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Market Watch

NBFCs relying less on Commercial Papers to raise short term funds

BY ASHWIN MANIKANDAN, ET BUREAU | UPDATED: DEC 27, 2019, 11.30 PM IST

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Mumbai: Non-bank lenders and home financiers are relying less on [commercial papers](#) (CPs) to raise funds after IL&FS defaults last autumn prompted [mutual funds](#) and [asset management](#) companies to restrict their exposure to these categories of financiers.

These short-term instruments by [non-banking](#) finance companies (NBFC) and housing finance companies (HFC) accounted for 22.7% of the outstanding overall investments of mutual funds and asset managers in the quarter ended September 2018. That share has nearly halved to 12.2% in September 2019.

At the same time, mutual funds and asset managers increased their share of Certificates of Deposit (CD), an instrument issued solely by banks, to 15.6% from 11.9%, indicating that these companies were more comfortable investing in banks over the riskier non-banks.

"In the CD market, AMC-MFs are the biggest investors and private sector banks are by far the biggest issuers followed by public sector banks," the central bank said. "The size of the CD market, which shot up during the second half of 2018-19, witnessed a sharp fall after March 2019. The size of the [CP](#) market has also shrunk considerably last year."

AMC-MFs are the largest net providers of funds to the financial system with a gross exposure of around Rs. 9.4 lakh crore, the central bank said. The top three recipients of their funds were scheduled commercial banks, NBFCs and HFCs.

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