Trend in Exposure of MFs and Banks to NBFCs

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Contact:
Sanjay Agarwal
Senior Director
sanjay.agarwal@careratings.com
+91-22- 6754 3582/500
Mob: +91- 810 800 7676

Saurabh Bhalerao
Associate Director – BFSI Research
saurabh.bhalerao@careratings.com
+91-22-6754 3519
Mob: +91 900 495 2514

Shobhna Kanojia
Deputy Manager – BFSI Research
shobhna.kanojia@careratings.com
+91-22-6754 3631
Mob: +91- 816 945 9228

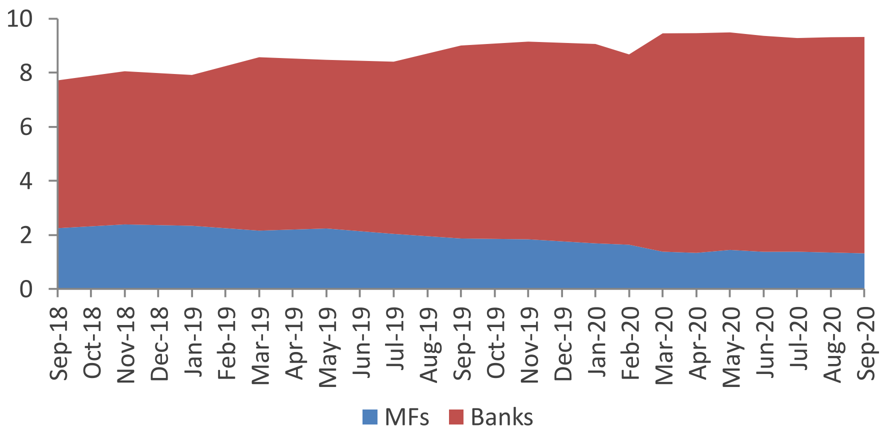
Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3573

This report tracks the trend in debt exposure of Banks as well as Mutual Funds to NBFCs.

Introduction

The challenges for the NBFCs have moved from the liability to the asset side in terms of liquidity and asset quality with the outbreak of Covid-19. RBI's moratorium on the payment of instalments in respect of all term loans to their borrowers ended on August 31, 2020 which had provided a temporarily support to companies. Additionally, with economic activities picking up, the collection efficiency has gradually improved for most NBFCs in September and October 2020.

Figure 1: Summary of Banks and MFs NBFC exposure (Rs Lakh Crore)



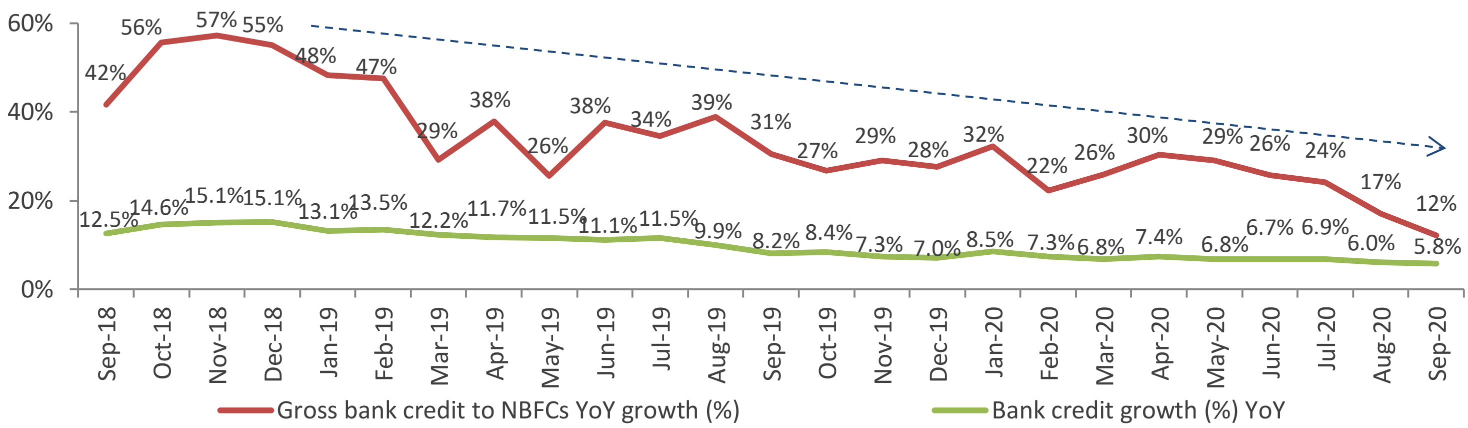
Source: RBI, SEBI

Banks' lending to NBFCs

Banks' outstanding to NBFCs registered a highest growth of 46.3% in absolute terms from September 2018 (Rs.5.5 lakh crore) to September 2020 (Rs.8.0 lakh crore). However, data in Figure 1 does not include liquidity made available to NBFCs by banks via the securitisation route (DA & PTC).

