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Covid-19 outbreak: NBFCs face twin challenges of debt repayment, cash shortage

BY SALONI SHUKLA, ET BUREAU | UPDATED: APR 08, 2020, 08.30 AM IST

Mumbai: Non-banking finance companies (NBFCs) are on the edge with commercial paper worth ₹1.6 lakh crore and nonconvertible debentures (NCDs) worth ₹87,000 crore coming up for redemption by June as cash flows dwindle and banks play hardball on extending credit.

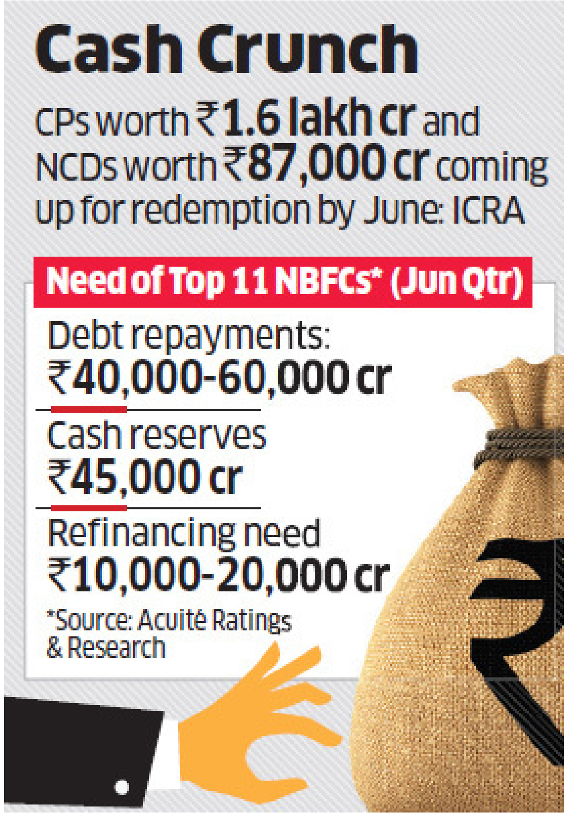
Small and medium-sized NBFCs are most at risk due to the disruption caused by the Covid-19 outbreak. Large lenders will be able to tap RBI's Rs 1 lakh crore targeted longer term refinancing operations (TLTRO) window but others are likely to face a crunch.

"A lot of players will want to conserve liquidity, so we may see top-rated ones raising new money to pay back old (debt). So obviously, the mid-sized ones will be the biggest hit because they may have to dip into reserves to pay back these liabilities," said Nachiket Naik, head, corporate lending, Kirloskar Capital. "Banks are the ones subscribing to fresh capital raises but with the TLTRO window capped at Rs 1 lakh crore, it looks inadequate to cover this demand."

Under TLTRO, the RBI conducts auctions of term repos of up to three years' tenure for a maximum Rs 1 lakh crore at a floating rate linked to the policy repo rate.

Access to Additional Bank Lines

Liquidity availed under the window will have to be deployed in investment-grade corporate bonds and commercial paper.



The aggregated debt repayment, including interest, for the top 11 retail NBFCs in the current June quarter is estimated at Rs 40,000-60,000 crore, while cash reserves are pegged at Rs 45,000 crore, according to Acuité Ratings & Research.

"It is apparent that many of these NBFCs would find it difficult to manage their cash flows including their operating expenses during the next three months unless they get access to additional bank lines or refinance," said Suman Chowdhury, chief analytical officer, Acuité Ratings & Research. "We estimate the refinancing requirement for these NBFCs at around Rs 10,000-20,000 crore to avoid any challenges in their debt servicing and to sustain their operations."

To be sure, NBFCs are looking to bolster themselves.

“We are shoring up our capital positions. We are also in talks to sell securitised pools to banks to release liquidity,” said the CEO of a midsized NBFC on condition of anonymity. “This is all being done to meet the redemption demand. I don’t see a defaultlike situation. We will dip into our reserves if need be.”

Moratorium Facility

Non-bank lenders have appealed to the Reserve Bank of India to direct banks to extend the benefit of the three-month asset classification moratorium. The central bank has sought to cushion borrowers and lenders against the coronavirus outbreak effect, allowing companies a three-month grace period on loan repayments. Banks now have the discretion to decide limits on working capital, with the RBI saying that no missed payment should be considered a default and reported to credit information companies.

Since the IL&FS default of September 2018, banks have become risk averse to the sector, throttling access to funding, barring a few NBFCs.

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