# 'RBI monitoring NBFCs for signs of weakness'

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## RBI had warned that any failure among the largest NBFC or housing finance companies could cause losses comparable to a major bank collapse

India is attempting to prevent any repeat of last year's shadow banking crisis after detecting signs of fragility in some of the 50 housing finance and other non-bank lenders it is monitoring, according to central bank Governor Shaktikanta Das.

The Reserve Bank of India is working closely with the country's lenders to prevent the collapse of another large systemically important non-bank finance company, Das said in one of his first media interviews since becoming governor in December. It is our endeavour that there is no contagion, Das said.

A year after a series of defaults by Infrastructure Leasing & Financial Services Ltd. forced the government to intervene and exposed weaknesses in the sector, the problems of India's NBFCs are entering a new phase. Some lenders such as

Dewan Housing Finance Corp. and Reliance Capital Ltd. are struggling, putting the loans they received from regulated banks at risk.

We are constantly in touch with the large lenders about the NBFCs and housing finance companies where we see some signs of fragility, Das said in the interview, which took place at his office.

Our effort is to see that there is no repeat instances of systemically important large NBFC collapsing, the governor said.

Just as they emerge from the worst bad-loan problem in two decades, the banks are staring at another potential surge in soured debt as a result of their exposure to troubled non-bank finance companies. In its latest Financial Stability Report, the Reserve Bank of India warned that any failure among the largest of the NBFCs or housing finance firms could cause losses comparable to a major bank collapse. The central bank selected the NBFCs to monitor based on the size of their balance sheet, the scale of their operations, as well as governance practices and credit behavior, he said.

There have been some instances of governance lapses and we are dealing with it, Das said, without naming any company. But there are a large number of others who have encountered business failures and certain external factors which impacted their business model.

Das said lenders which haven't been diligent in their lending practices will have to pay the price for it.

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The Centre earlier this month threw a lifeline to the better-rated NBFCs by agreeing to backstop some of the assets that banks purchase from them, thereby improving their liquidity. The RBI, which is now a regulator of the housing finance companies, also eased liquidity ratio rules for banks to encourage refinancing for shadow lenders.

However, the Reserve Bank has resisted calls to provide a separate liquidity window for the struggling shadow banks, and Das reiterated his opposition, saying in the interview that a NBFC refinance window is a misnomer.

Not a day has passed over the last several months when internally we have not had a review or some discussion on the NBFCs, either on the sector, or on the individual NBFCs, Das said. There have been improvements but challenges still remain.

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The cash-strapped NBFCs are closely interconnected with the banks, either through loans or purchases of the non-banks bonds. That poses a new challenge to the RBI's efforts to clean up from an earlier bad-loan crisis -- mostly due to excessive lending to large energy, steel and other industrial companies -- and to encourage more lending to boost the economy.

Dewan Housing dropped 2 per cent at the 3:30 p.m. close in Mumbai, while Bajaj Finance Ltd. fell 2.3 per cent and Bajaj Finserv Ltd. lost 5.4 per cent.

Mortgage lenders had outstanding loans of about ₹9.3 lakh crore ($135 billion) as of March 31, 2018, according to RBI data. Repayment of some of the loans may be at risk as the cash crunch among non-banks has raised questions about the solvency of real estate companies, and threatens to push 70 per cent of them out of business in the next two years, Goldman Sachs Group Inc. analysts said in a note earlier this month.

We are now getting into a vicious cycle. Its important for confidence to come back, said Abhimanyu Sofat, head of research at IIFL Securities Ltd. The dues owed to these companies aren't coming back in a regular manner given the slowdown in demand, so even banks will be reluctant to lend more.

Resolving the issues will involve losses for the owners of some of the non-bank companies, Das said.

In the process, the promoters will have to make certain sacrifice, Das said, referring to the founders of non-banks. The promoters will have to accept certain hair cut and the banks will also have to deal with it appropriately.

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**RBI and other central banks** **non banking finance companies**

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