The overall composition of NBFCs in bank credit increased from 6.9% in September 2018 to 8.7% in September 2020 and remained stable on m-o-m basis (8.7% in August 2020). However, growth in bank credit to NBFCs has registered a downward trend as seen in figure 2, due to the base effect and risk aversion in banking system due to the COVID-19 pandemic.

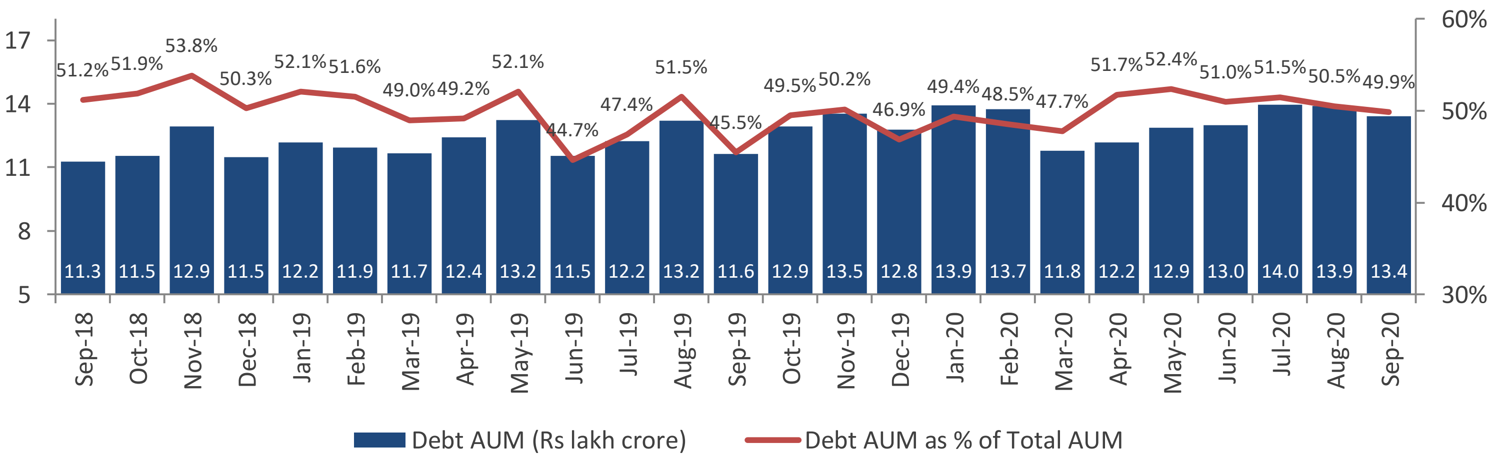
Figure 2: Growth in bank credit to NBFCs vis-à-vis bank credit growth



Source: RBI

As can be seen in figure 3, the proportionate share of debt AUM has improved to 49.9% of total industry assets in September 2020 as compared with 45.5% in September 2019. It was 47.7% in March 2020.

