RBI's liquidity plan for non-bank lenders falters

BY ATMADIP RAY, ET BUREAU | UPDATED: APR 23, 2020, 07.03 PM IST

KOLKATA: The Reserve Bank of India's attempt to improve funding for the non-banking finance companies through the banks' channel is faltering with a special liquidity window receiving bids for just half the amount that was on offer.

This may prompt the central bank to rethink on its strategy.

"The RBI will review the auction results and take a view in the matter,'' the central bank said in a terse statement.

In the first auction of funds for banks through the so called Targeted Long Term Repo Operations 2.0 aimed at funding NBFCs and microfinance firms, especially the smaller ones, banks' response was muted with them bidding for just Rs 12,850 crore when the RBI offered Rs 25,000 crore.

"Banks bid only for 50% of RBI's line today to NBFCs & MFIs. Complete risk aversion. RBI must give a direct line & Finmin must offer to bear first loss for some time. Let's get our smaller but important lenders ready for the restart of our economy," said Sanjiv Bajaj, managing director of Bajaj Finserv. "Most countries are providing regular fiscal stimulus to provide confidence to an economy that's preparing to restart. When will we?" he said.

RBI had directed banks to invest at least half of the funds mobilised through the special liquidity window to investment grade debt instruments of smaller and mid-sized non-bank lenders, which are facing cash flow mismatches with repayment collection drying up eve as they are servicing their bank loans.

But there were apprehensions on whether banks have the appetite for such investments.

"Given the lack of risk appetite in banks, a structure with partial credit guarantee by the government may be the only viable option to ease liquidity challenges of NBFCs," said Vydianathan Ramaswamy, Director, Ratings, Brickwork Ratings.

The central bank on Thursday just received 14 bids for three year funds at the repo rate of 4.4 percent. This is in contrast to the enormous demand for the Targeted Long Term Repo Operations that were aimed at lending to corporations in general which also found its way to the top rated big firms.

The poor response may lead to a tweak in the programme or may lead to a directed lending to relieve the pain of the NBFCs.

"NBFCs will certainly have a very tight liquidity in time to come - with the cash flows from borrowers drying up, but their own commitment to pay to their bankers subsisting," said Vinod Kothari, a consultant for the NBFC sector.

"Fresh lending limits from banks will be tough, as is indicated by the results of the auction. Smaller and mid-sized NBFCs, which were essentially the target for TLTRO-2, will be worst affected," he said.