Despite easing, access to bank funds still critical for NBFCs: Crisil

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Top 50 NBFCs need ₹70,000 crore in Nov to redeem CPs

CHENNAI, NOVEMBER 8

Continued or timely access to bank funding remains critical for non-banks amid some easing in the past couple of weeks, according to a report by rating agency Crisil.

Access to funding for non-banks (non-banking financial companies, or NBFCs, and housing finance companies, or HFCs) has been challenging in recent times.

However, the past two weeks saw some change in market sentiment, with gradual easing in funding access for non-banks. Recent steps taken by the regulators, such as the Reserve Bank of India and National Housing Bank, and large banks such as State Bank of India, to improve access to funds, have benefited non-banks.

The announcement of further regulatory support measures such as a stand-by liquidity line can help avert situations of funding stress as seen recently, it said.

Debt repayments

About 50 large Crisil-rated non-banks have debt repayments worth ₹95,000 crore due in November, of which, ₹70,000 crore are commercial papers (CP) maturing. While some non-banks are well-placed to meet debt repayments without drawing down on bank lines, others may have to do so, at least, partially.

Another monitorable would be how asset quality – which has remained largely steady for non-banks in the recent past – pans out, especially in the non-retail financing portfolio containing loans to small and medium enterprises, loans against property (LAP), and real estate developer loans. In October, the rollover rate of CPs issued by the 50 largest Crisil-rated non-banks was only about 40 per cent of the average monthly issuances between June and August 2018. Consequently, non-banks have had to tap banks for funds. In the past, issuances by financial sector entities have typically been fully rolled over or refinanced on maturity.

Nevertheless, Crisil notes that CP volumes increased in the last week of October, and if the trend continues, rollover rates should be higher in November.

“Non-banks with strong parentage and those belonging to large corporate groups have managed to partially roll over their CPs and raise funds through bank loans to a greater extent compared with peers, although they have had to pay higher interest rates,” said Krishnan Sitaraman, Senior Director, Crisil Ratings.

Meanwhile, on the business front, non-banks have curtailed disbursements in the past month or so to conserve liquidity.

Consequently, Crisil expects growth to slow down in the near to medium term.

“While current delinquencies are not high on account of stringent credit appraisals and risk-mitigating mechanisms, if the funding situation for non-banks does not stabilise over a period of time, asset quality challenges could manifest,” warned Ajit Velonie, Director, Crisil Ratings.

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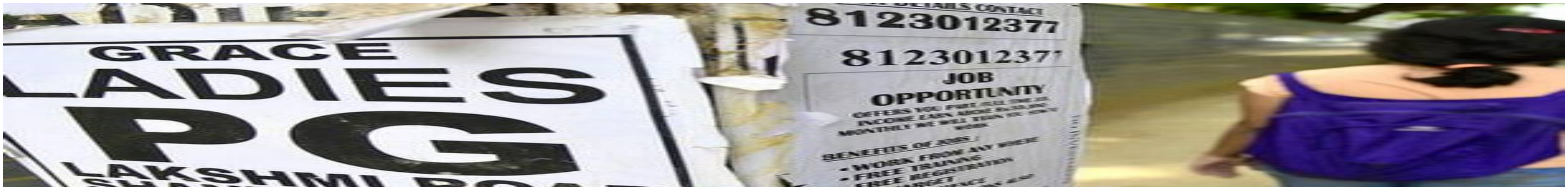

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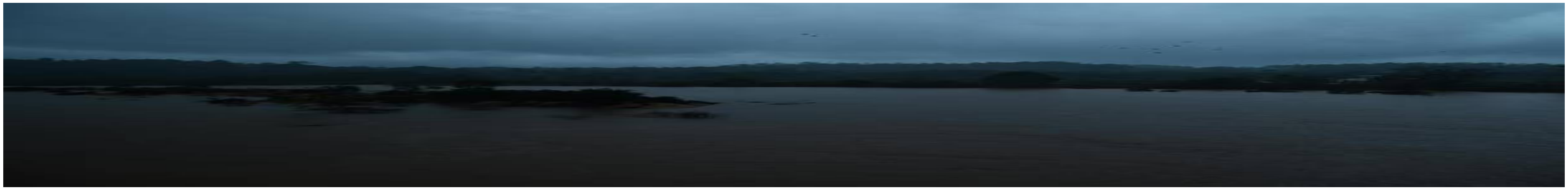

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