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Challenge grows for NBFCs as banks turn tight-fisted

BY SAIKAT DAS & ATMADIP RAY, ET BUREAU | OCT 09, 2018, 11.25 PM IST

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KOLKATA/MUMBAI: Banks are turning away their cash-trapped NBFC borrowers, throwing them into greater challenges at a time when every one is trying to preserve liquidity and avoid default.

There are wide-scale complaints from the NBFC lobby that some banks are even refusing to release funds against sanctioned loan limits.

While its tough time for NBFCs, banks with their collective Rs 9 lakh crore pile of sticky loans are in rights to guard their balance sheet.

"If IL&FS starts defaulting more there would be cascading effect. So, it's normal that everybody is cautious," a senior official with a leading public sector bank said.

So, they stopped fresh sanctions to NBFCs. Someone like Aadhar Housing Finance managing director Deo Shankar Tripathi gone o record saying that banks were not releasing funds against sanctioned limits.

Eleven out of 21 government-owned lenders are under prompt corrective action for their abysmally higher non-performing assets and erosion of capital and therefore, they are not lending to corporate sector because of regulatory restrictions, contributing to the drying up of bank loan syndrome.

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Several non-bank lenders including housing finance companies have slowed down loan disbursement and are deferring high-value loans.

"There is an inherent mismatch between asset and liability in all housing finance companies where average lending is for a period of 12-15 years while they borrow for 7-8 years. Naturally the gap is filled by unutilised lines of credit from banks and other financial institutions," said Rajib De, former vice president at [GIC Housing Finance](#) who has joined Inditrade Group to head its proposed housing finance subsidiary.

"Now, the sudden stoppage of the approved refinance window has created panic among housing finance companies," De said.

The lower rated companies are seen as most vulnerable while top-rated [Indiabulls](#) Housing Finance has raised its [mortgage loan](#) rates by as much as 200 basis points to 14.90% on Tuesday.

"We are in the peak of festival season when we do most of the credit business. But, we are now constrained with funds. Our pace of growth will clearly come down," said a treasury head of a large non-banking finance company.

"This is a crisis of confidence with lenders not taking any step for fresh lending. It will take time to fade away unless the authorities come out with some confidence building measures," said head of a [mutual fund](#).

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