Figure 3: Movement in Debt AUM of Mutual Fund Industry

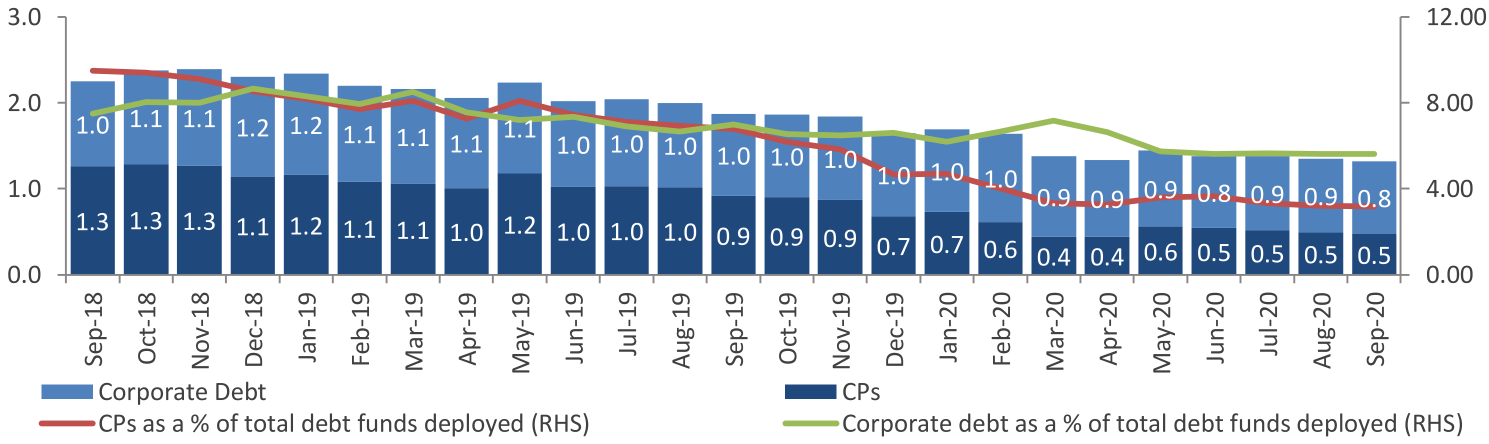


Source: AMFI

As can be seen in figure 4, investments in CPs of NBFCs have been flat in September 2020 on m-o-m basis and at half level compared with the previous year. The percentage share of funds deployed by MFs in CPs of NBFCs in September 2020 fell to 3.2% of debt AUMs (compared with September 2018 when it was 9.5%) and the amount held ranged similar to August 2020 level at Rs.0.48 lakh crore.

The investments in corporate debt paper of NBFCs also remained largely stable on m-o-m basis at Rs.0.84 lakh crore in September 2020, while it is lower compared with 0.94 lakh crore in Mar 2020 and lowest since September 2018 (Rs.0.99 lakh crore). The percentage share declined to 5.6% (lowest since September 2018) compared with 7.2% in March 2020.

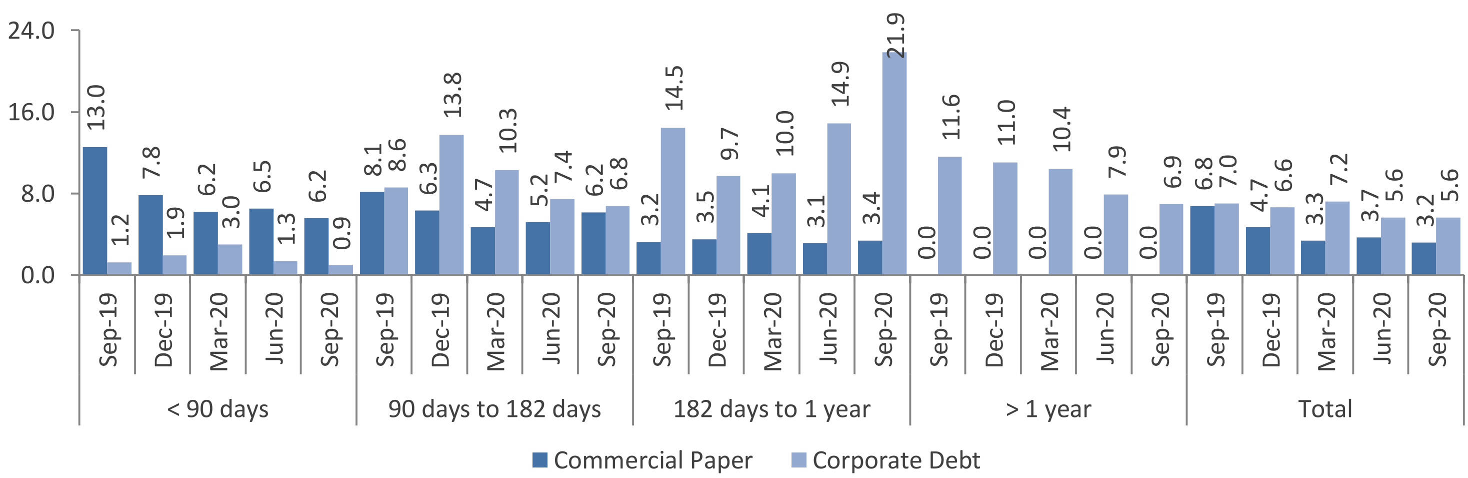
Figure 4: Total debt funds deployed in NBFCs via CPs and corporate debt (Rs lakh crore)



Source: SEBI

The proportion of CPs deployed in NBFCs for less than 90-day period has seen moderation since September 2019 to September 2020, whereas corporate debt remained largely stable m-o-m at Rs.0.84 lakh crores in September 2020 (Rs.0.86 lakh crores in August 2020) and declined compared with the previous year. The proportion of CPs and corporate debt deployed together in NBFCs as a percent of total debt funds witnessed a declining trend from 13.8% in September 2019 to 8.8% in September 2020.

