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THE IL&FS CRISIS AND AFTER

IL&FS effect: NBFCs may sell receivables for quick liquidity

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Will take securitisation route to clear short-term debt

MUMBAI, OCTOBER 7

Faced with the risk that their short-term liabilities may not be rolled over, non-banking finance companies may step up securitisation of their receivables to pull in liquidity to pay off short-term debt.

The roll-over risk stems from the recent defaults by IL&FS and some of its arms on inter-corporate deposits, commercial papers (CPs) and non-convertible debentures (NCDs). These defaults have had a knock-on effect on NBFCs.

Securitisation is a process whereby a company sells a pool of assets to a special purpose vehicle (SPV), which issues securities (backed by the pool of assets) to investors to buy them. A company can raise liquidity via this route.

"One of the solutions (for NBFCs' liquidity issues) is for NBFCs to sell their securitised assets to banks and raise money to pay off their short-term debt," said Rajkiran Rai G, Managing Director and CEO, Union Bank of India. "NBFCs have good assets such as affordable housing and loans against property, which can be securitised." Though NBFCs' loan book will shrink due to securitisation, they will have liquidity.

"Pool purchase (of assets) is done by all banks in a limited way. Maybe this is the time to back all NBFCs (in their securitisation efforts)," Rai said.

The defaults prompted mutual funds, which have sizeable investment in financial instruments issued by IL&FS and its arms, to sell NBFC debt (CPs and NCDs) in the secondary market at higher yields to take care of redemptions of units. This sale ended up creating an impression that NBFCs, especially housing finance companies, were desperate to raise money at higher interest rates. But this was not the case.

Special liquidity window

Market players were expecting the RBI to open a special liquidity window for NBFCs to help them tide over short-term liquidity pressures that could arise from the IL&FS crisis. Such a move would have provided an immediate solution to overcome short-term liquidity mismatches.

In its latest monetary policy review, the RBI suggested that all financial firms, especially NBFCs, should consider placing greater reliance on equity and other modes of long-term finance for funding of long-term assets, rather than relying on short-term wholesale paper. NBFC players say this is a long-term solution to tide over asset-liability mismatches.

According to credit rating agency Crisil, securitisation transactions doubled to ₹31,500 crore year-on-year in the first quarter as deals backed by loan receivables that do not qualify for priority sector lending rocketed following clarity on the applicability of GST.

The GST Council's clarification that securitised assets are not liable to pay tax spurred some large mortgage players to tap the securitisation market once again.

The agency said: “Mortgages continued to be the driver of non-PSL securitisation…Newer non-PSL asset classes – such as personal and consumer durables loan receivables, lease rentals and gold loan receivables – saw a significant increase in momentum in the first quarter and transactions surged to ₹2,800 crore.”

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