

NBFCs may face fresh credit squeeze after Yes Bank restructuring plan: Fitch

By: FE Bureau

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India's non-banking financial companies (NBFCs) are expected to face a fresh liquidity crunch following the Reserve Bank of India's (RBI) takeover of Yes Bank, Fitch Ratings said on Wednesday.

Last week, RBI took over the deeply stressed private lender and imposed a moratorium till April 3.

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“The consequences will compound the credit squeeze across the country's financial system, adding to current economic uncertainty,” the rating agency said.

Last week, the central bank came out with a reconstruction scheme for the bank, under which it proposed that Additional Tier 1 capital issued by the bank under the Basel-III norms would be permanently and fully written down. “This may trigger another round of investor risk aversion that tightens market access and raise overall funding costs for borrowers, with wholesale non-bank financial institutions likely to remain more vulnerable in this situation,” Fitch said.

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“Nonetheless, the recent announcement may bring about broader contagion effects for non-bank financial institutions' funding conditions,” Fitch said, adding that there may also be a knock-on effect for the sector if depositors begin losing confidence in smaller private banks. “Banks have been an important source of liquidity for non-bank financial institutions amid the funding squeeze in the local debt markets over the past 18 months, and any weakness in bank deposit funding would constrict liquidity available for lending to the non-bank financial institutions sector,” the agency said.

Additionally, the impact of the outbreak of the novel coronavirus (Covid-19) raises further risks to economic growth and non-bank financial institutions' asset quality.

“Rising asset quality and funding risks will place pressure on ratings if conditions worsen materially,” Fitch said.

In a note, the agency said an extended credit squeeze may exacerbate asset quality risks for the financial sector, which is already facing pressure from the evolving Covid-19 situation, apart from the general economic and real estate sector slowdown.

The rating agency will be monitoring the funding access and liquidity positions of rated NBFCs closely over the near term. The agency said it “will assess the broader economic impact of recent developments on potential asset quality trends for any signs of deterioration that may have an impact on the ratings”.

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