Financial sector is top overseas borrower: RBI

NARAYANAN V Chennai | Updated on July 15, 2019 Published on July 11, 2019

The financial services sector, led by non-banking lenders and housing finance companies (HFCs), was the largest overseas borrower in April-May period of the the current financial year amid tight liquidity conditions in the domestic market.

According to the RBI data on external commercial borrowings (ECBs), Indian corporates raised $6.7 billion in loans overseas (including via approval and automatic routes) in the first two months of FY20. Of the total borrowing, the share of financial sector stood at $3 billion or 45 per cent of the total ECBs.

"Tight liquidity condition in domestic markets has forced various NBFCs (non-banking finance companies) and HFCs to explore alternate funding sources and ECB has emerged as an alternate funding avenue," said Anil Gupta, Vice-president & Sector Head-Financial Sector Ratings, ICRA.

In FY19, India Inc's external borrowing had touched a record $42 billion, of which borrowing by the financial services sector stood at around $14 billion (including for refinancing of earlier ECBs). The spike in ECBs was driven by big-ticket borrowings by ArcelorMittal India ($5.03 billion) and Reliance

Industries ($1.5 billion) in March 2019. Besides, a slew of rationalisation measures taken by the Reserve Bank of India (RBI) also helped more Indian companies tap overseas funds.

In April 2018, the RBI expanded the list of eligible borrowers to include HFCs and Port Trusts to borrow overseas under the automatic route. Earlier this year, the central bank also rationalised the ECB framework and removed the sector-wise borrowing limits to enable all eligible borrowers to raise ECBs up to $750 million.

“To strengthen the liability management, non-banks are tapping alternative sources of funding such as issuances of retail bonds, securitisation and ECBs, among others,” said Miren Lodha, Director, CRISIL Research.

However, he added that the share of ECBs in the overall non-banking borrowing mix remained lower than 5 per cent as of fiscal 2019.

Besides bridging the liquidity gap, ECBs also help non-banking financial companies to diversify their loan mix and to optimise the cost by borrowing offshore loans at lower interest rates.

“ECB helps us to diversify our borrowing source but currently it is very insignificant with 9 per cent of our overall borrowing,” said a spokesperson of Shriram Transport Finance Corporation, an NBFC that provides commercial vehicle financing.

The spokesperson also added that depending on the market conditions and investor appetite, the company may evaluate raising further ECBs up to $500 million (under approval route) during the current fiscal.

“We expect financial sector entities to explore ECB as a source of funding in the current fiscal also. Overall, we expect ECBs to remain upwards of $33 billion during FY20,” Gupta said.

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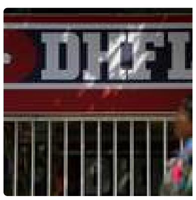

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