

NBFC crisis not a 'systemic risk': UBS

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Despite investors being wary of the worsening liquidity crisis in the NBFC sector, analysts feel it may not impact other consumption-led sectors in the coming months.

Global financial services firm UBS Securities, in a report, has stated that while many investors are concerned about the ongoing financial tightness led by the NBFC sector and its impact on discretionary consumption that could further slow down the overall economic growth, it is not a “systemic risk”.

UBS’s NBFC analyst highlighted that delayed monetary transmission and subdued mutual fund flows could result in a further slowing of the NBFC sector, but large players with strong parents and track records are better positioned, compared to the smaller players in the segment.

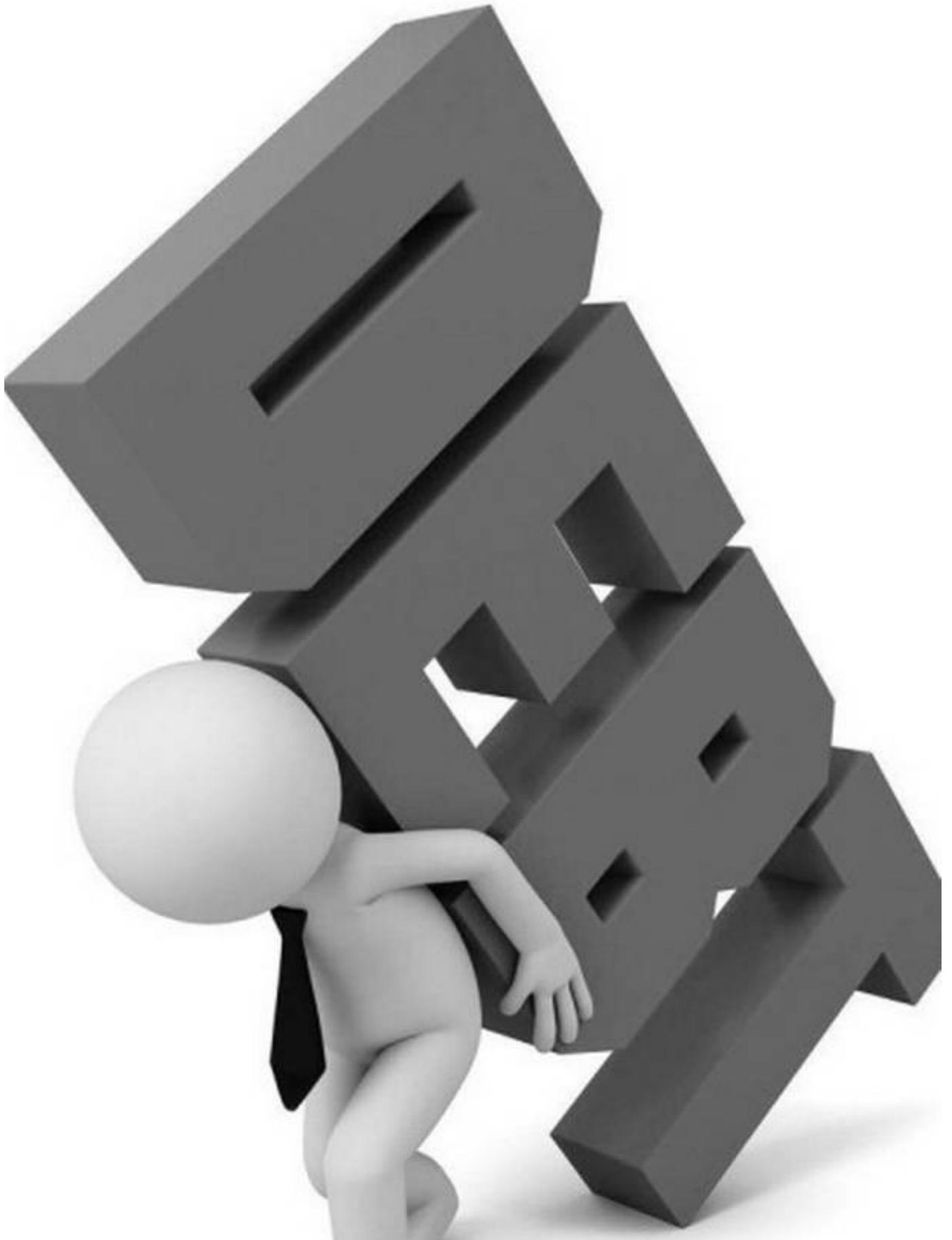
“Small NBFCs could lose market share, with a sharper slowdown for mid-sized and small housing finance companies (HFCs). We maintain our view that this is not a systemic risk, although the negative feedback loop driving the latter merits tracking,” said Tanvee Gupta Jain, Economist, UBS Securities India Pvt Ltd.

IL&FS defaults

The gloomy situation in the NBFC segment at present is a spill-over impact of defaults by IL&FS, followed by an alleged financial fraud at housing finance company Dewan Housing Finance Corporation (DHFL).

Earlier this month, DBS had stated that the concerns over non-bank finance companies are also spilling over into the credit space.

Non-banks face an overhang of rating downgrades, higher cost of borrowings and narrower pool of funding channels.





Meanwhile, with the new government in place, it is unlikely that the RBI will create a dedicated credit line to struggling NBFCs, as underlying problems are more solvency-driven, rather than due to a shortage of liquidity, said DBS.

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