

SBI purchase of loan portfolios: Bailing out NBFCs critical as regulators slept earlier

By: [The Financial Express](#) | New Delhi | Published: October 10, 2018 3:17 AM



Once again, we have a situation where good players are bailing out weaker ones to ensure the system doesn't collapse.

It is hard not to read the announcement by State Bank of India (SBI) that it would significantly step up purchases of loan portfolios from non banking financial companies (NBFCs) as not being a bailout for the NBFC sector. On Monday, in a similar move, the National Housing Bank (NHB) announced it has stepped in to provide additional refinance to housing finance companies (HFCs), raising the limit to Rs 30,000 crore from Rs 24,000 crore. To be sure, these are the right solutions at a time when there is serious risk of contagion in the financial markets following the IL&FS-induced crisis in the NBFC sector. Redemption from mutual funds hit a huge Rs 2.3 lakh crore in September, the highest in at least five years. From the government's perspective, therefore, it makes eminent sense to tap SBI and NHB.

However, while the SBI chairman might describe it as a 'win-win situation', because banks are buyers of assets while NBFCs are sellers since they face an asset-liability mismatch (ALM), there could be some risks. The fact is only the second-grade NBFCs are in trouble; no prudent lender would make itself vulnerable to ALM. Going by this, it would not be totally incorrect to assume that the quality of their loan books, too, would be inferior to those of the top-class NBFCs. This is not to suggest that SBI will not do its homework before it buys the loans, but the fact that the loans are being sourced from second-grade NBFCs is a big worry. Moreover, it will be buying a very large quantum of assets—an additional Rs 20,000-Rs 30,000 crore worth—in a relatively short span of time. Simply because some of these loans qualify for priority sector lending doesn't make them good quality loans.

Once again, we have a situation where good players are bailing out weaker ones to ensure the system doesn't collapse. The complete lack of oversight is shocking. For instance, how is it that HFCs are so starved for liquidity? How did the NHB allow such levels of ALM? If HFCs were not able to access funds from banks because several banks aren't operating at their earlier levels, they shouldn't have grown their loan books at the blistering pace that they did. The NHB cannot skirt the issue of the growing asset-liability mismatches at these lenders; it must create regulations to ensure the situation isn't repeated. Both NBFCs and HFCs have been merrily borrowing short-term money—because it came cheaper during a time of abundant liquidity—knowing fully well their assets are long-term in nature. And the regulators have not even checked this.

One estimate by brokerage firm, Nomura, noted that, as of August 2018, non-convertible debentures (NCDs) and commercial paper (CP) contributed just under a fifth of the total funding of NBFCs and HFCs. Moreover, they accounted for as much as 40-50% of the non-bank borrowings of these financiers. CPs, which typically are issued for three months and rolled over, alone are estimated to have funded 25-30% of the incremental lending in the last two years. While the government may be keen to push its affordable housing agenda, the pace of loan growth at HFCs needs to moderate.

ADVERTISING

inRead invented by Teads

Get live [Stock Prices](#) from BSE and NSE and latest NAV, portfolio of [Mutual Funds](#), calculate your tax by [Income Tax Calculator](#), know market's [Top Gainers](#), [Top Losers](#) & [Best Equity Funds](#). Like us on [Facebook](#) and follow us on [Twitter](#).

PROMOTED STORIES
