NBFC crisis has been averted, says HDFC Bank MD Aditya Puri

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Troubles among the non-banking financial companies to persist for at least a year though, according to Aditya Puri

Troubles among India's non-banking financial companies (NBFCs) will persist for at least a year even if the danger of a full-blown financial crisis has passed, according to Aditya Puri, MD of HDFC Bank.

Tighter regulatory oversight and asset sales have staved off the worst of the problems afflicting NBFCs following last year's defaults by Infrastructure Leasing & Financial Services Ltd (IL&FS)., according to Aditya Puri. Even so, it will be another 12 to 18 months before the liquidity issues in the wider sector are resolved, Puri added in an interview with *Bloomberg* on Thursday.

Its not a Lehman-like thing that comes and then there is contagion across the system, Puri said, referring to the US firm that collapsed a decade ago and plunged the global economy into a downturn. The crisis is over, the problem remains.

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Last year’s defaults by IL&FS exposed fault lines among India’s shadow lenders, which had grown rapidly to account for a third of all new loans over the previous three years. Though the government’s decision to seize the company helped contain the crisis, a lingering credit crunch has led to reduced demand for goods like automobiles and triggered investor concerns about mutual funds that hold debt issued by non-bank finance companies.

Shadow banks are still struggling to raise funds, including from the mutual funds which already hold about $46 billion of the sectors debt, according to an estimate by Credit Suisse Group AG. Those that can tap the markets are paying about 30 basis points more than other top-rated corporates, according to data compiled by *Bloomberg*.

HDFC Bank had an exposure of $7 billion to non-bank finance companies and related firms as of December, compared with $11 billion for its nearest private-sector rival ICICI Bank Ltd., filings show. The exposure of the wider banking industry was about $92 billion in March, according to an estimate from the ratings firm ICRA Ltd. Puri said HDFC Bank has no exposure to IL&FS.

Substantial Progress

Under Puri, HDFC Bank has also skirted India’s bad-loan crisis, which hurt many of the country’s other lenders. That has helped its shares outperform the broader banking index each year since 2014, **boosting its market capitaliszation** to more than double that of State Bank of India.

Though India still has among the world’s worst stressed asset ratios, soured credit as a share of total loans is estimated to have shrunk to 10.3 per cent by March from 10.8 per cent in September, according to RBI.

The banking industry has made substantial progress in dealing with its non-performing loan problem, Puri said. He pointed to better recognition of soured debt, closer central bank inspections and more disciplined behaviour by borrowers after the implementation of the nations new bankruptcy law.

This gives the government a window to add fresh capital into struggling state-run banks, Puri said. Government-controlled lenders account for about 90 per cent of bad debt and Moody’s Investors Service estimates they will probably need some $3.5 billion to bridge capital needs this financial year, on top of the $28 billion the government has injected over the past two years.

For now, though there is an adequate amount of money in the system to fund economic growth, Puri said. “When new capital investment comes into the private sector, the demand could possibly be slightly more than what the capability is, by which time I hope they would have infused the capital.”

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