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Market Watch

FM's Rs 75,000-cr package may lower cost of funds for NBFCs, microfin companies

BY ET BUREAU | UPDATED: MAY 14, 2020, 08.31 AM IST

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KOLKATA, MUMBAI: Nonbank lenders and microfinance companies, even those at the lower end of the rating curve, may see borrowing costs fall and [liquidity](#) increase with the [finance minister](#) announcing a ₹75,000-crore package to help them tide over a liquidity crunch caused by risk aversion among investors.

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The FM's proposal to have a special fund of ₹30,000 crore and partial credit guarantee scheme worth ₹45,000 crore could ease fears that some of these lenders could go belly-up due to tight liquidity. The two schemes could help these firms raise money, and also lend to SMEs. The government will guarantee all securities under the ₹30,000-crore scheme while the ₹45,000-crore scheme comprises a guarantee of up to 20%.

The government, possibly through Small Industries Development Bank of India, will purchase investment-grade securities of nonbank lenders under the Rs 30,000-crore scheme.

The Centre also remodelled its existing partial credit guarantee scheme to cover borrowings through primary issuance of bonds and commercial papers by nonbank lenders ([NBFCs](#)), microfinance institutions (MFIs) and housing finance companies (HFCs). The government will guarantee up to 20% of losses under the scheme targeted at firms with low credit ratings.

The money would be channelled through both primary and secondary markets, finance minister [Nirmala Sitharaman](#) said. "This will provide liquidity support for NBFCs, HFCs, MFIs and mutual funds, and create confidence in the market," she added.

FUNDS SHORTAGE

Nonbank lenders, especially the smaller and medium ones, are facing an acute funds shortage as they didn't get most of the intended relief through RBI's liquidity measures. With about two-thirds of their borrowers opting for moratorium, the cash flows at microfinance firms are particularly stretched.

"Both the moves should help allay apprehensions, as they offer more flexibility to raise money," said Rashesh Shah, chairman of Edelweiss Group. "NBFCs can sell both portfolios and bonds under the latest version of partial credit guarantee scheme, which also cuts down the lengthy approval process."

The Rs 30,000-crore package is expected to narrow the yields spread, or the differential between corporate and government bonds with same maturities — a barometer for volatility. The market reaction will be observed closely on Thursday as the FM's announcement came towards the end of market hours on Wednesday.

"NBFCs, which were helping fund 40% of discretionary consumption till FY19, will finally be able to breathe a sigh of relief," said Gagan Banga, managing director at Indiabulls Housing Finance. Corporate bond yields showed signs of rallying towards the end of trading on Wednesday.

For example, Power Finance Corp (PFC) raised 10-year money at 7.68% in the primary market during early trade on Wednesday. But just before the close of trade, PFC papers with nine-year residual maturity changed hands in the secondary market at yields that were 13 basis points lower.

SOME APPREHENSIONS

However, there are concerns on whether smaller firms will benefit from the twin moves. "We welcome the announcement of Rs 30,000-crore liquidity support. The credit guarantee scheme will also give fillip to MFIs. But in both the schemes, we hope that smaller MFIs, which are below investment grade, will not be overlooked," said P Satish, executive director at Sa-Dhan, an industry association of MFIs.

The government had announced a Rs 1-lakh-crore partial credit guarantee scheme after the collapse of IL&FS in September 2018 with

government absorbing up to 10% of the losses. But the scheme didn't take off as only Rs 10,000 crore, or about 10% of the total limit, was disbursed through eight transactions. Seven borrowers were AA-rated companies, while one was a single-A rated firm.

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