

NBFCs' borrowings from banks up over 20 times in one year

Net borrowing in these NBFCs rose to Rs 74,000 crore from a mere Rs 3,600 crore in the previous 12 months

Abhijit Lele | Mumbai November 05, 2016 Last Updated at 21:45 IST



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Fundraising by Indian non-banking financial (NBFC) companies from banks grew manifold in the 12 months ended September 2016, mostly to support retail lending business. Net borrowing in these NBFCs rose to Rs 74,000 crore from a mere Rs 3,600 crore in the previous 12 months.

Much of the credit disbursement happened in the six months prior to March 2016. Of the Rs 74,000 crore, as much as Rs 56,000 crore was raised during October 2015-March 2016. Outstanding credit to finance companies stood at Rs 3,70,100 crore in September, according to data from the Reserve Bank of India.

According to public-sector bank executives, banks are in soft interest rate cycle regime and NBFCs including housing finance and micro-

finance companies have taken benefit of cheaper credit for on-lending. Demand from NBFCs will stay in the remaining months in this financial year, but might not be on the same scale seen in FY16.

Besides rate benefit, the problem of deploying funds has also shaped the decision of banks to lend to NBFCs. "Credit demand in industrial and manufacturing sector is tepid and banks are saddled with excess liquidity. So, giving funds to regulated non-banking financial companies is good business opportunity," said a senior IDBI Bank executive.

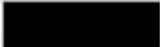
A head of finance at a large conglomerate said, banks drew comfort from credit checks at two levels while lending to NBFCs - the due diligence done by banks while lending to NBFCs and the latter carrying out checks, monitoring and recoveries.

Compared to banks, NBFCs do a better job in reaching out to customers especially in regions where there are fewer banks and to small enterprises. "Their flexible business model and efficient working gives them an edge over us," say bank executives.

According to an ICRA report on the NBFC sector, the overall funding mix of NBFCs remained largely stable in FY16. The banking system remains the

GOING NORTH

Snapshot of bank credit to finance companies

Month	Outstanding credit (₹ cr)	
September '14	2,92,500	
March '15	3,11,700	
September '15	2,96,100	
March '16	3,52,700	
September '16	3,70,100	

Source: Reserve Bank of India

primary source of funding for retail-focused NBFCs, accounting for close to 42 per cent of the total resource profile as on March 31, 2016. The share of bank funding, however, came down from 45 per cent as on March 31, 2014.

The drop in the share of bank funding was the result of NBFCs increasing the proportion of incremental funding through debt market instruments (non-convertible debentures and commercial papers) given the overall softening of debt market rates.