

NBFC sector revives: Liquidity concerns ease as fundraising improves

By: [Eram Tafsir](#) | Published: February 20, 2019 2:50 PM

With the banking sector reeling under persisting NPAs and rising Marginal Cost of Lending Rate (MCLR), lending by the NBFC sector has increased remarkably in the last few years, CARE Ratings said in the research report.



The liquidity concerns in the NBFC sector may have eased in January after being constrained during the period July-December due to an improvement in the overall fundraising, a research report has said.

With the banking sector reeling under persisting NPAs and rising Marginal Cost of Lending Rate (MCLR), lending by the NBFC sector has increased remarkably in the last few years, CARE Ratings said in the research report. The three main sources of fund raising used by NBFCs are corporate bonds (for long term purpose), commercial papers (for short term purposes) and banks (for mix of long term and short term).

However, the problem of asset-liability mismatch in the NBFC sector, as evident from the recent liquidity crisis in Dewan Housing Finance Corp Ltd (DHFL) and Infrastructure Leasing & Financial Services (IL&FS), showed the limitation of the sector in raising funds from the market. This has had an adverse impact on other sectors dependent on NBFCs for funding their growth, CARE report said.

Changing pattern of fundraising :

Post July 2018, the fall in fundraising by NBFCs via corporate bonds and commercial papers during August 2018 to October 2018 was offset by higher fundraising via banks. However, as the issuances via corporate bonds and commercial papers improved after December, the reliance on bank credit for fundraising moderated, the report added. The share of bank credit in total funding raised by the sector declined significantly from 63.5 per cent in October 2018 to 6.5 per cent in December 2018, said the report.

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Further, the yields rose for all categories, even as those varied between different instruments depending on the rating. The banks' MCLR's also increased.



Meanwhile, data on deployment of funds by the mutual funds into corporate bonds and CPs of NBFCs show that the share of funds raised by NBFCs via corporate bonds rose from 7.1 per cent in August 2018 to 8.3 per cent in January 2019 while the share of funds raised via Commercial Papers of NBFCs declined from 9.5 per cent in June 2018 to 8.2 per cent in January 2019. This implies that investors have put a higher reliance on long term instruments of the NBFC sector instead of short term instruments, said the CARE Ratings report.

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