In a double whammy,deepening slowdown to roil NBFCs now: Report

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The year-long liquidity pains of shadow bankers are set to linger on through the rest of the fiscal year at least given the deepening slump in the overall economy which will pull down their growth to 10-12 percent from a high 15 percent, warns a report. The domestic rating agency India Ratings Monday also revised the outlook on the sector to negative from stable. “We have cut our growth forecast for NBFCs for FY20 to 10-12 percent from 15 in view of the funding challenges and the general economic slowdown, as evident from the deep fall in auto sales, slowdown in rural infra activities and challenges that small units are facing,” the agency said.

NBFCs have been facing liquidity crisis after a series of defaults by segment major IL&FS last September. It said with the liquidity crisis being accompanied by possible asset-side headwinds in light of slowing demand, NBFCs will continue to grapple with a double whammy. Noting that the balance-sheets of many systemically important NBFCs are larger than those of mid-sized banks, with significant funding requirements, the report said, "as NBFCs are primarily wholesale funded, they need to plan their liquidity far more prudently, given that they do not have access to the lender of last resort, unlike banks." The report said among NBFCs, the retail asset financers with long track records have been able to mobilise funding owing to the granular nature of their loan books and the control they have exhibited in maintaining asset quality.

However, wholesale and semi-wholesale NBFCs in real estate, corporate lending and large ticket housing segments have seen challenges in mobilising liabilities, largely because of the asset-side perception risk arising from the slowdown in real estate and moderation in refinancing opportunities, it said. Within asset classes, it has maintained a stable-to-negative outlook on commercial vehicle and tractor loans. It also has a negative outlook for the large housing players due to funding challenges and rising inventory levels. The agency said it sees some asset quality pressure for NBFCs on their real estate book going ahead when the moratorium period ends over the next 12 months.

NBFCs have given moratorium of 18-24 months on the principal amount lent to real estate developers. NBFCs have an outstanding of Rs 1 lakh crore to the real estate developers. Agency's associate director Pankaj Naik said 65-80 percent of this book is originated in the last 18 to 24 months, and the moratorium period will be ending in the second half of FY20 or first half of FY21. "If the same kind of refinancing pressure persists in the market as is prevalent now, there could be serious asset quality challenges for these lenders," Naik said.

But despite the ongoing slowdown, the agency expects the loan of microfinance institutions to remain stable, as the payments are granular and more frequent.

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