

Trend in Exposure of MFs and Banks to NBFCs

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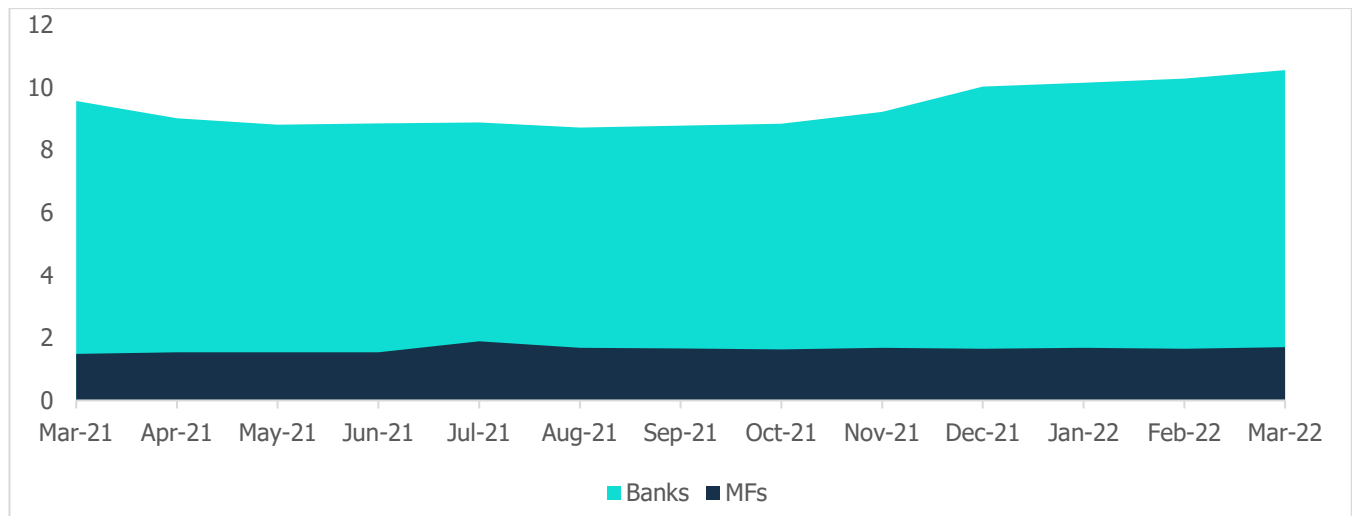
This report tracks the trend in debt exposure of banks and mutual funds to NBFCs.

Bank Credit and Mutual Fund Exposure to NBFCs See Double-digit Growth in March 2022

Banks' outstanding credit to NBFCs rose by 10.4% y-o-y to Rs.10.5 lakh crore due to improvement in economic activities, the renewed focus of banks on NBFCs as it shows growth visibility and improvement in the balance sheet, and credit push by banks as the fiscal year ended. In absolute terms, it expanded by Rs.0.99 lakh crore from March 2021.

The MF debt exposure (CPs and corporate debt) to NBFCs rose by 14.3% y-o-y to Rs.1.7 lakh crore in March 2022 due to the issuance of CPs by the NBFCs for IPO funding requirements and shifting of long-term investment to short-term investments as the market expected hike in interest rate. In absolute terms, it expanded by Rs.0.21 lakh crore from March 2021.

