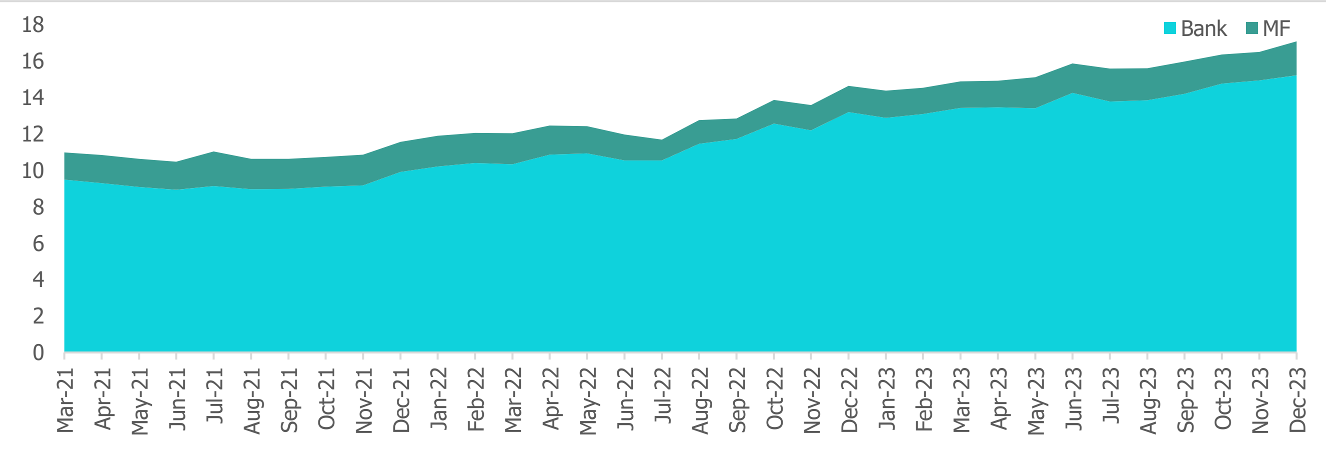
Banks' Exposure to NBFCs Rises Slower Compared to that of MFs'

February 09, 2024 l   BFSI Research

Synopsis

- The credit exposure of banks to Non-Banking Financial Companies (NBFCs) stood at Rs 15.2 lakh crore in December 2023, indicating a 15.1% year-on-year (y-o-y) growth, much slower than the rate witnessed in November 2023 and the approximately 27% average growth for the prior 12 months. Additionally, the growth rate of advances to NBFCs has fallen below the overall bank credit growth, which was last seen in March 2022. Furthermore, the proportion of NBFC exposure in relation to aggregate credit has risen from 9.9% in December 2022 to 9.5% in December 2023. On a month-on-month (m-o-m) basis, the amount rose by 1.8%.
- Meanwhile, the Mutual Fund (MF) debt exposure to NBFCs, including Commercial Papers (CPs) and Corporate Debt, reached Rs. 1.87 lakh crore in December 2023 witnessing an increase of 30.8% y-o-y and 19.9% sequentially, with CPs crossing the one lakh crore mark last seen in August 2023. Meanwhile, given the general credit risk aversion of MFs, the exposure to NBFCs, particularly those rated below the highest levels, is not expected to witness significant traction. Consequently, the aggregate dependence of mid-sized NBFCs on the banking sector for funding is likely to remain high.
- Highlighting the relative size of their exposure to NBFCs, MFs' debt exposure to NBFCs rose to 14.2% as a percentage of "Banks' advances to NBFCs" in December 2023 from 11.3% in December 2022, and sequentially from 11.3% in November 2023.

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 securitisation route (direct assignment & pass-through certificates) and Treasury investments made by banks in the NBFCs' capital market issuances. Liquidity availed by NBFCs including HFCs through the securitisation route was approximately Rs 1.8 lakh crore for the twelve-month period ending December 2023.

