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It's one step forward, one back for troubled Indian shadow banks

BY BLOOMBERG | JAN 10, 2020, 10:29 AM IST

By Divya Patil

India's shadow banks, which lend to everyone from teashop merchants to property tycoons, get a mixed bill of health in Bloomberg's latest check.

The sector has been stung by a crisis set off by the shock collapse of non-bank lender IL&FS group in 2018. There've been even more setbacks in recent weeks: [Altico Capital India Ltd.](#), a real estate-focused lender, has seen some potential rescuers demur.

Revitalization of the industry, whose woes mounted last year when major mortgage lender Dewan Housing Finance Corp. missed repayments, is key to helping staunch a further slowdown in the nation's economy.

The good news first: total outstanding debt at 50 financial firms and other companies impacted by the crisis fell last month from November, one of four indicators compiled by Bloomberg show. The shadow banks must continue to trim their debt piles to avoid further defaults.

In a sign that creditors remain jittery, borrowing costs rose. The extra yield investors demand to hold five-year AAA rated bonds from shadow banks over government notes increased, one of the gauges shows.

Shadow lender woes have made it harder for policy makers to prop up the economy, which grew at its weakest pace since 2009. The slowdown hurts borrowers' ability to repay debt, and has prompted the central bank to predict that an improvement in banks' bad-loan ratios will reverse.

The Bloomberg check-up of the sector's health also showed that:

- a) Banking system liquidity remained relatively strong
- b) But a custom index of the share prices of 20 such firms stayed stagnant

Many investors have gotten cold feet when it comes to all but the safest shadow banks. Asset manager DSP Investment Managers, for example, said it will shun lower-rated corporate bonds until India's economic growth revives, which it expects may take another three to five quarters.

Mixed Signals

Debt gauges indicate crisis at India's shadow lenders easing, but not over



Sources: Data compiled by Bloomberg, Bloomberg Economics
 Note: Score calculated by normalizing the deviations of current value from yearly average. Score for liquidity index reflects changes to methodology since last month's report.

India's Finance Minister Nirmala Sitharaman said last month that she's working on more measures to boost growth.

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.

— With assistance from Anil Poonia and Chloe Whiteaker.

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