

02:33 PM   23 APR <b>LIVE</b>	சென்செக்ஸ் <b>38,795</b> ▲ 149.97	நிஃப்டி 50 <b>11,636</b> ▲ 42.05	கோல்டு (எம்சிஎக்... <b>31,585.00</b> ▼ -11.00	யுஎஸ்டி/ஐஎ... <b>69.71</b> ▲ 0.04	<b>CREATE PORTFOLIO</b>	FF-டி மார்க்கெட்ஸ்...	CHOOSE LANGUAGE TAM
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# How RBI dollar auction is helping NBFCs

BY [SAIKAT DAS](#), ET BUREAU | UPDATED: APR 23, 2019, 06.30 AM IST

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The central bank's move to hold dollar-swap auctions and inject durable liquidity into the system has made it easier for Non-Banking Finance Companies (NBFC) to borrow expansion funds through overseas bond sales.

"The innovative tool has not only helped in infusing liquidity but also aided a sharp fall in cross-currency swap levels, resulting in lower hedging costs for ECB borrowers," said Rachit Gupta, Senior Vice President, Treasury, Fullerton India. ECB, or External Commercial Borrowing, involves selling bonds pegged to US Treasury instruments to overseas subscribers.

Dollar-swap auctions, the first of which were held last fiscal and another slated for Tuesday, are primarily aimed at injecting rupee liquidity. These have also aided in bringing down swap costs. Three-year hedging costs have fallen by about 80 basis points. A basis point is one hundredth of a percentage point.

Besides rupee liquidity, the rate differential between India and the US affects swap costs.

Separately, the three-year MIFOR (Mumbai Interbank Forward Offer Rate) dropped to 6.19% Monday, from 7% on February 28.

"The central bank relaxation in the ECB framework earlier this calendar year widened the scope that allows most NBFCs to avail this route as an additional source of borrowing," Gupta said.

Shriram Transport Finance raised \$500 million with three and a half-year maturity. Those bonds offered 5.95%, about 17 basis points lower than the initial guidance.

The company would hedge the entire exposure amid falling swap costs, said an executive involved in fund raising. The total cost will likely be less than what can be raised by selling bonds locally.

According to Fullerton's Gupta, this funding avenue has become even more attractive after the central bank announced three dollar-swap auctions of \$5 billion each.

The Reserve Bank of India received bids for \$16.3 billion compared with \$5 billion, the actual sum targeted in the last auction to ensure that the banking system had enough liquidity before the financial year ended on March 31.

"Swap rates tend to fall whenever the supply of rupees into the banking system rises," said Anindya Banerjee, currency analyst at Kotak Securities. "Many corporates are likely to have accessed the dollar auctions (via banks) as the RBI window makes it rather inexpensive. This has also encouraged companies with overseas liabilities to hedge their exposure fully."

The cut-off premium, or the threshold for banks to receive any allotment, was pegged at 776 paise. In percentage terms, this would be about 6.02%, or 13 basis points less than the three-year MIFOR.

Immediately after RBI's first-ever dollar swap auction, the three-year swap rate had plunged to as low as 5.80%.

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