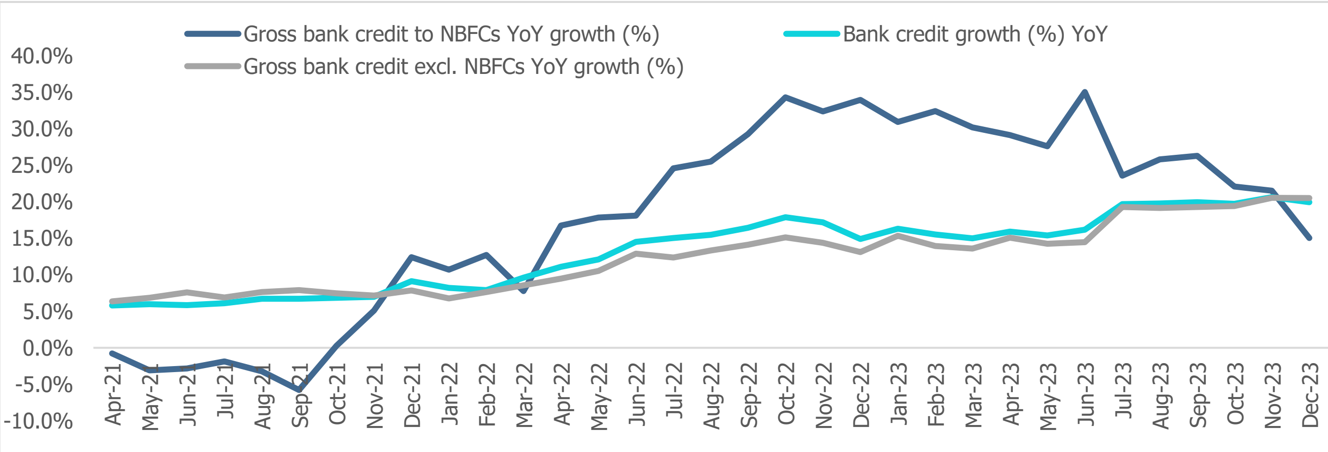
Figure 2: NBFC Debt Sources (Rs lakh crore)

	Feb-2018	Feb-2020	Dec-2023	Ab. Change (%)	
				vs. Feb-2018	vs. Feb-2020
Bank	3.90	8.40	15.21	289.8	81.0
MFs	2.31	1.64	1.87	-19.1	13.9
Total (Bank +MF)	**6.21**	**10.04**	**17.08**	**175.0**	**70.1**

Source: RBI, SEBI

Compared to February 2018 numbers, absolute bank lending to NBFCs has jumped to around 3.9x, meanwhile, MF exposure has reduced by 19.1% over close to six years due to risk aversion by mutual fund managers. Interestingly, MF exposure to NBFCs as a share of Debt Assets Under Management (AuM) has reduced from nearly 20% in the later part of 2018 to around 14%. On the other hand, the share of banks' advances to NBFCs as a share of aggregate advances has doubled from around 4.5% in February 2018 to close to 9.5% in December 2023.

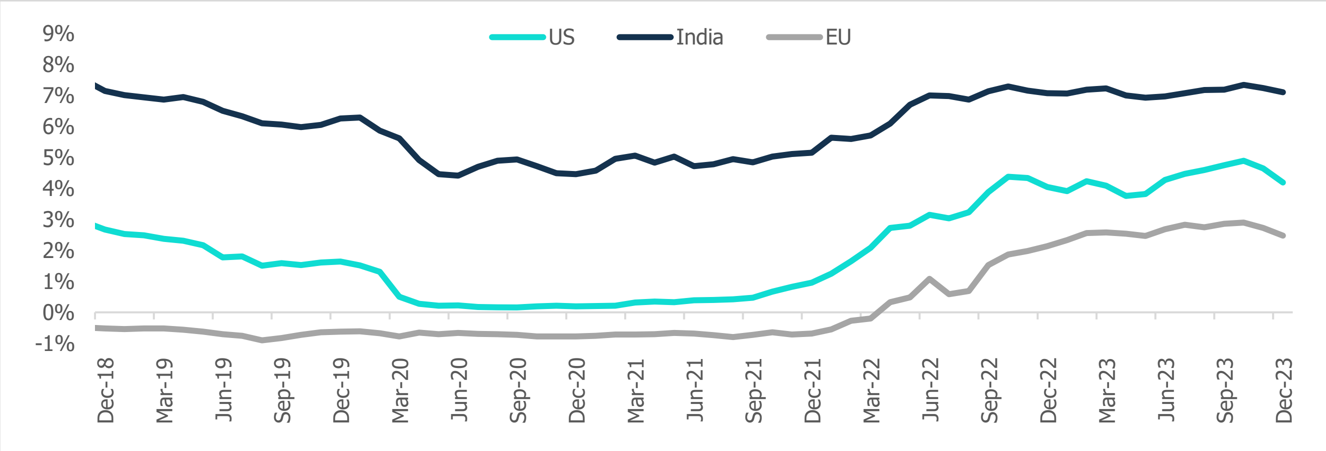
Figure 3: Growth in Bank Credit to NBFCs vis-à-vis overall Bank Credit Growth



