

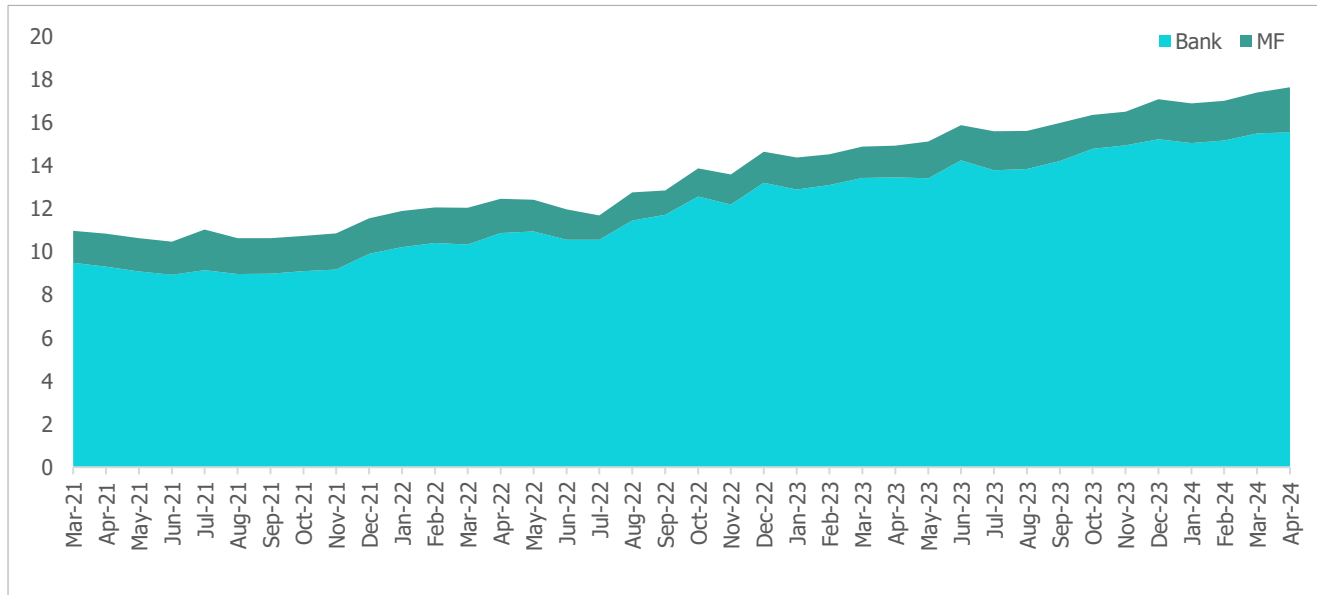
MFs' Debt Exposure to NBFC Crosses Rs. 2-lakh crore Mark after 55 months

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Synopsis

- Mutual Fund (MF) debt exposure to NBFCs, including Commercial Papers (CPs) and Corporate Debt, crossed the Rs. 2 lakh crore mark after 55 months (the last time the exposure was above Rs 2 lakh crore was in August 2019) to reach Rs. 2.08 lakh crore in April 2024 witnessing an increase of 29.8% y-o-y and 9.7% sequentially, with CPs remaining above the one lakh crore mark for five consecutive months. The CP outstanding stood at Rs 1.18 lakh crore (a level last witnessed in May 2019 i.e. nearly 5 years ago).
- The credit exposure of banks to NBFCs stood at Rs 15.5 lakh crore in April 2024, indicating a 14.6% y-o-y growth. This growth is despite HDFC's exposures being reclassified after its merger with HDFC Bank. Without considering the merged entity in the base data, the growth stood at 25.5%. On a month-on-month (m-o-m) basis, the amount rose by 0.4%. However, the proportion of NBFC exposure in relation to aggregate credit has reduced from 9.7% in April 2023 to 9.4% in April 2024.
- Highlighting the relative size of their exposure to NBFCs, MFs' debt exposure to NBFCs rose to 13.4% as a percentage of "Banks' advances to NBFCs" in April 2024 from 11.9% in April 2023, and sequentially from 12.2% in March 2024.

