

Health check shows fortunes turning for NBFCs after prolonged crisis

Two of four indicators compiled by Bloomberg that reflect the state of non-bank financial companies strengthened last month from October

Divya Patil | Bloomberg December 13, 2019 Last Updated at 08:01 IST



The fortunes of India's shadow banks are showing tentative signs of recovery, indicating that a prolonged credit crisis may be beginning to ease.

Two of four indicators compiled by

The picture, however, is far from rosy for non-AAA ranked issuers

Bloomberg that reflect the state of non-bank financial companies strengthened last month from October. A measure of top-rated five-year bond spreads got better, showing that shadow lenders' borrowing costs are declining. A custom gauge of shares of 20 financial firms and other companies improved.

A recovery in the health of shadow banks, which play a vital role in getting money to everyone from small merchants to property tycoons in Asia's third-largest economy, suggests that steps taken by the authorities to help the sector may be working. Prime Minister Narendra Modi needs to kick-start lending to shore up consumer confidence and boost economic growth.

Of the two remaining measures, one gauge showed that total outstanding debt at 50 firms affected by the crisis remained high, while the other indicated that there's ample liquidity in India's financial markets.

Glimmers of improvement in the sector come almost 18 months after the first default by major lender IL&FS Group. Many in the industry, ranging from Blackstone Group Inc.-backed Aadhar Housing Finance Ltd. to

Edelweiss Financial Services Ltd., see a return to normalcy soon.

The picture, however, is far from rosy for non-AAA ranked issuers. Bond spreads remain wide, and Fitch Ratings has a negative outlook for 2020, as local funding, growth and asset-quality strains weigh on non-bank financiers.

The scores attached to each of the measures have been calculated by Bloomberg by normalizing the deviation of the latest value of the indicator from its yearly average. They are assigned on a scale of 1 to 7, with 1 implying weakness and 7 showing strength.