NBFC Exposure: MFs' Debt Holdings Just about 12% of Banks' Advances

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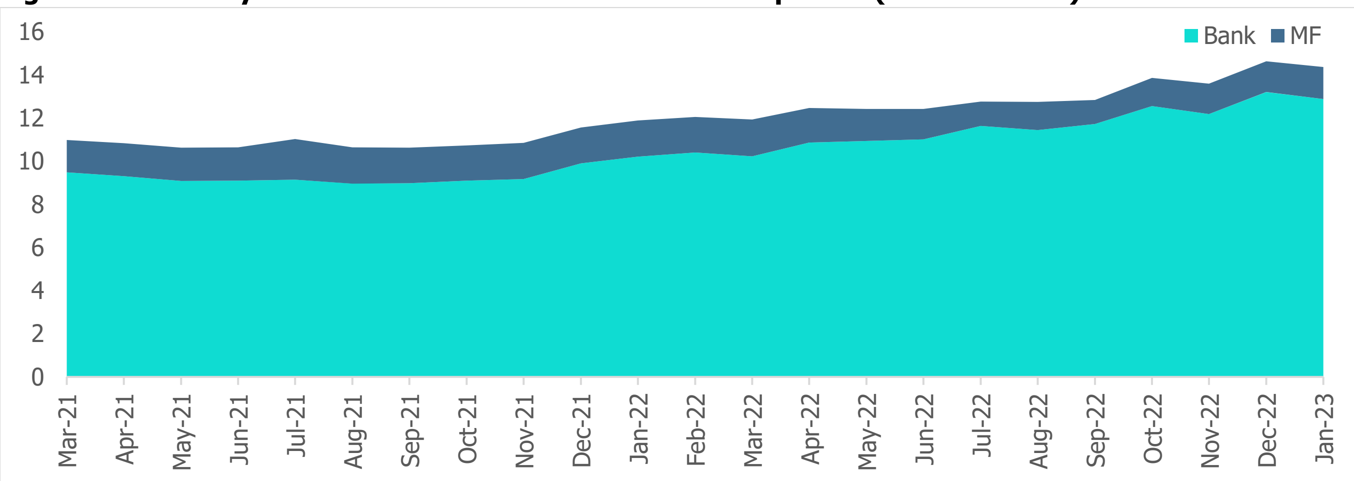
Synopsis

- In January 2023, banks' outstanding credit to non-banking financial companies (NBFCs) rose by 31% (y-o-y) to reach Rs.12.9 lakh crore. The banks' outstanding credit to NBFCs has risen nearly 1.5x since February 2020. The banks' credit exposure to NBFCs had crossed crucial thresholds in CY2022, i.e., Rs 10 lakh crore in January 2022, Rs. 11 lakh crore in June 2022 and Rs 12 lakh crore in October 2022. The growth has remained robust due to high growth in the NBFC asset book and as 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 Mutual Fund (MF) debt exposure to NBFCs fell by 11.6% y-o-y to Rs.1.49 lakh crore. The share of MFs has 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. Further, given the relatively lower MFs' exposure to NBFC debt, the impact of the removal of the indexation benefit for the calculation of LTCG on debt mutual funds' investments in NBFCs is not likely to be material.

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

Banks' outstanding credit to NBFCs rose by Rs.2.7 lakh crore over the last 12 months and from March 2022 levels. On the other hand, MF debt exposure (CPs and Corporate Debt) to NBFCs dropped by 11.6% y-o-y to Rs.1.4 lakh crore in January 2023, while increasing sequentially by 4% from December 2022 levels.

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. Liquidity availed by NBFCs including HFCs through the securitisation route crossed approximately Rs 1.6 lakh crore in CY2022.