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

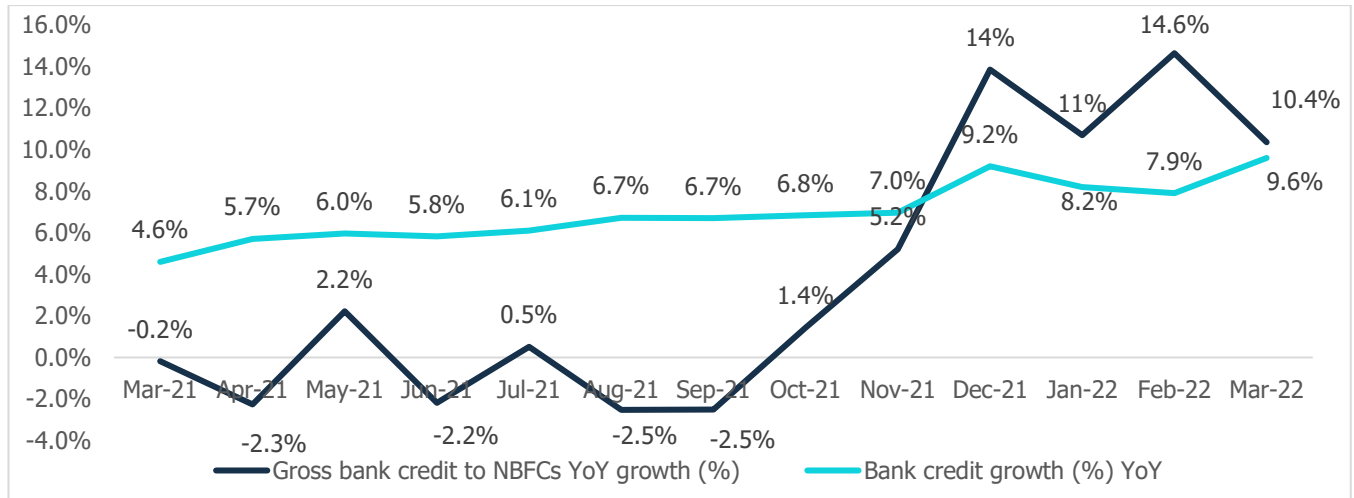


Source: RBI, SEBI

However, 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.

As can be seen in Figure 2, growth in bank credit to NBFCs witnessed a marginal drop in the first half of FY22. However, growth began to improve in the latter half of FY22.

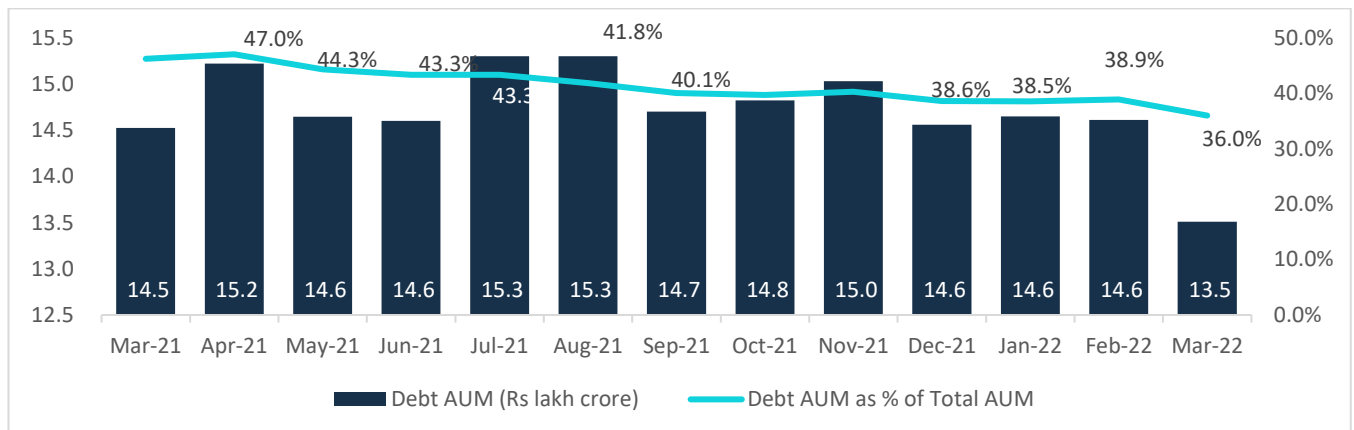
Figure 2: Growth in Bank Credit to NBFCs vis-à-vis overall Bank Credit Growth



Source: RBI

As can be seen in Figure 3, debt assets under management (AUM) of mutual funds witnessed a decline of 7.0% y-o-y to Rs.13.5 lakh crore in March 2022. In absolute terms, it dropped by Rs.1.02 lakh crore from March 2021 due to redemption in open-ended debt schemes. Within this, liquid fund schemes saw the highest redemption of Rs.0.45 lakh crore in March 2022 due to the fiscal year-end requirements.

