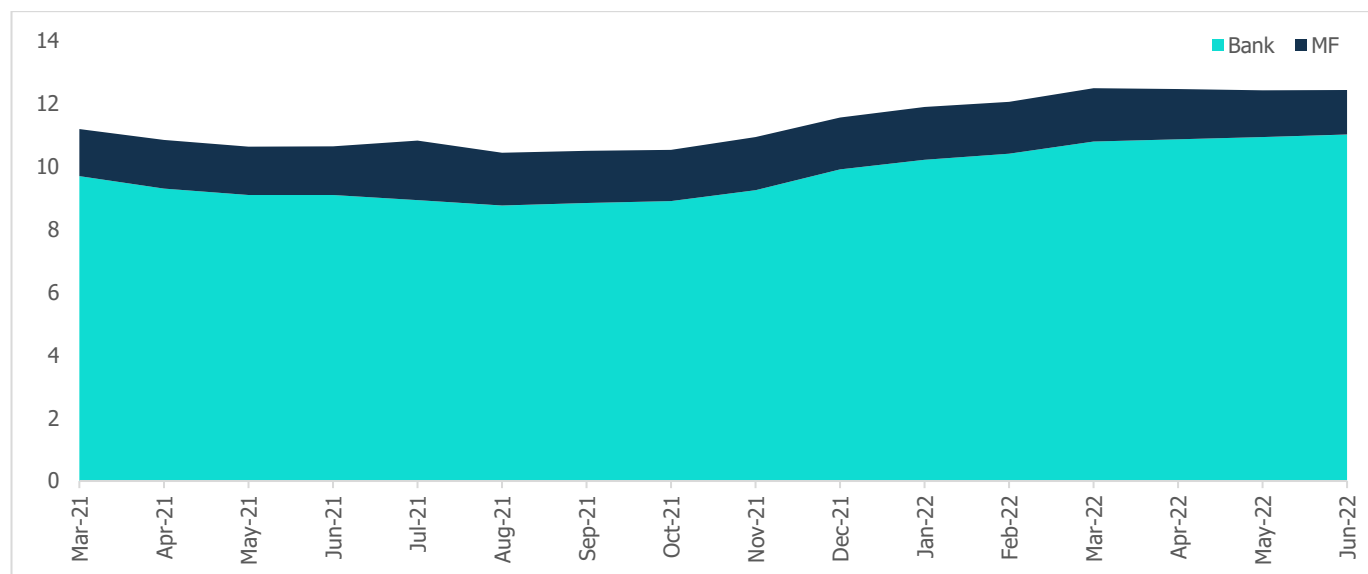
Banks' outstanding credit to Non-Banking Financial Companies (NBFCs) rose by 21.1% (y-o-y) to Rs.11.01 lakh crore in June 2022 due to a low-base effect, pickup in economic activities and shifting of borrowing by NBFCs to the banking system due to rising yields in the capital market. Meanwhile, the MF debt exposure to NBFCs dropped by 8.2% y-o-y to Rs.1.42 lakh crore as the prevailing rising rate scenario made investors shy away from locking funds for a longer duration. Shorter end of the Commercial paper (CPs, less than three months) rose in June 2022 whereas other CPs and corporate debt reduced in the same period.

## Banks O/s Credit to NBFCs Continues its Strong Growth, MFs Focus on Short-Term CPs

Banks' outstanding credit to NBFCs rose by 21.1% y-o-y to Rs.11.01 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.1.92 lakh crore over the last 12 months and by Rs 0.23 lakh crore from March 2022 levels.

The MF debt exposure (CPs and Corporate Debt) to NBFCs dropped by 8.2% y-o-y to Rs.1.42 lakh crore in June 2022.

