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Banks lend over Rs 20,000 crore to NBFCs since the crisis hit the sector following IL&FS default

BY GAYATRI NAYAK, ET BUREAU | FEB 14, 2019, 07:41 PM IST

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When mutual funds turn fair weather friends, banks provide the helping hand. Banks lending to Non - Banking Finance Companies rose 4.4 percent in the December quarter to Rs. 24,200 crores when mutual funds slammed the doors on them after [Infrastructure Leasing & Financial Services Ltd.](#) defaulted on bond payments. This growth compares with a shrinking of 4.7 percent in the same quarter a year ago, RBI data shows.

A lot would depend on market conditions, say bankers and also the kind of NBFC they lend to which add to their lending comfort. " Banks are comfortable lending to PSU backed NBFCs or even some top rated established NBFCs" said C Venkat Nageswar, deputy managing director, [State Bank of India](#). NBFCs could be broadly categorised as PSU backed, large business houses backed and other private NBFCs.

PSU backed NBFCs like [Power Finance Corporation](#) are perceived to be safe and even some larger NBFCs like Mahindra Finance, HDFC or even L & t Finance are some top rated NBFCs, to whom bankers are more comfortable to lend.

Even as banks are cautious, NBFCs are finding it difficult to get funds from other sources like mutual funds or even directly from the market through commercial paper or CPs, which has been a popular source of funding for them. "As rollover of CPs was slowing down, dependence on market borrowings got shifted to bank borrowings. But lenders have become more choosy now" said According to Pankaj Naik, associate director, banking and financial institutions and Jinay Gala, senior analyst, financial institutions at ratings firm India Ratings.

Analysts also do not rule out the possibility that many NBFC borrowers are likely to have sought sanctions before crisis hit the sector when Infra lender IL & FS defaulted on bond payments. . But drawing on their sanctions, post the crisis. " During the times of tight liquidity, as a matter of prudence, NBFCs drew down on the lines of credit sanctioned to them by banks. Banks cannot deny them these sanctioned limits" said Nail and Gala.

After the news of default by IL & FS broek, the sector faced a liquidity problem which prompted the regulators to direct banks to buy NBFC loan portfolio and help them address their liquidity woes. But these portfolio purchases are not treated as exposure to NBFCs by banks but to the concerned sector from which the portfolio is purchased.

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