Source: RBI

The credit extended by banks to NBFCs has exhibited a consistent upward trend for close to six years and continued its acceleration along with the phased reopening of economies after the Covid-19 pandemic. This growth momentum further accelerated during FY23 and continued in H1 FY24. Further, after the merger of HDFC Limited with HDFC Bank, the quantum of outstanding exposure of banks to NBFCs had reduced sequentially, albeit maintaining the y-o-y growth rate which has since moved past the pre-merger level. This trend can be primarily ascribed to the expansion in the AuM of NBFCs. The credit exposure of banks to NBFCs stood at Rs 15.2 lakh crore in December 2023, indicating a 15.1% year-on-year (y-o-y) growth, much slower than the rate witnessed in November 2023 and the approximately 27% average growth for the prior 12 months. Additionally, the growth rate of advances to NBFCs has fallen below the overall bank credit growth, which was last seen in March 2022.

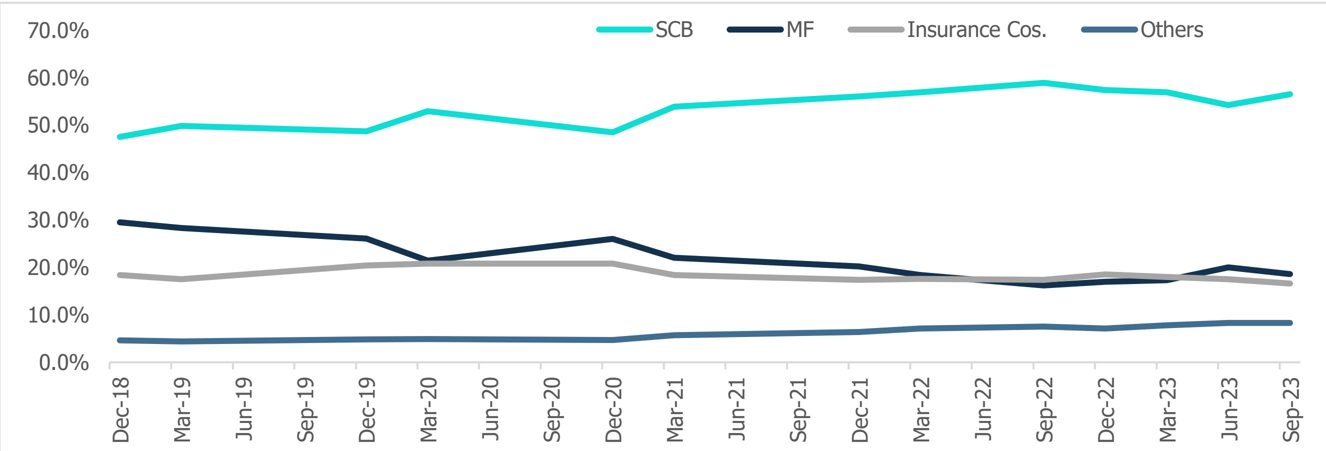
Figure 4: Three-Year G Sec Yield Narrows: India, US, and EU



