IL&FS effect! Liquidity woes – NBFCs bank on securitisation

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Average daily net liquidity deficit in banking system for the week ended Nov 16 rose to Rs 90,648 crore against Rs 68,612 crore a week ago.

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Three months after Infrastructure Leasing and Financial Services (IL&FS) defaulted on commercial paper — the most liquid form of debt — NBFCs have started to move towards securitisation and bank loans in order to combat liquidity pressures and depleting trust from bond investors. According to the Reserve Bank of India (RBI), bank credit to non-banking financial companies (NBFCs) till September 30 experienced a 51% year-on-year growth to Rs 5.46 lakh crore. Meanwhile, a report by Icra shows that securitisation volume in the first seven months of FY19 has exceeded that of FY18.

The average daily net liquidity deficit in the banking system for the week ended November 16 increased to Rs 90,648 crore against the deficit of Rs 68,612 crore a week ago. The banking system liquidity continued to be in deficit for the sixth consecutive week. Barring the week of October 3-8, the liquidity has been in deficit since September 11.

The banking system liquidity deficit continues to be pressured since the past one and half months despite RBI undertaking open market operations (OMO) purchases to the tune of Rs 12,000 crore on November 15, totalling to Rs 34,000 crore of OMO purchase in November. Out of the Rs 1.08 lakh crore OMO purchase undertaken this fiscal (April–November), the preceding three months have witnessed OMO purchase of Rs 90,010 crore.

The call market rate declined during the week and closed at a two-week low of 6.12%, 35 basis points (bps) lower than the previous week’s close. Despite the tight liquidity in the banking system, the average call market rate for the week ended November 16 was 6.34%, 10 bps lower than the average call market rate of the previous week.

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The y-o-y bank credit growth scaled a five-year-high of 14.6% as on October 26, which is double the credit growth of 6.8% observed in the previous year. Incremental bank credit growth in FY19 (1 Apr-26 Oct) was significantly higher at 4.7% compared with the growth of 0.6% in the comparable period last year. On a y-o-y basis, the deposit growth in FY19 has been at 9%, 0.3% higher than the growth in FY18.

Experts at Care Ratings expect the banking system liquidity deficit to continue, "We foresee an easing in the liquidity deficit in the current week with two public holidays during this period. The fortnightly reporting of SCBs to the RBI, scheduled government borrowings (central government: Rs 12,000 crore on November 22 and state governments: Rs 4,350 crore on November 19) and the likelihood of continued forex sales by the RBI to support the rupee are to continue to pressure system liquidity."