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



Source: RBI, SEBI

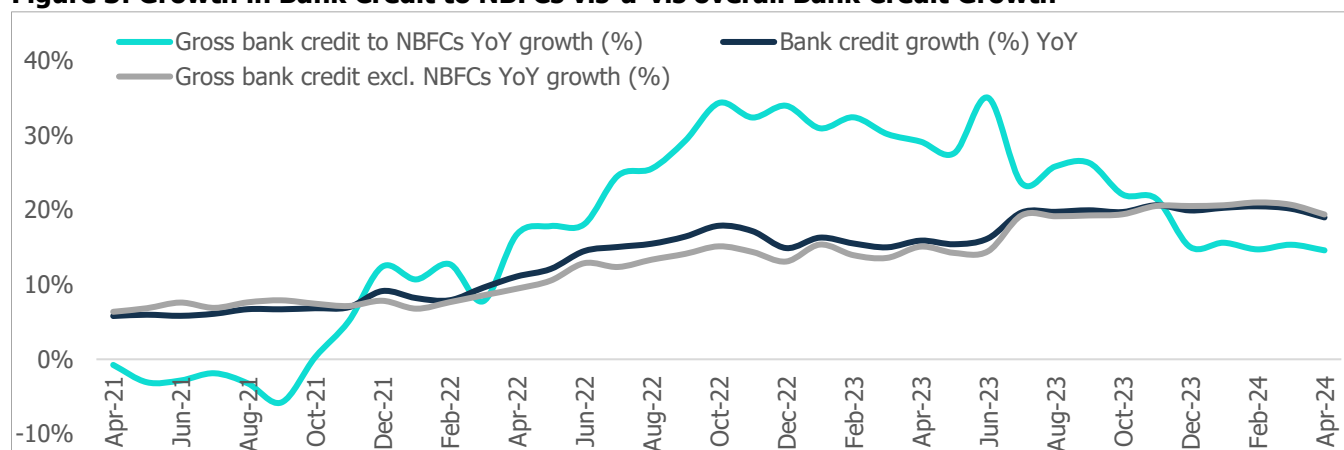
The data in Figure 1 does not include liquidity made available to NBFCs by banks via the securitisation route (direct assignment & pass-through certificates) and Treasury investments made by banks in the NBFCs' capital market issuances. Liquidity availed by NBFCs including HFCs through the securitisation route was approximately Rs 1.94 lakh crore for the twelve months ending March 2024.

Figure 2: NBFC Debt Sources (Rs lakh crore)

	Feb-2018	Feb-2020	Apr-2024	Ab. Change (%)	
				vs. Feb-2018	vs. Feb-2020
Bank	3.90	8.40	15.55	298.5	85.1
MFs	2.31	1.64	2.08	-9.9	26.8
Total (Bank +MF)	6.21	10.04	17.63	183.8	75.6

