NBFC crisis to top agenda of new govt

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Rising concerns over continued turmoil in the sector

Finding a solution to the continuing turmoil in the NBFC sector, which has been facing an asset-liability mismatch as well as funding issues, is set to top the agenda of the new government at the Centre.

The distress among non-banking financial companies is being closely monitored by both the Finance Ministry and the Reserve Bank of India.

“The NBFC sector has been moving from one crisis to another ever since the IL&FS issue cropped up in September last year. There are growing concerns that the issue has remained unresolved for too long, and could now impact lending activities and growth,” said a person familiar with the development.

Funding crunch

NBFCs have been complaining that raising funds is becoming more and more difficult with flow from banks almost drying up.

"The question is: what can be done to help the sector? The RBI has already taken a number of measures but there does not seem to be an adequate solution," said the person.

Redemption pressure

But with concerns that there there could be more defaults as redemption pressures mount, the government is likely to swing into action. Initial discussions among stakeholders are understood to have already started.

Corporate Affairs Secretary Injeti Srinivas had also recently pointed to the imminent crisis in the NBFC sector, flagging the credit squeeze, over-leveraging, excessive concentration, massive mismatch between assets and liabilities and misadventures by some very large entities.

Similarly, veteran banker Uday Kotak had also warned that the turbulence in the financial sector could eventually impact the real economy as well. Marzban Irani, CIO-Fixed Income, LIC Mutual Fund, feels that NBFCs' liquidity problem could be alleviated if the RBI opens a separate repo window under the liquidity adjustment facility for banks for on-lending to NBFCs.

Non-bank worries

DBS, in a report, observed that worries over non-banks have been revived after rating downgrades of more names and concerns over their exposure to mutual funds.

"Short-term borrowing costs, including those of commercial papers and certificate of deposits have risen. This has added to worries over sufficient funding availability for non-banks, as the latter seek to shift away from money markets and into funds, bond issues, credit/securitisation from banks and/or offshore borrowings.

"Most of their borrowings are likely to be routed to repair balance sheets, refinance liabilities and improve the funding mix rather than into fresh growth capital, weighing on sectors that rely heavily on non-banks' funding," said the foreign bank.

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