

Banks turned wary of NBFCs months before IL&FS defaults

Bank loans to NBFCs fell by ₹6,000 crore during April-August, a stark contrast to the ₹82,000 crore loans given by banks to the economy in the same period

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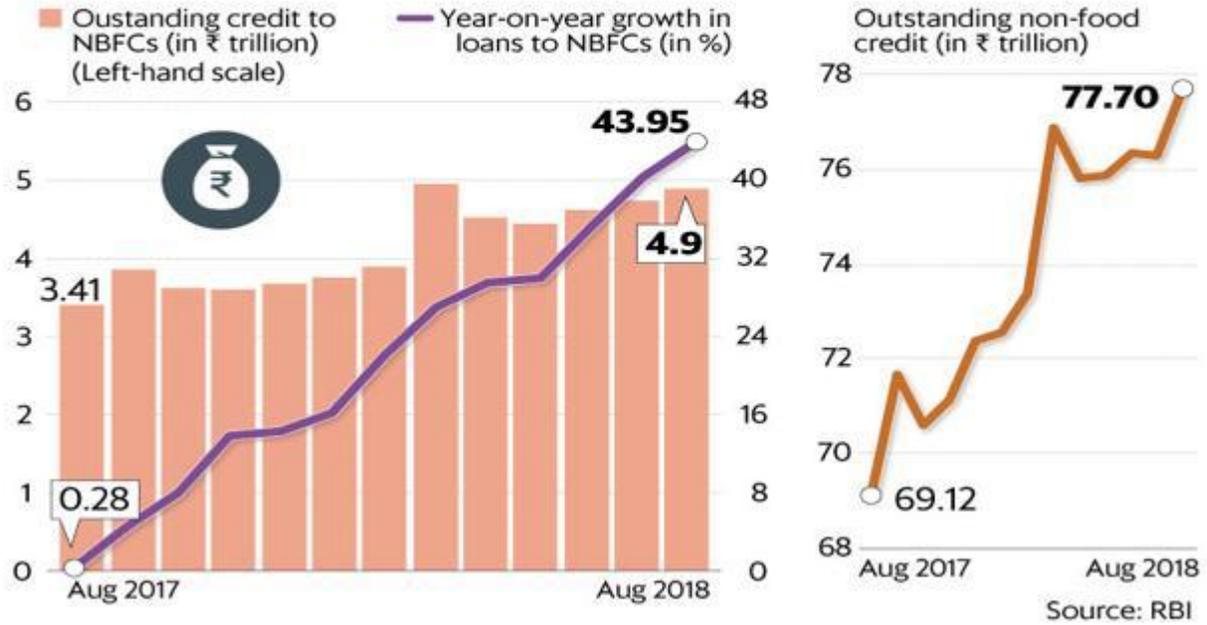
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Banks seem to have turned wary of lending to non-banking financial companies months before the IL&FS defaults triggered a scare.



A series of defaults by IL&FS over the last two months had hurt sentiments towards NBFCs. Graphic: Mint

Indian banks seem to have turned wary of non-banking financial companies (NBFC) months before doubts on their liquidity position began to scare investors. The adjoining chart shows that **bank loans to NBFCs** fell by ₹6,000 crore during April-August. This is in contrast to the ₹82,000 crore loans given by banks to the economy in the same period. Consequently, the share of NBFCs in outstanding bank credit as of August fell marginally to 6.31% in August from 6.46% in March.

The series of defaults by **Infrastructure Leasing and Financial Services Ltd** (IL&FS) over the last two months had hurt sentiments towards NBFCs, as many of them had funded long-term assets through short-term borrowings such as commercial papers

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Worries over possible downgrades of some weak NBFCs had also triggered fear among investors, **pulling down stocks** of these firms. Bankers, however, had assured markets that lending to NBFCs will not be affected.

To be sure, lending to NBFCs tends to be slow in the first six months of a fiscal year. Even non-food credit growth remains subdued due to a seasonally lean first half. Typically bank credit picks up from October.

The 44% year-on-year growth in bank loans to NBFCs shows that refinancing has indeed not dried up for finance companies.

However, the fall in non-food credit in some months has largely been led by NBFCs.

For instance, between April and June, non-food credit fell by ₹56,000 crore, of which, more than 60% was due to contraction in loans to NBFCs.

Bank loans are a crucial source of borrowing for NBFCs with about 28% coming from lenders. With lending rates set to rise as reflected in the hikes of benchmark rates by several banks, the cost of borrowing for NBFCs is set to increase.

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