Source: RBI, SEBI

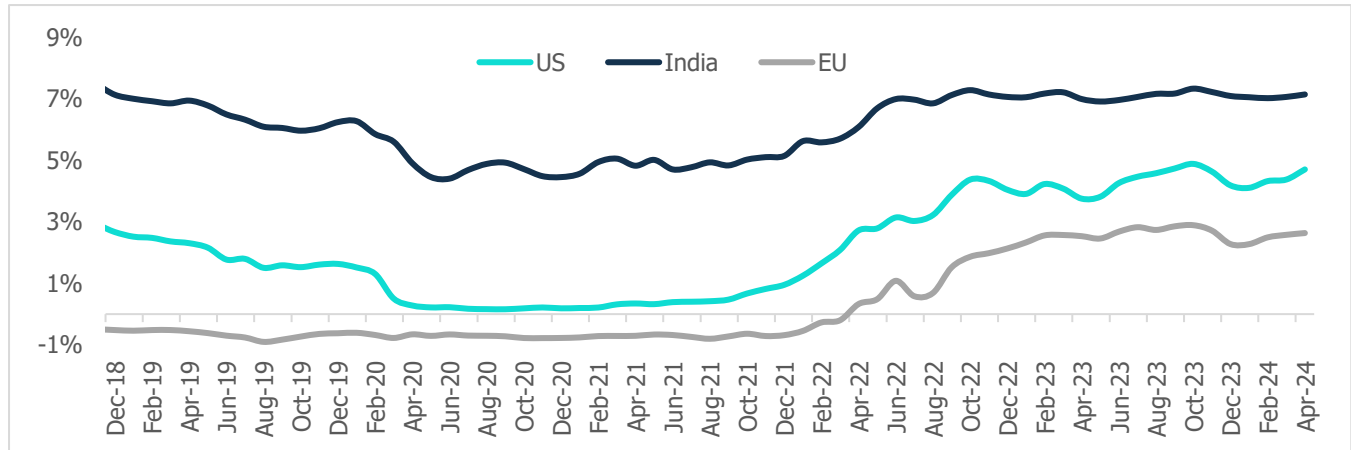
Compared to February 2018 numbers, absolute bank lending to NBFCs has jumped to around 4x. Meanwhile, MF exposure has reduced by 9.9% over six years. Interestingly, MF debt exposure to NBFCs, including Commercial Papers (CPs) and Corporate Debt, crossed the Rs. 2 lakh crore mark after 55 months (the last time the exposure was above Rs 2 lakh crore was in August 2019) reached Rs. 2.08 lakh crore in April 2024 witnessing an increase of 29.8% y-o-y, with CPs remaining above the one lakh crore mark for five consecutive months. The CP outstanding stood at Rs 1.18 lakh crore (a level last witnessed in May 2019 i.e. nearly 5 years ago). Furthermore, MF exposure to NBFCs as a share of Debt Assets Under Management (AuM) has reduced from nearly 20% in the latter part of 2018 to around 14% by April 2024. On the other hand, the share of banks' advances to NBFCs as a share of aggregate advances doubled from around 4.5% in February 2018 to 9.4% in April 2024.

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 trend can be primarily ascribed to the expansion in the AuM of NBFCs. The credit exposure of banks to NBFCs stood at Rs 15.5 lakh crore in April 2024, indicating a 14.6% y-o-y growth. This growth is after HDFC's exposures were reclassified after its merger with HDFC Bank. On a month-on-month (m-o-m) basis, the amount rose by 0.4%. However, the proportion of NBFC exposure in relation to aggregate credit has reduced from 9.7% in April 2023 to 9.4% in April 2024. Additionally, the growth rate of advances to NBFCs has been below the overall bank credit growth since December 2023. This can be attributed to the RBI's increasing risk weights and elevated capital market borrowings.