Source: CMIE, St. Louis Fed, Eurostat: Note: Weighted average Yield on Residual Maturity of Government of India Dated Securities in Secondary Market, Market Yield on U.S. Treasury Securities at 3-Year Constant Maturity, Quoted on an Investment Basis, Percent, Monthly, Not Seasonally Adjusted, Spot rate yield curve of AAA-rated euro area central government bonds

As the above figure shows, the spread between domestic and US and EU g-sec yield has broadly narrowed yet expanded in December as the US and EU g-sec yields fell faster compared to domestic yields and when combined with hedging and other costs has reduced the attractiveness of overseas borrowings. Additionally, the higher upswing in global interest rates compared to the Indian market also played a pivotal role. Meanwhile, the domestic capital market has witnessed some traction. Larger and better-rated NBFCs have been accessing the capital market given that most of the issuers are from the BFSI sector and over 90% of the aggregate issuers have been either AA or AAA-rated entities.

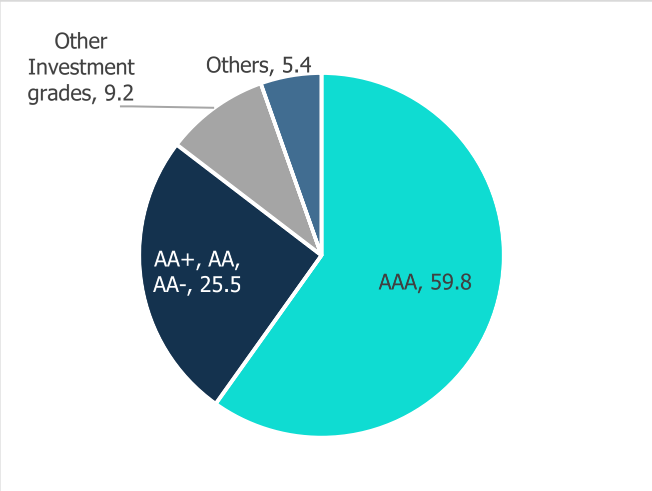
Figure 5: NBFCs – Share of Banks Remains High in Q2FY24



Source: RBI Financial Stability Reports

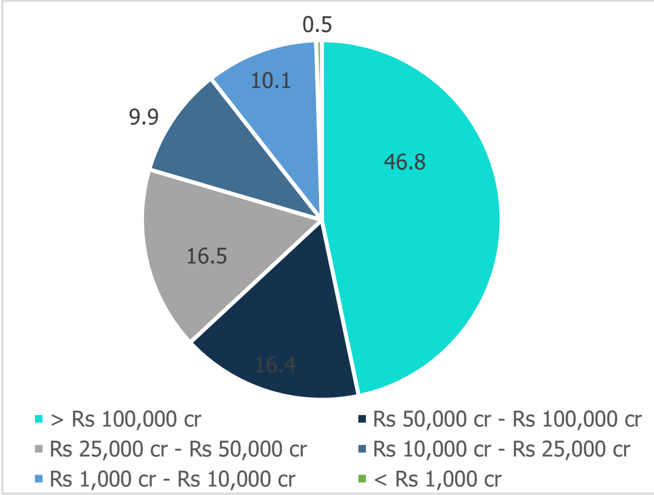
NBFCs owed close to 57% in Q2FY24 to banks followed by 18.6% (17.3% in FY23) to MFs and 16.6% (17.6% in FY22) to insurance companies. The share of MFs and Insurance companies has been broadly declining for several quarters but has held steady for the last couple of quarters. The share of banks has remained the highest although it declined marginally in Q2FY24 compared to March 2023 but remained higher than June 2023 level and the share of MFs increased marginally in the same period. The reliance on funding from banks has gradually risen. Over 75% of resources mobilised from banks were secured in nature and more than 85% of such borrowings were by highly rated NBFCs (AA- and above). Large NBFCs with asset size above Rs. 25,000 crore accounted for nearly 80% of resources mobilised from banks. If the funding mix is considered, the share of SCBs would be even higher due to the significant loan asset sell-down (direct assignment) as a funding source which is not included in the above computation.