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

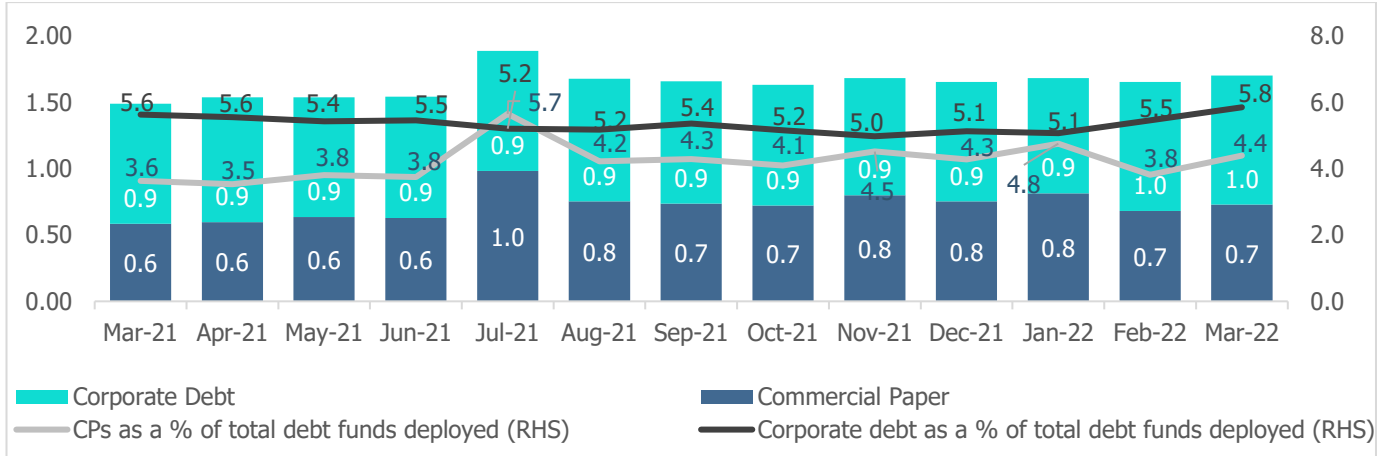


Source: AMFI

The outstanding investments in CPs of NBFCs witnessed a growth of 25.0% y-o-y to Rs.0.73 lakh crore in March 2022 due to the issuance of CPs by the NBFCs for IPO funding requirements and the shifting of investments in the short-term instruments as the market expected to rise in interest rates. In absolute terms, it expanded by Rs.0.15 lakh crore from March 2021. The percentage share of funds deployed by MFs in CPs of NBFCs in March 2022 stood at 4.4% of debt AUMs (compared with 3.6% in March 2021).

Meanwhile, the investments in corporate debt of NBFCs rose by 7.4% y-o-y to Rs.0.97 lakh crore in March 2022. The percentage share too increased to 5.8% in March 2022 from 5.6% in March 2021.

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

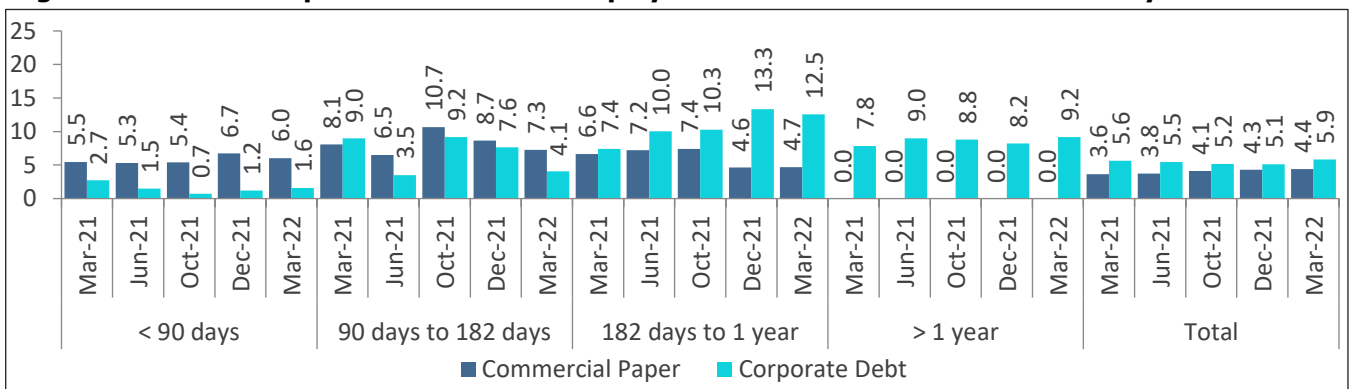


Source: SEBI

CPs deployed in NBFCs for less than 90 days and 90 days to 182 days rose by 17% and 31% y-o-y to Rs.0.45 lakh crore and Rs.0.11 lakh crore, respectively, in March 2022 due to the issuance of CPs by the NBFCs for IPO funding requirements, whereas 182 days to 1 year dropped by 34% to Rs.7,918 crore.

The proportion of CPs and corporate debt (182 days to 1 year) deployed together in NBFCs as a percentage of total debt funds increased to 17.2% in March 2022 as compared to 14.0% in March 2021, while the proportion of total debt funds increased to 10.3% in March 2022 as compared to 9.2% in March 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 fluctuated around the Rs.9.0 lakh crore mark for the better part of the year and crossed Rs.10.0 lakh crore threshold in December 2021. It continued its upward trajectory in March 2022 as capital market rates hardened and NBFCs turned to avail comparatively cheaper bank loans. However, overall borrowing cost is expected to become expensive given that the RBI has raised rates and bond yields have risen in the capital market.

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91 - 22 - 6754 3582 / +91-81080 07676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careedge.in	+91 - 22 - 6754 3519 / +91-90049 52514
Vijay Singh Gour	Lead Analyst – BFSI Research	vijay.gour@careedge.in	+91 - 22 - 6754 3630 / +91-98937 89622
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East),
Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

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