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

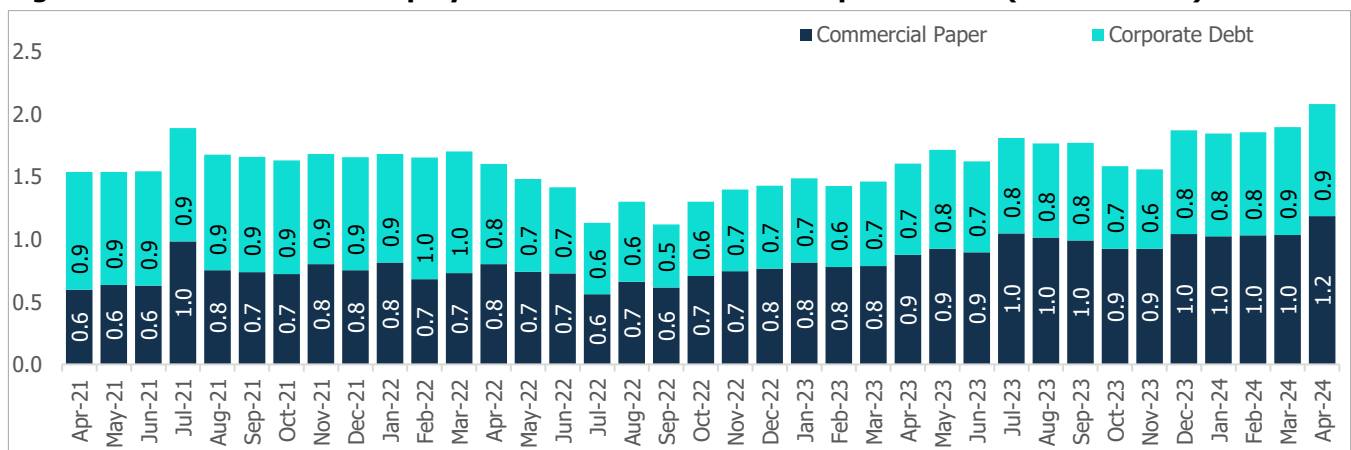


Source: CMIE, St. Louis Fed, Eurostat: Note: Weighted average Yield on Residual Maturity of Government of India Dated Securities in Secondary Market, Market Yield on U.S. Treasury Securities at 3-Year Constant Maturity, Quoted on an Investment Basis, Percent, Monthly, Not Seasonally Adjusted, Spot rate 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 been broadly trending down. Amount raised via ECBs amounted to USD 48.6 bn in FY24 i.e. almost 2x the amount raised in FY23. Meanwhile, the domestic capital market has witnessed some traction. Fundraising through corporate bond issuances increased by 19% to Rs 10.2 lakh crores in FY24, whereas the issuances of commercial papers remained stable at Rs 13.8 lakh crores. Larger and better-rated NBFCs have been accessing the capital market since most of the issuers are from the BFSI sector and over 90% of the aggregate issuers have been either AA or AAA-rated entities.

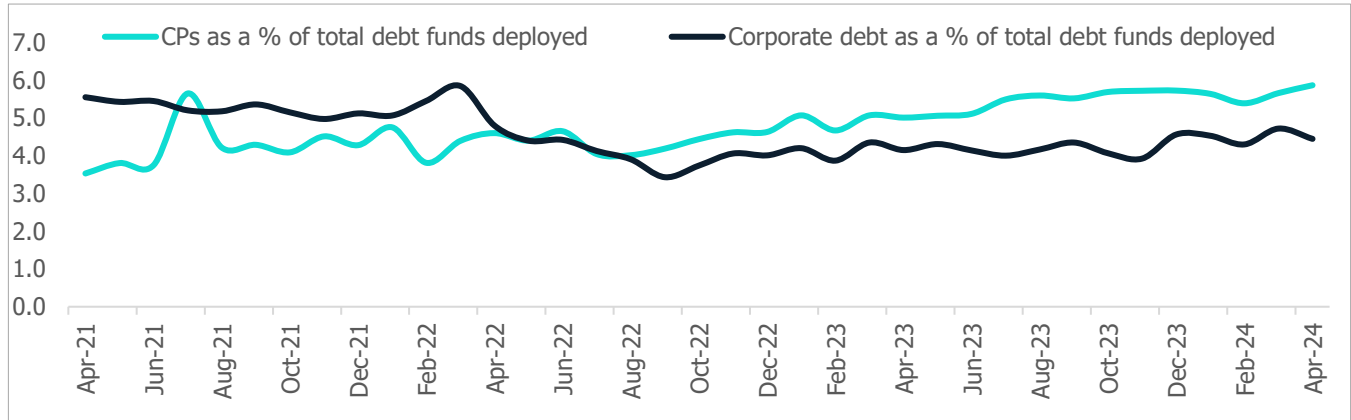
Investment in corporate debt of NBFCs increased by 23.5% y-o-y and 4.0% m-o-m to Rs.0.90 lakh crore in April 2024. Meanwhile, the share of total corporate debt to NBFCs inched up to 4.4% in April 2024 from 4.2% in April 2023. The outstanding investments in CPs of NBFCs have stayed above the Rs one lakh crore mark for five months, growing at 14.5% growth sequentially but increasing by 35.0% y-o-y to Rs.1.18 lakh crore in April 2024. CPs (less than 90 days) rose by 31.7% y-o-y to Rs.0.78 lakh crore in April 2024, CPs (90 days to 182 days) fell by 42.3% to Rs.0.05 lakh crore, and CPs (more than 6 months) increased by 87.6% to Rs.0.34 lakh crore in the reporting period. This increase comes on the backdrop of RBI increasing the risk weights on higher-rated NBFCs.