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

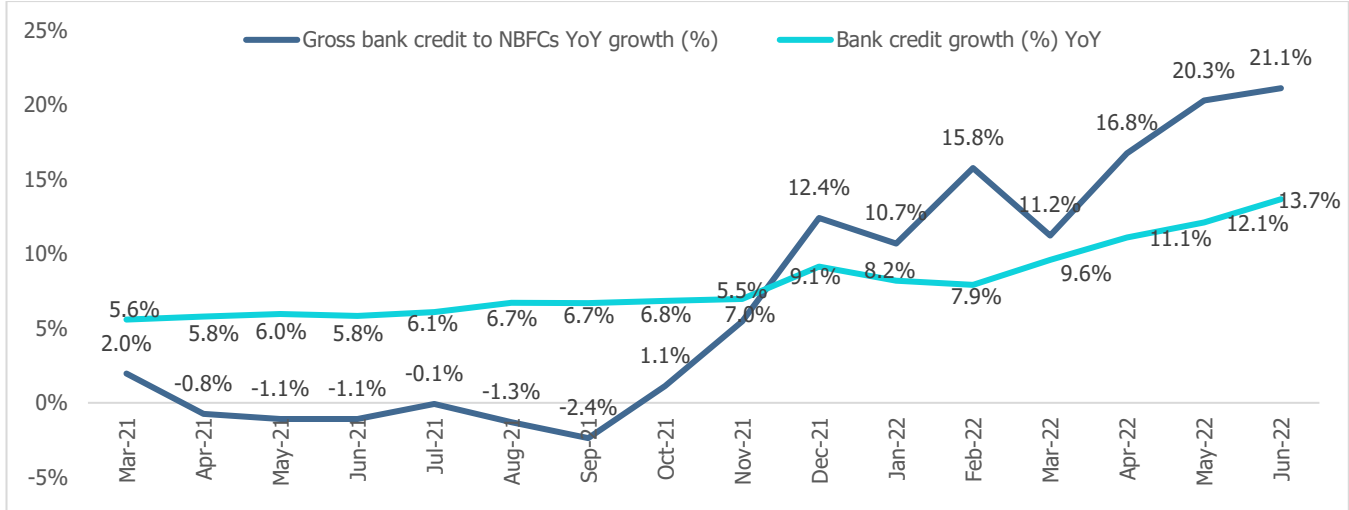


Source: RBI, SEBI

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.

The liquidity available by NBFCs through the securitisation route doubled in Q1FY23 as transactions totalling approximately Rs 0.32 lakh crore were reported compared to approximately Rs 0.15 lakh crore available in Q1FY22.

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

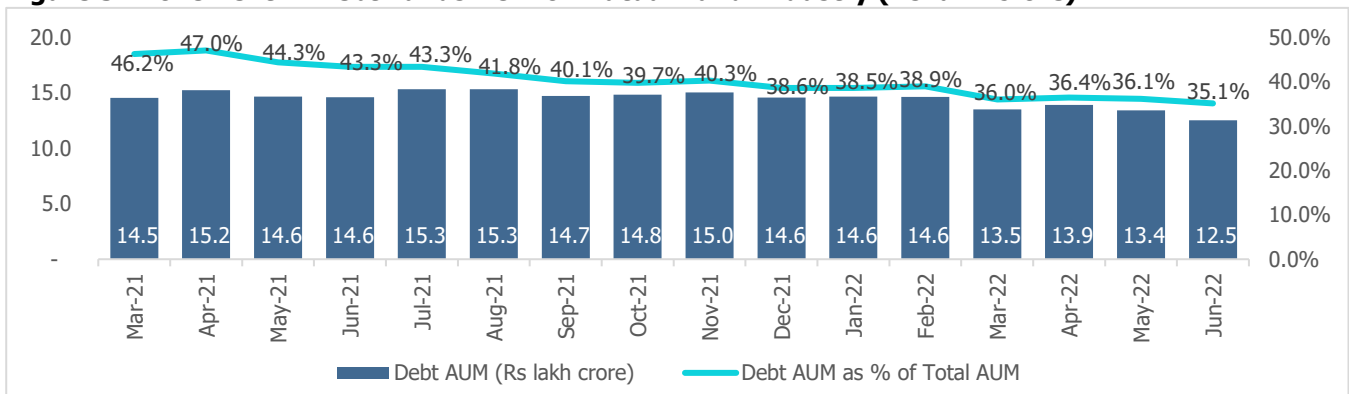


Source: RBI

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 16.8% in April 2022, 20.3% in May 2022 and 21.1% in June 2022. This growth can be attributed to base effect (businesses were impacted due to the delta variant, 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 witnessed a drop of 14.3% y-o-y to Rs.12.5 lakh crore in June 2022. This drop can be attributed to fixed-term plans (FMP) losing popularity coupled with the regular quarter-end outflow from liquid funds.