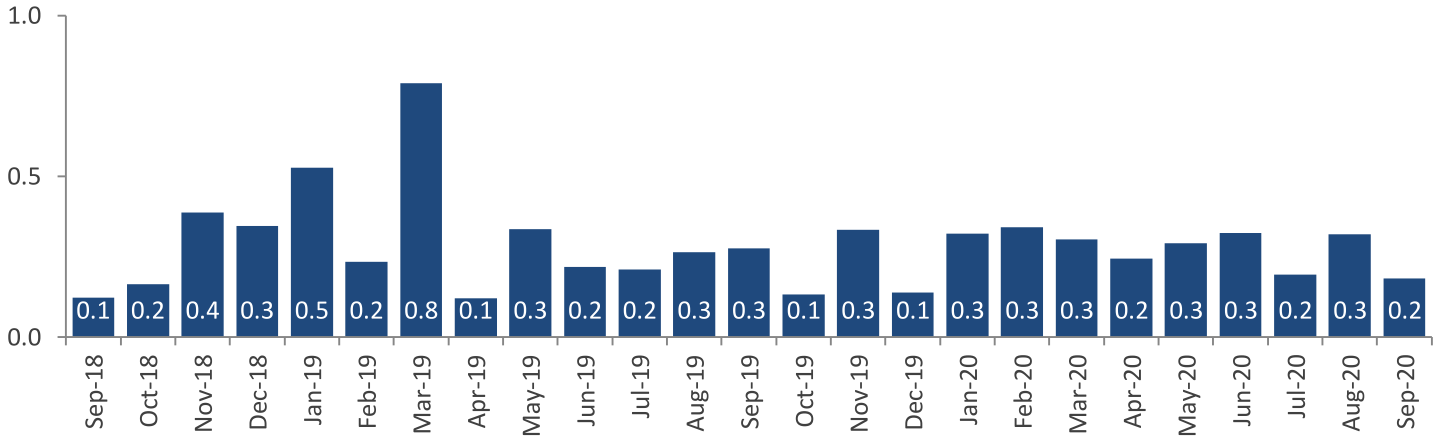
Figure 5: Trend in proportion of CPs and corporate debt deployed in NBFCs as a % of debt funds by duration



Source: SEBI

As can be seen in figure 6, total monthly funds raised by NBFCs from primary market stood at Rs 0.2 lakh crore in September 2020 as compared with Rs 0.8 lakh crore in March 2019, as banks became the major source of their financing needs (refer figure 1) following the NBFC crisis.

Figure 6: Total monthly funds raised by NBFCs from Primary Market (Rs lakh crore)



Note: 1) NBFCs include Asset Financing Services Industry, Other Financial Services Industry and Other Fund Based Financial Services Industry 2) Excludes Commercial paper (CPs)
Source: CMIE

Concluding Remarks

The liquidity covers of NBFCs will be largely dependent on collections and the ability to raise resources during these challenging times. However, amidst this tough time banks have been lending more to them increasing their overall exposure to NBFCs (refer Figure 1). Additionally, the weighted average yield of corporate bond issuances increased in September 2020 by 7 basis points to 7.81% compared with the previous month (7.74% in August 2020) and 64 bps higher than that in April 2020 (7.17%). It was however, 31 bps lower than 8.12% in September 2019 (refer Annexure: Figure A1). On the other hand, the cost of borrowing for NBFCs fell by 97 bps (m-o-m) to 4.96% and 323 bps y-o-y whereas that of HFCs increased by 63 bps (m-o-m) to 6.04% and fell by 131 bps on y-o-y basis. Furthermore, the external commercial borrowings (ECBs) registrations in financial services declined to USD 0.06 bn, (1.07% of total ECBs registrations) in September 2020 as compared to USD 2.85 bn (58.3% of total ECBs registration) in September 2019.

Annexure

Figure A1: Average Yields in Primary Markets (in %)

AAA rated	Corporate Bonds	NBFCs	HFCs
Sep-19	8.12	8.19	7.35
Oct-19	7.87	7.72	7.97
Nov-19	8.35	7.79	7.25
Dec-19	8.60	8.34	7.36
Jan-20	7.92	8.05	7.36
Feb-20	7.56	7.78	7.24
Mar-20	8.02	7.57	7.70
Apr-20	7.17	7.64	7.21
May-20	7.18	7.48	7.12
Jun-20	7.52	7.03	6.62
Jul-20	7.02	7.25	7.28
Aug-20	7.74	5.93	5.41
Sep-20	7.81	4.96	6.04

Source: Prime Database; CARE Ratings' Calculation, (refer report 'Debt Market Updates for September 2020')