RBI, NHB, SBI open liquidity taps to boost NBFC lending

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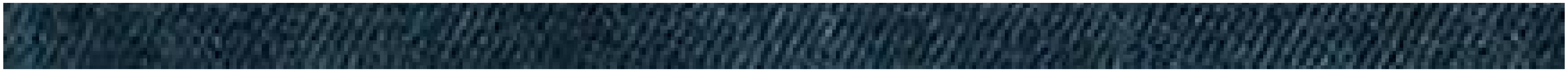

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Seek to lessen credit constraints in festival season amid IL&FS woes, conservative lending by banks

MUMBAI, OCTOBER 10

The Reserve Bank of India (RBI), its subsidiary National Housing Bank (NHB), and State Bank of India (SBI) have opened the liquidity taps to ensure that lenders, especially non-banking finance companies (NBFC), do not face restraints in lending in the traditionally busy season of October-March due to liquidity issues.

Market players see the liquidity enhancement as a positive measure to ensure that NBFCs — which typically finance housing, auto and consumer durables purchases, and lend to SMEs — do not slow down their lending at a time when banks have turned conservative due to their non-performing asset (NPA) woes.

With the festival season kicking in — amid the default on debt obligations by IL&FS and some of its arms, which have had a ripple effect on the debt market — the RBI is keen to ensure that there is no liquidity crunch in the system.

According to banking sources, the opening of the liquidity taps should also be viewed in the context of the central bank wanting all financial services firms to consider placing greater reliance on equity and other modes of long-term finance for the funding of long-term assets, rather than relying excessively on short-term wholesale paper.

Durable liquidity pools

The latest moves may give comfort to NBFCs in transitioning to more durable pools of liquidity. For the banks, this provides an opportunity to acquire some good assets.

According to Union Bank of India MD & CEO Rajkiran Rai G, NBFCs have good assets, such as affordable housing loans and loans against property, which can be securitised.

“Now, the pool purchase (of assets) is done by all the banks in a limited way. Maybe this is the time when we (banks) may have to back all the NBFCs (in their securitisation efforts),” he said.

Earlier, the RBI had said it would conduct the purchase of Government Securities (G-Secs) under Open Market Operations (OMOs) for ₹36,000 crore in October. The auctions would be conducted during the 2nd, 3rd and 4th week of the month, it had said.

As part of the liquidity injection measures for October, the RBI has decided to conduct the purchase of G-Secs under OMO for ₹12,000 crore on October 11.

NHB recently said it has upped its refinancing limit by ₹6,000 crore to ₹30,000 crore to eligible institutions, including housing finance companies, for the July 2018-June 2019 period.

SBI on Tuesday said it sees an opportunity to buy additional portfolio of up to ₹30,000 crore of good quality assets — in both priority and non-priority sectors — from NBFCs.

India's largest bank had initially planned for a growth of ₹15,000 crore through portfolio purchase during the current year. This is now being enhanced.

Higher credit growth

Madan Sabnavis, Chief Economist, CARE Ratings, said the credit growth of NBFCs has been higher than that of banks in the last one year or so.

Hence, the liquidity enhancement measures by RBI, NHB and SBI will improve market sentiment and help NBFCs tide over liquidity issues, he added.

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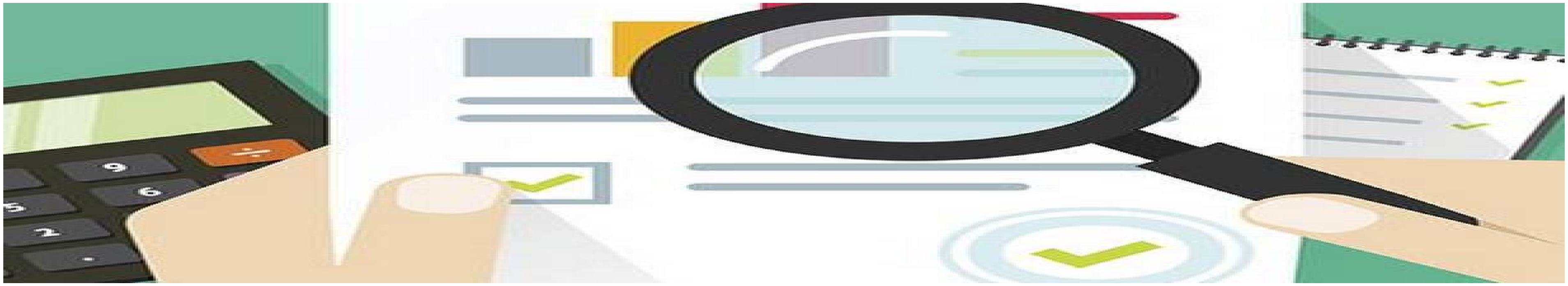

On the heels of the government move to supersede the board of IL&FS, the CA Institute has sent show cause notices to the statutory auditors of this crisis-ridden IL&FS group."The Disciplinary

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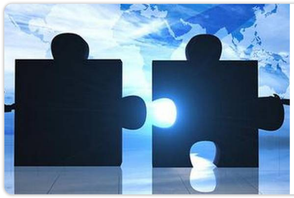

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