

# NBFCs loans will slow, but there's no need for special credit lines; here's why

By: [The Financial Express](#) | Published: November 5, 2018 2:10 AM

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NBFC loans will slow, but don't rush special credit lines

While there are no reports of defaults or delays in loan repayments by Non Banking Financial Companies (NBFC) or Housing Finance Companies (HFC), the money markets remain nervous. That is understandable because a big chunk of the borrowing by these lenders has been done via issuances of Commercial Paper (CP) to mutual funds, which are typically rolled over. Given the sharp outflows from liquid schemes of Rs 2 lakh crore in September, however, the markets aren't sure the MFs will roll over the borrowings. By one estimate, around RS 1.5 lakh crore of CP issued by financial companies are coming up for renewal in November and another Rs 75,000 crore or so in December.

To be sure, there will be support from banks—SBI has said it intends to buy NBFC assets worth some `40,000 crore. Banks, in turn, will be supported by the `40,000 crore of open market operations (OMO) conducted by [RBI](#) in November. At least 70-80% of the money that flowed out of liquid schemes should be back, as should some of the cash withdrawn from banks for the festive season. And National Housing Bank (NHB) has also rushed to the rescue of HFCs. At this point, therefore, at a system-level, there appears to be enough liquidity. Also, RBI always has the option to step up OMOs in case the shortage gets more acute which is possible given how the levels of currency with the public are shooting up; at the end of October 19, it was `19.4 lakh crore, up `3.2 lakh crore over last year.

However, after the implosion of IL&FS, lenders have turned risk averse. Today, it is the better-rated companies alone that are able to borrow, and those with weak ratings will find it very difficult to access funds. This has caused interest rates to move up by anywhere between 50 and 100 basis points over the past

month. Indeed, issuances in the corporate bond market, too, slowed down in the September quarter due to a mismatch in yield expectations between issuers and investors. While bank lending remains strong—averaging 14% y-o-y—and should remain so since deposits are growing at around 8% or thereabouts, the worry is that slower NBFC lending will hurt the economy. While bank loans to NBFCs have jumped sharply in September, anecdotal evidence suggests NBFCs are holding back on loans possibly because they are repaying loans taken earlier.

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Unless a big chunk of the cash comes back into the banking system, which seems very unlikely, lending by NBFCs and HFCs will slow sharply, hurting the economy, since they account for about a fourth of the system-wide credit. While that is unfortunate, it is nobody's case that inefficient or irresponsible NBFCs—those that have borrowed short and lent long—should be bailed out. Banks cannot, and should not, be asked to buy out dodgy assets of NBFCs or asked to lend to them if they are poorly rated. It is true that the risk aversion will hurt credit growth at a time when 11 state-owned lenders are already constrained by RBI's PCA framework. This is the price that must be paid for the excesses of the past; inefficient players must be weeded out, else lending practices will never improve.

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