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How NBFCs benefit from a dedicated liquidity window

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MUMBAI: Partial Credit Guarantee Scheme (PCGS), a dedicated liquidity window for non-banking finance companies (NBFC), has seen banks lending more after the government offered sovereign guarantee and relaxed norms.

Industry sources said NBFCs are estimated to have filed about Rs 12,000-13,000 crore credit applications over a week after public sector banks apparently agreed to their proposals. The whole window may be exhausted in the next three-four weeks.

In May, Finance Minister Nirmala Sitharaman announced PCGS 2.0 worth Rs 45,000 crore for last mile lenders to as part of the special economic package.

“We have also applied for loans under PCGS and are hopeful to get the money by the month-end,” said Nirmal Jain, chairman at IIFL Group. “Unlike TLTRO, this time, PCGS appears to be moving well with banks’ willingness to disburse credit.”

“Many banks are providing this facility to cover cash flow for repayments and not for growth or fresh credit,” he said.

Banks are said to have received individual targets. State Bank of India is expected to disburse as much as Rs 8,000 crore. For Union Bank of India and Central Bank of India it would be in the range of Rs 2,000-3,000 crore, sources said.

"There is demand from NBFCs and a lot of in principal sanctions have been given," said a senior bank executive involved in the processes. This should generate good response because the whole pool is guaranteed up to 20%, the person said.

IIFL group, Shriram Transport, Centrum, Magma are among others that have reached out to banks. All companies could not be contacted immediately.

"The second version of PCGS is working in right earnest," said Rashesh Shah, chairman at Edelweiss group. "The sovereign support has given comfort to banks that are now willing to lend."

"We hope to see the cash crunch ending next one or two months for non-banking companies," he said.

There are two schemes under PCGS. One is through subscriptions of non-convertible debentures and commercial papers. The other is through pool of asset buyouts. In both cases, 20% of the first loss will be guaranteed by the government.

These are typically loans with eighteen months maturities. Interest rates may vary in the range of 9-10 percent. NBFCs rated below AA+ can avail such facility.

Banks are offering small amounts due to dilemma of the prescribed ratio. If a bank lends Rs 100 crore to an AA-rated company, which is on the top for this scheme, it will have to lend Rs 300 crore to lower rated companies, which entails higher risk, said an industry explainer.

"The only restriction is banks cannot invest more than 25% of the money in AA securities," said a bank official. Banks, naturally, want to try their best to limit their exposure to below investment grade paper

Cash flows to NBFCs can be channalised under MSME under government guaranteed scheme for Rs 3 lakh crore.