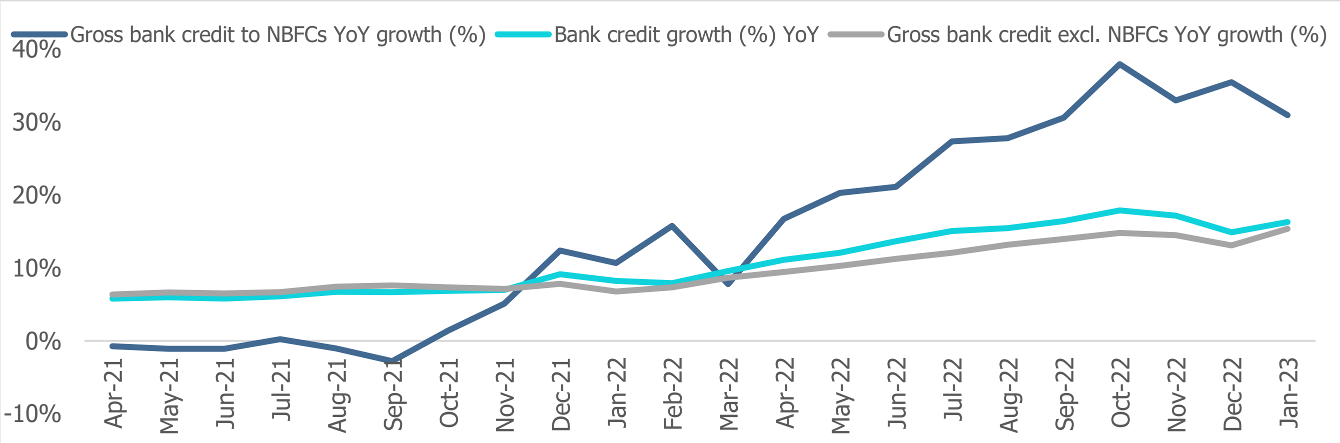
Figure 2: NBFC Debt Exposure (Rs lakh crore)

	Feb-2018	Feb-2020	Jan-2023	Ab. Change (%)	
				vs. Feb-2018	vs. Feb-2020
Bank	3.90	8.40	12.88	230.1%	53.3%
MFs	2.31	1.64	1.49	-35.7%	-9.4%
Corporate Debt	1.18	1.03	0.67	-43.1%	-34.6%
Commercial Paper	1.13	0.61	0.81	-27.8%	33.2%
Total (Bank +MF)	**6.21**	**10.04**	**14.37**	**131.3%**	**43.1%**

Source: RBI, SEBI

Compared to February 2018 numbers, absolute bank lending to NBFCs has more than tripled, while MF exposure has reduced over the last four years. If January 2023 data is compared with February 2020 numbers, bank borrowings have increased by over 53%, while MF Corporate Debt exposure has reduced by over 34% and MF CP exposure has increased by over 33%.

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



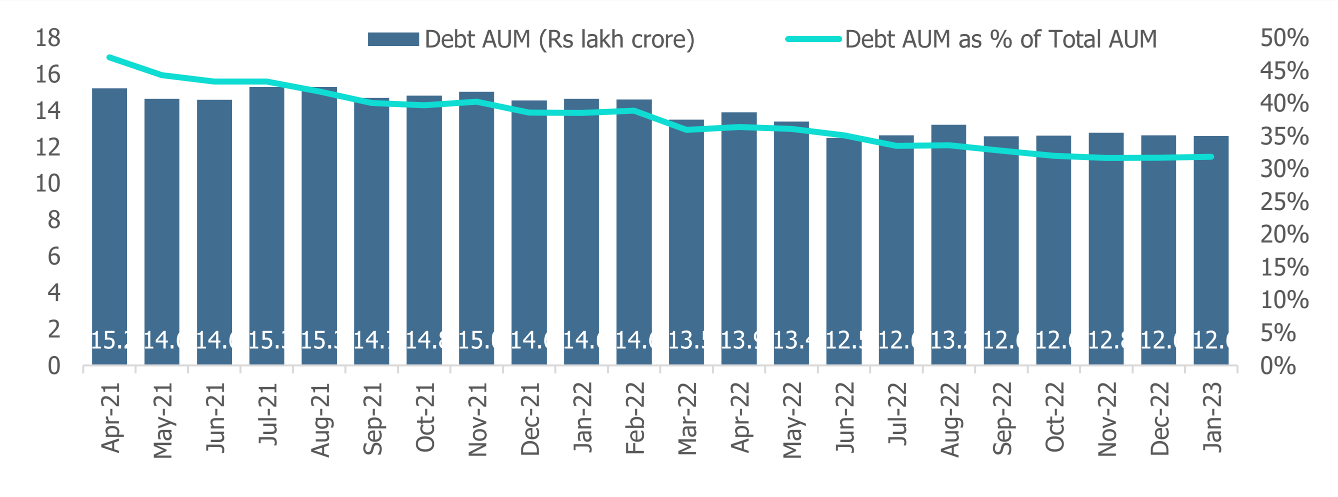
Source: RBI

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 five 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 January 2023, lending to NBFCs constituted 18.2% of incremental lending of aggregate credit.

