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RBI comes to aid of NBFCs, allows banks to lend more

BY ET BUREAU | UPDATED: OCT 20, 2018, 08.25 AM IST

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MUMBAI: The Reserve Bank of India relaxed liquidity norms to ease the strain in the financial markets and allowed more bank lending to non-banking finance companies (NBFCs), which are facing asset-liability mismatches. It's estimated the move could free up as much as Rs 50,000 crore for lending to the sector as it grapples with refinancing maturing commercial paper and short-term loans.

The central bank said banks are permitted to raise their exposure to a single NBFC that doesn't finance infrastructure to 15% of capital from 10% until the end of the year, thus making more funds available for big companies such as Housing Development Finance Corporation and Bajaj Finance, analysts said. RBI's measures on Friday follow a liquidity scare in the shadow banking system after IL&FS defaulted on payments, throwing the markets into turmoil.

The measures failed to keep India stocks from tumbling in the wake of weakness across Asian markets, which took their cue from the US. NBFC stocks dropped 3-17%.



Liquidity coverage ratio refers to highly liquid assets that financial institutions need to hold in order to meet short-term obligations.

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RBI allowed govt securities equal to the Incremental credit disbursed by banks to NBFCs eligible to be used to meet liquidity coverage ratio requirements

It is in addition to the **13%** carve-out from SLR permitted for use against LCR requirements

Single-client exposure limit raised for banks to NBFCs not in the Infrastructure lending space from **10% TO 15%** till December 31

Bank credit to NBFCs had grown rapidly over the last few years and now stands at **₹5.9 lakh crore**

Main benchmark indices fell over 1% on Friday as heavyweight stock Reliance Industries slumped following announcement of its second quarter results. The Nifty fell 149.50 points or 1.4% to close at 10303.55 and the Sensex fell 464 points or 1.3% to close at 34315.63. India's volatility gauge India VIX surged nearly 11% to close at 19.9. Markets were shut on Thursday on account of Dussehra.

A sudden outflow from mutual funds has worsened sentiment in India with NBFCs worrying about their ability to refinance debt. The asset-liability mismatch refers to the imbalance between short-term borrowings and long-term investments.

Bank credit growth has averaged 7% in the past two years, whereas overall credit expansion was more than 10%, aided by over 20% growth in NBFC credit. Banks have a lending exposure of Rs 5.9 lakh crore to NBFCs.



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LENDING OPPORTUNITY

“Today’s move by RBI will certainly ease liquidity for the NBFCs from the banking system. However, the impact will be felt more prominently by private banks that can now leverage this additional window of liquidity to lend to NBFCs,” said Sanjay Chamria, managing director of Magma Fincorp.

RBI also said that banks can count higher lending to NBFCs equivalent to excess government bonds they own for meeting the liquidity coverage ratio (LCR) — liquid assets needed to meet short-term liabilities. “The single borrower exposure limit for NBFCs which do not finance infrastructure stands increased from 10% to 15% of capital funds, up to December 31, 2018,” RBI said in a statement.

Chamria welcomed this move but said single client exposure limit may need to be phased back to 10% gradually in 2019. “RBI may need to clarify whether the higher single-client exposure up to 15% taken till December 31, 2018, could be extended thereafter,” he said.

LIMITED BENEFITS?

Only some NBFCs may benefit from the move, experts pointed out. “While this is an important signal of regulator’s intention of ensuring market stability, the current measures may primarily benefit only select NBFCs like HDFC,” said Ashish Gupta, analyst at Credit Suisse. “The LCR relaxation capped at 0.5% translates to a Rs 50,000 crore headroom for NBFC lending.”

The latest step is among a series of liquidity infusion measures by the RBI as short-term interest rates spiked despite the monetary policy committee keeping interest rates unchanged at its recent meeting. While shifting its stance to “calibrated tightening” from “neutral,” it maintained the repo rate at 6.5%.

While promising sufficient liquidity in the financial markets, the central bank was critical at the time of the asset-liability mismatch at NBFCs and suggested that they raise more equity and long-term funds rather than focusing on profitability with short-term funds that create instability.

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