**Figure 3: Movement in Debt Funds AUM of Mutual Fund Industry (Rs lakh crore)**

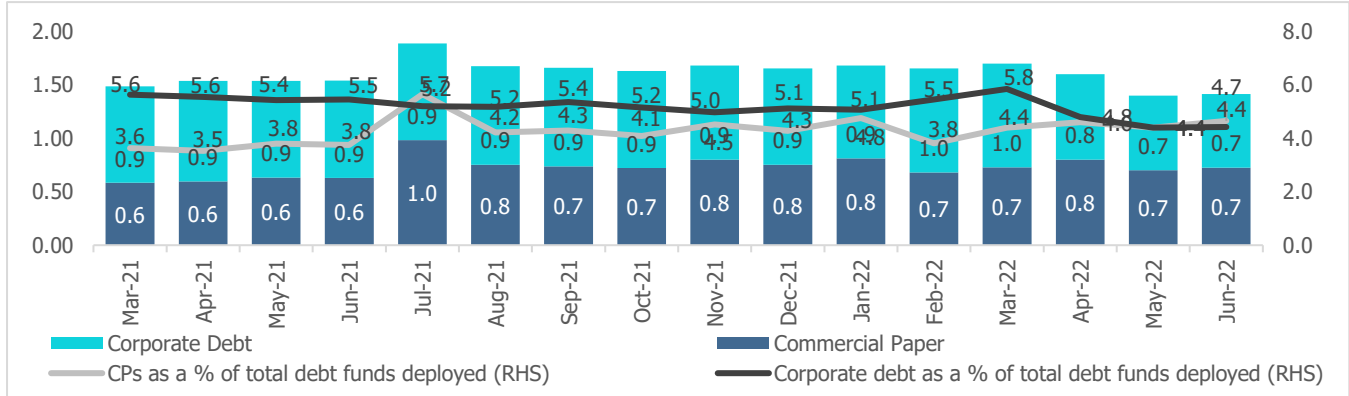


Source: AMFI

The investments in corporate debt of NBFCs dropped by 24.4% y-o-y to Rs.0.69 lakh crore in June 2022. The percentage share of total corporate debt to NBFCs too declined to 4.4% in June 2022 from 5.5% in June 2021.

One year and above corporate debt investment dropped by 35% y-o-y to Rs.0.35 lakh core in June 2022 whereas short-term debt (less than 90 days) dropped by 31.2% to Rs.0.072 lakh crore in the same period.

**Figure 4: Total Debt Funds Deployed in NBFCs via CPs and Corporate Debt (Rs lakh crore)**

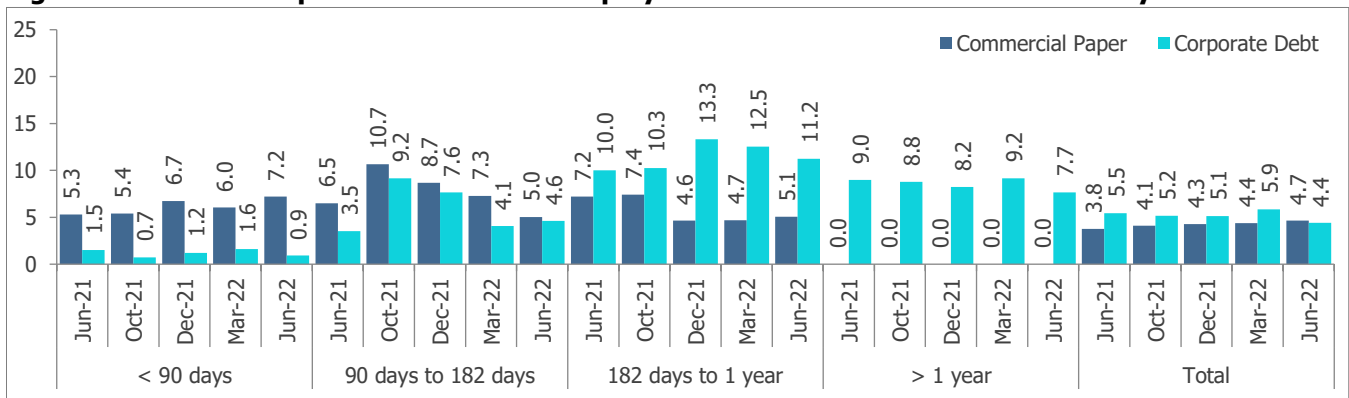


Source: SEBI

The outstanding investments in CPs of NBFCs witnessed a growth of 15.5% y-o-y to Rs.0.73 lakh crore in June 2022. In absolute terms, it expanded by Rs.0.10 lakh crore from June 2021. CPs (less than 90 days) grew by 50.5% y-o-y to Rs.0.56 lakh crore in June 2022, however, CPs (90 days to 182 days) fell by 26.9% to Rs.0.075 lakh crore, and the more than 6 months (CPs) dropped by 41.7% to Rs.0.089 lakh crore in the reporting period. The percentage share of funds deployed by MFs in CPs of NBFCs in June 2022 stood at 4.65% of debt AUMs (compared with 4.42% in June 2021).

The proportion of CPs (less than 90 days) deployed in NBFCs as a percentage of total debt funds increased to 7.2% in June 2022 as compared to 5.3% over a year ago period. However, CPs (90 days to 182 days) percentage also declined to 5% from 6.5% over a year ago, while CPs (greater than six months) percentage too reduced to 5.1% in June 2022 as compared to 7.2% 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 16.3% in June 2022 as compared to 17.2% in June 2021.

**Figure 5: 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 June 2022 reaching Rs.11.01 lakh crore as the NBFCs witnessed significant growth post opening up of the economy and additional borrowings moved to comparatively cheaper bank loans due to differentials between market yields and interest rates offered by banks.

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