Figure 6: Rating-wise Distribution of NBFCs Resources Mobilised from Banks (%)



Source: RBI Financial Stability Reports

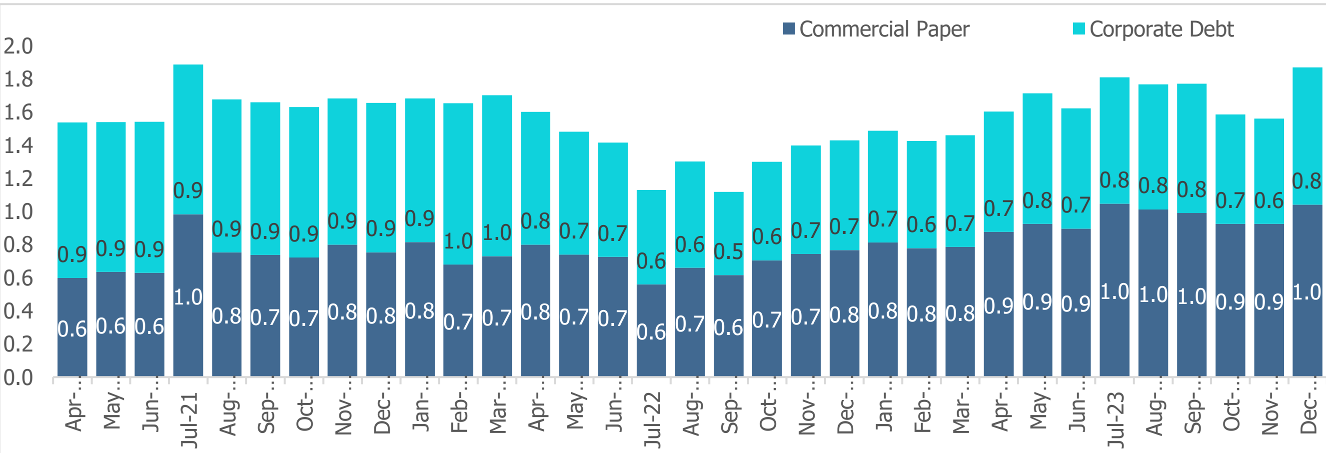
Figure 7: Asset Size-wise Distribution of NBFCs Resources Mobilised from Banks (%)



Source: RBI Financial Stability Report December 2023

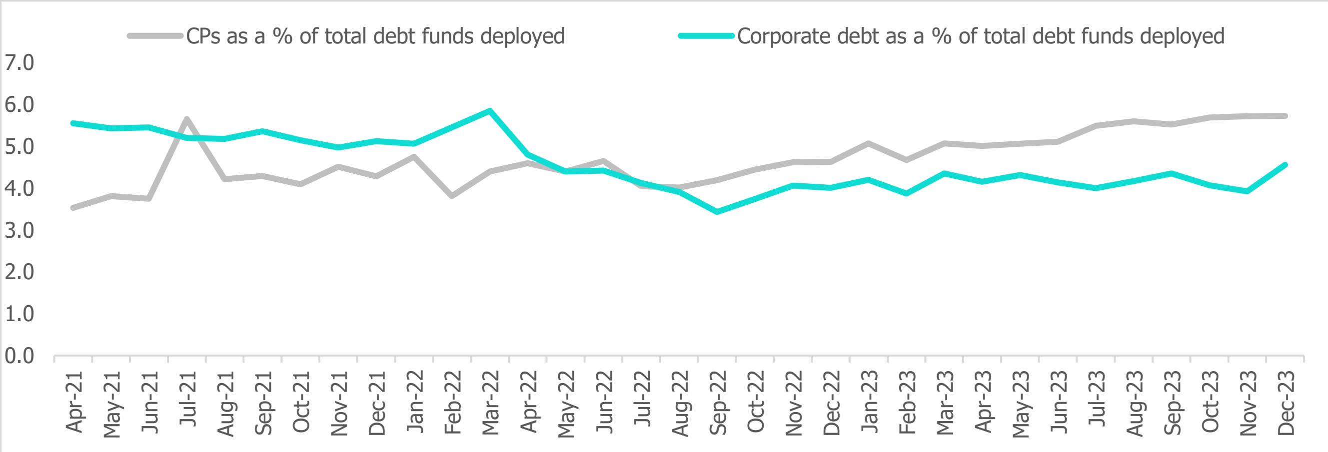
Investment in corporate debt of NBFCs increased by 25.1% y-o-y and 30.6% m-o-m to Rs.0.83 lakh crore in December 2023. Meanwhile, the share of total corporate debt to NBFCs increased to 4.6% in December 2023 from 4.0% in December 2022. The outstanding investments in CPs of NBFCs went above the Rs one lakh crore mark, after three months growing at 12.5% growth sequentially but increasing by 35.8% y-o-y to Rs.1.04 lakh crore in December 2023. CPs (less than 90 days) rose by 49.5% y-o-y to Rs.0.30 lakh crore in December 2023, CPs (90 days to 182 days) fell by 6.6% to Rs.0.08 lakh crore, and CPs (more than 6 months) declined by 33.7% to Rs.0.04 lakh crore in the reporting period.