The debt assets under management (AUM) of mutual funds decreased 13.9% y-o-y to Rs.12.6 lakh crore in December 2022. This decrease can be attributed, inter alia, to the sustained popularity of equity funds, fixed-term plans (FMP) losing popularity, and outflows from liquid funds.

Further, given the relatively lower MFs' exposure to NBFC debt, the impact of the removal of the indexation benefit for calculation of LTCG on debt mutual funds' investments in NBFCs is not likely to be material.

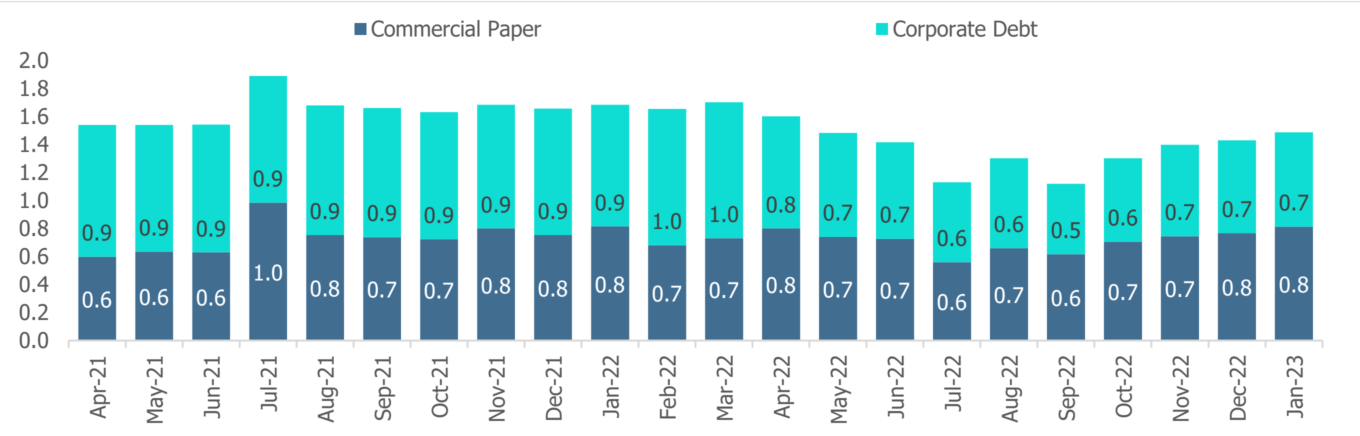
Figure 4: Movement in Debt Funds AUM of Mutual Fund Industry (Rs lakh crore)



Source: AMFI

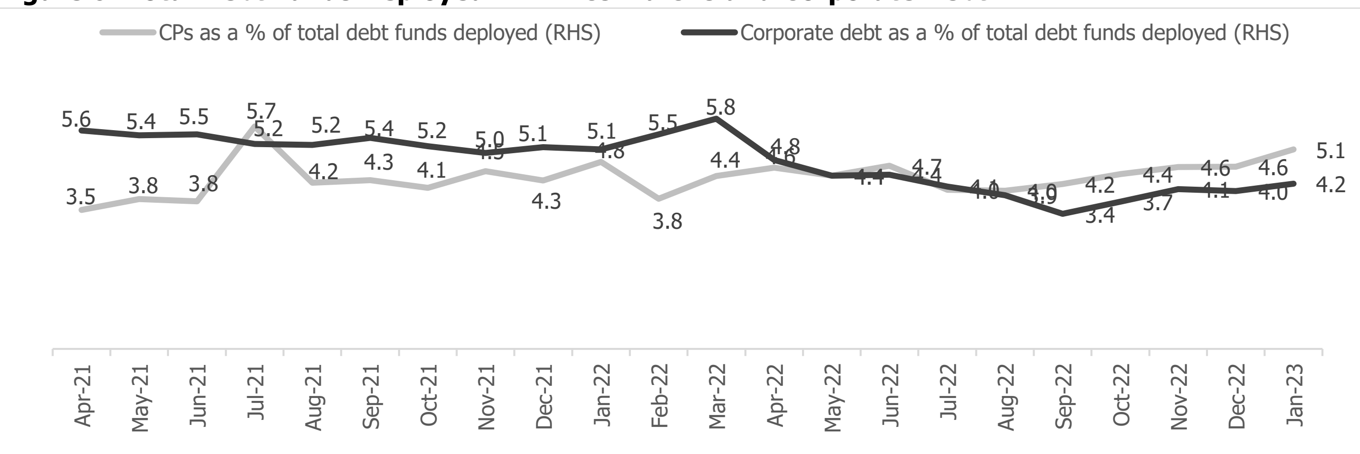
Investment in corporate debt of NBFCs fell by 22.4% y-o-y to Rs.0.67 lakh crore in January 2023. The percentage share of total corporate debt to NBFCs too declined to 4.2% in January 2023 from 5.1% in January 2022.

