RBI rings in New Year cheer for NBFCs, HFCs

KR Srivats Updated on December 31, 2018

Extends relief on single borrower exposure, liquidity norms by 3 months

To further facilitate more bank lending to non-banking finance companies (NBFCs) and housing finance companies (HFCs), the RBI has extended by three months the relaxed liquidity norms and the higher single borrower exposure rule implemented by the regulator in October.

This is being seen as the effect of Prime Minister Narendra Modi’s recent meeting with the top honchos of NBFCs.

The RBI had, in October, permitted banks to treat government securities as Level 1 HQLA (high-quality liquid assets) under the FALLCR (Facility to Avail Liquidity for Liquidity Coverage Ratio) within the SLR requirement of up to 0.5 per cent of a bank’s NDTL (net demand and time liabilities) in respect of their (banks') incremental lending to NBFCs/HFCs after October 19.

This facility was available up to December 31. Now, it has been extended to March 31, 2019.

Also, in October, the single borrower limit for NBFCs (not financing infrastructure) was increased from 10 per cent to 15 per cent of capital funds till December 31, 2018. Now, this has also been extended to March 31, 2019.

The RBI, in its *Trends and Progress in Banking in India 2017-18 report,* which was released last Friday, said that it was "proactively" addressing "the concerns of some NBFCs". The report flagged as a major challenge the strengthening of the asset-liability framework for NBFCs to bring it on a par with banks and harmonising it across different categories of NBFCs.

Industry hails the move

Reacting to the latest RBI move, Raman Aggarwal, Chairman, Finance Industry Development Council (FIDC), said: "This is a step in the right direction and will improve bank lending to NBFCs. It is a significant move but not enough."

Ravindra Sudhalkar, ED and CEO, Reliance Home Finance, said: "More than the funding (liquidity window), the time extension will bring confidence to the market."

He said the IL&FS crisis had led to a liquidity crunch, bringing businesses to a standstill for many NBFCs and HFCs.

However, the RBI relaxation that allowed banks to lend to NBFCs and HFCs is slowly getting them back on their feet. This has enabled such companies to raise money from the market through securitisation, he said.

“The latest extension by the RBI will provide further confidence to the market, and allow NBFCs and HFCs to come back strongly by once again being able to borrow from the market and, importantly, enable them to make fresh lending,” said Sudhalkar.

Ashok Haldia, former Managing Director and CEO, PTC India Financial Services, said that many NBFCs are still facing liquidity problems and need continued support.

Close monitoring would, however, be required so that the the liquidity position of ailing NBFCs becomes sustainable over time.

“Else relaxation would only act as a temporary reprieve leading to a messier situation,” Haldia told *BusinessLine*.

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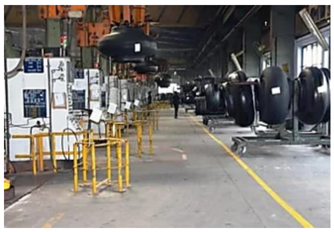

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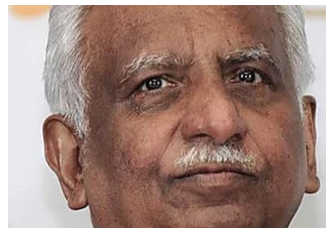

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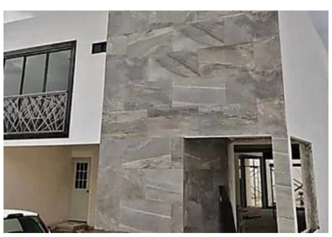

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