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



Source: SEBI

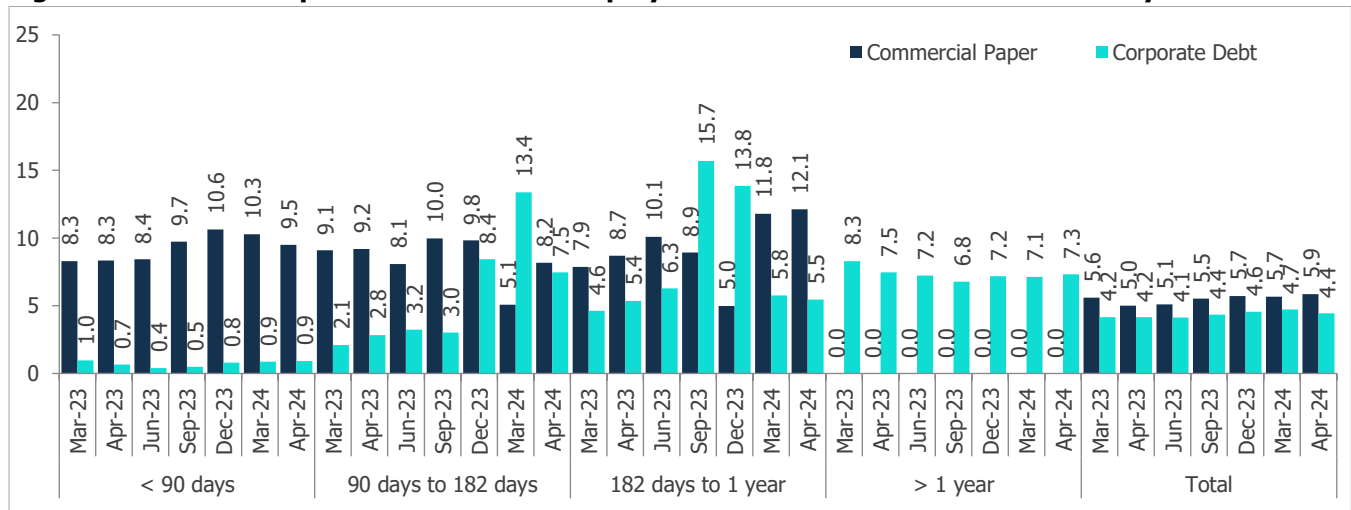
Figure 6: Total Debt Funds Deployed in NBFCs via CPs and Corporate Debt (%)



Source: SEBI

The percentage share of funds deployed by MFs in CPs as a percentage of banks' exposure to the NBFCs stood at 7.6% in April 2024, 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 9.5% in April 2024 as compared to 8.3% over a year ago period, the percentage of CPs (90 days to 182 days) fell to 8.2% from 9.2% over a year ago, and CPs (greater than six months) percentage increased to 12.1% in April 2024 as compared to 8.7% 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

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