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



Source: SEBI

Figure 6: Total Debt Funds Deployed in NBFCs via CPs and Corporate Debt

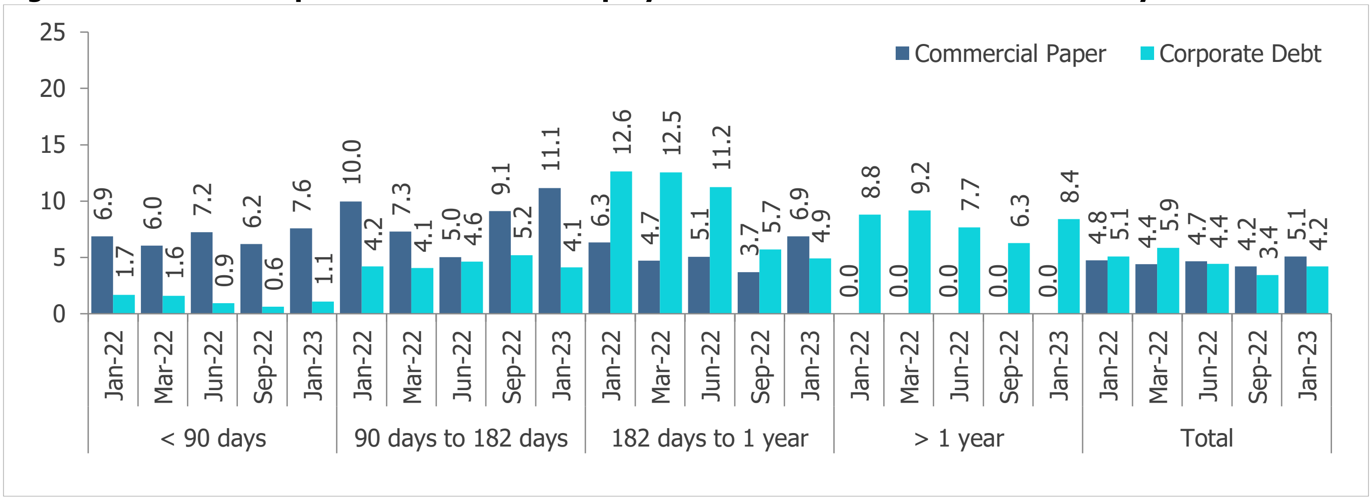


Source: SEBI

The outstanding investments in CPs of NBFCs remained mostly flat (decline of 0.1% y-o-y) to Rs.0.81 lakh crore in January 2023. CPs (less than 90 days) rose by 0.7% y-o-y to Rs.0.60 lakh crore in January 2023, CPs (90 days to 182 days) fell by 19.3% to Rs.0.11 lakh crore, and the more than 6 months (CPs) rose by nearly a third (29.2%) to Rs.0.01 lakh crore in the reporting period. The percentage share of funds deployed by MFs in CPs of NBFCs in January 2023 stood at 5.07% (compared with 4.75% in January 2022).

The proportion of CPs (less than 90 days) deployed in NBFCs as a percentage increased to 7.57% in January 2023 as compared to 6.87% over a year ago period, the percentage of CPs (90 days to 182 days) rose to 11.14% from 9.97% over a year ago, and CPs (greater than six months) percentage too grew to 6.87% in January 2023 as compared to 6.32% 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

Conclusion

The credit exposure of the banks to NBFCs stood at Rs 12.9 lakh crore in January 2023 after crossing the Rs 10 lakh crore mark and reaching RS 10.2 lakh crore in January 2022 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. Additionally, NBFC exposure as a percentage of aggregate credit has moved from 8.9% in January 2022 to 9.7% in January 2023. Hence certain banks may face difficulties in extending further credit to the NBFC sector as they move closer to the sectoral exposure norms. Meanwhile, MFs' share has declined for the last several quarters as they primarily maintain their exposure to NBFCs via market instruments. Further, given the relatively lower MFs' exposure to NBFC debt, the impact of the removal of the indexation benefit for calculation of LTCG on debt mutual funds' investments in NBFCs is not likely to be material. Further as and when banks fully transmit the rate hikes to their borrowers, market borrowing may increase as the spread between bank rates and market yields could soften.

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