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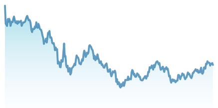

View: Will RBI special window help NBFCs? Not really!

BY SAIKAT DAS, ET BUREAU | UPDATED: APR 17, 2020, 06.19 AM IST

The central bank may have put in safeguards late Wednesday to ensure that funds raised by banks through a special window aren't cornered by the crème de la crème of corporate India. But that's what could happen eventually, at least in the non-bank lending space, as most such financiers don't have high-grade marketable bonds the banks could buy.

So, what would the banks do instead to ensure the vast network of last-mile financiers get money? The answer lies in plain-vanilla bank loans - just as you and me buy a home or a car with debt.

These bilateral deals will suit most banks, which wouldn't want lower-rated securities that have virtually no market. The icing on the cake? Likely repayments every month instead of twice a year.

Private sector lenders have mostly decided not to buy papers rated lower than AAA or AA, while public sector banks find traditional loans priced on Marginal Cost Based Lending Rate (MCLR) more viable, three top NBFC executives told ET.

"Government banks have lowered their deposit rates, thus making it viable for them to lend through MCLR," said one of the persons cited above. Out of 12,000 NBFCs, only about 500 are billed as systemically important; barely a tenth are rated triple-A or double-A, shows an industry estimate.

Banks can earn at least 50 basis points higher rate if they lend through MCLR, where borrowing costs are linked to deposits.

While State Bank of India offers 5.7 percent for three-year deposits, its three-year MCLR is 7.70%. Moreover, a lender receives repayments every month for a loan but can obtain half yearly interest on bonds.

Plus, about 90% of the micro finance institutions are rated below investment grade and, therefore, they don’t have access to money markets to meet the liquidity gaps as suggested by the regulator.

MFIs' total borrowings outstanding as on 31 March 2020 was Rs 53,853 cr. The central bank on Wednesday set a stiff threshold on the deployment of funds raised by a bank through the so called Targeted Long Term Repo Operations (TLTRO).

Banks borrow at 4.40 percent in TLTRO for onward buying of investment grade bonds in primary and secondary markets. “Banks can earn about 150-200 basis points in arbitrage, but not all NBFCs will get that desired money,” said a senior executive.