Figure 8: Total Debt Funds Deployed in NBFCs via CPs and Corporate Debt (Rs lakh crore)



Source: SEBI

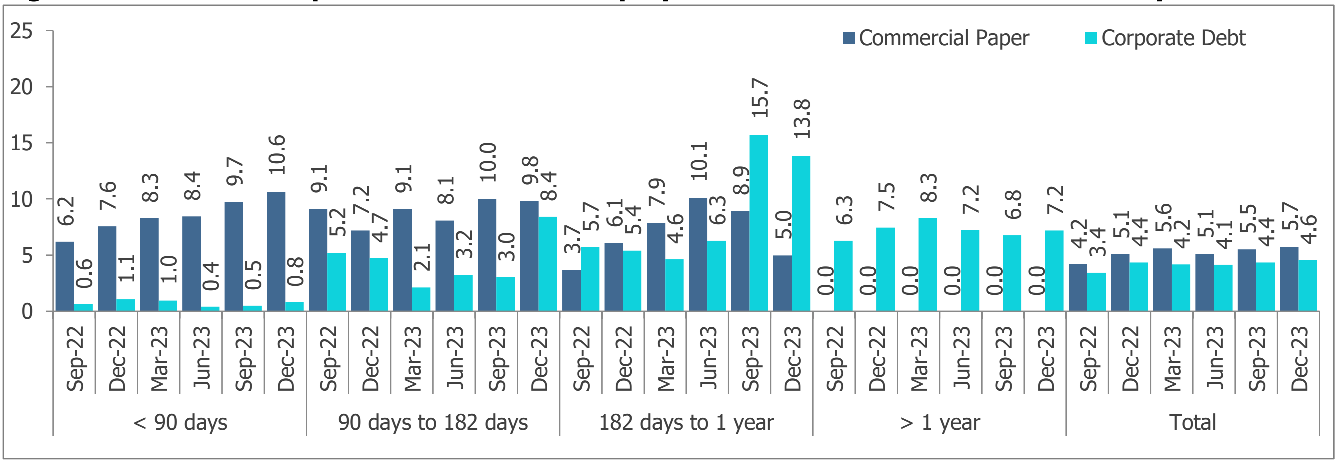
Figure 9: Total Debt Funds Deployed in NBFCs via CPs and Corporate Debt (%)



Source: SEBI

The percentage share of funds deployed by MFs in CPs as a percentage of banks' exposure to the NBFCs stood at 6.8% in December 2023, increasing by over 100 bps y-o-y. The proportion of CPs (less than 90 days) deployed in NBFCs as a percentage of aggregate funds deployed for less than 90 days reached 10.6% in December 2023 as compared to 7.6% over a year ago period, the percentage of CPs (90 days to 182 days) rose to 9.8% from 7.2% over a year ago, and CPs (greater than six months) percentage decreased to 5.0% in December 2023 as compared to 6.1% over a year-ago period.

Figure 10: Trend in Proportion of CPs & CD Deployed in NBFCs as a % of Debt Funds by Duration



Source: SEBI

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