

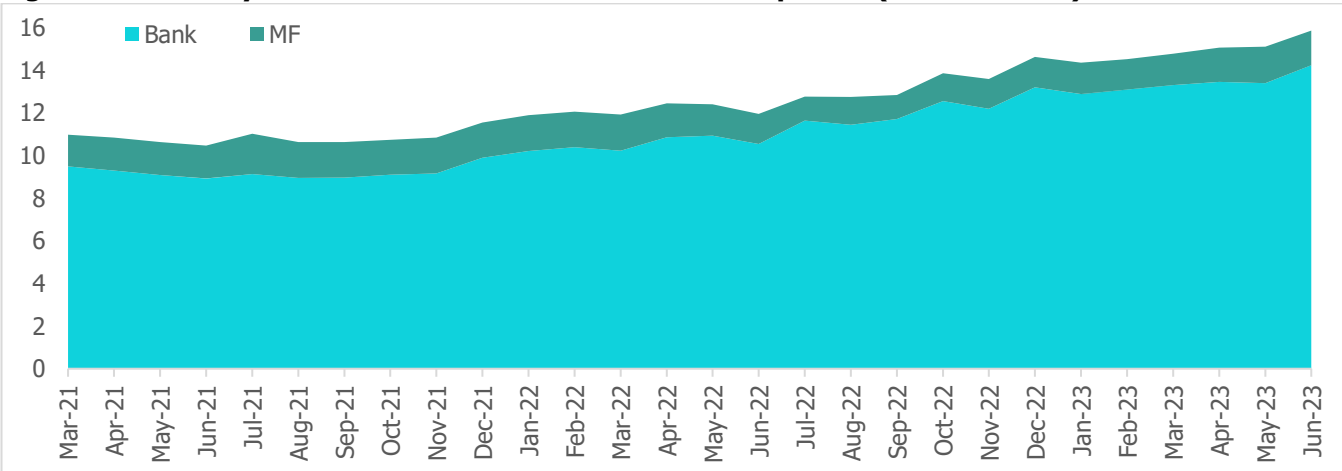
# MFs O/s Exposure to NBFCs as Share of Banks' Advances Falls by 1.5% in June

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### Synopsis

- The credit exposure of banks to Non-Banking Financial Companies (NBFCs) stood at Rs 14.2 lakh crore in June 2023, indicating a noteworthy 35.1% year-on-year growth. This expansion is indicative of the robust progress observed in NBFCs during the post-pandemic period. Notably, their decreased reliance on international borrowings is attributed to the prevailing elevated global interest rates and the tightening of global monetary policies. Furthermore, the proportion of NBFC exposure in relation to the overall credit aggregate has risen from 8.5% in June 2022 to 9.9% in June 2023. A significant development in the banking and NBFC sector is the merger between HDFC and HDFC Bank, which came into effect on July 01, 2023. This merger will lead to a reduction in exposure to NBFCs. HDFC's bank borrowings will undergo reclassification, resulting in a shift of exposure to HDFC Bank. While this reclassification may entail a temporary downturn in NBFC exposure figures, it will simultaneously release limits, thus facilitating other NBFCs in obtaining funding from the banking system.
- Meanwhile, the Mutual Fund (MF) debt exposure to NBFCs, including Commercial Papers (CPs) and Corporate Debt, witnessed an increase of 14.5% to 1.62 lakh crore in June 2023. Large NBFCs raised long-term instruments from the capital market, while mid-sized and smaller NBFCs continued to rely on the banking system as their primary source of funding. However, given the general credit risk aversion of MFs, the exposure to NBFCs, particularly those rated below the highest levels, is not expected to witness significant growth. Consequently, the dependence of NBFCs on the banking sector for funding is likely to remain high.
- Highlighting the relative size of their exposure to NBFCs, MFs' debt exposure to NBFCs fell to 11.4% as a percentage of "Banks' advances to NBFCs" in June 2023 from 13.4% in June 2022 and 12.8% in May 2023.

**Figure 1: Summary of Banks Loans and MFs NBFC Debt Exposure (Rs. lakh crore)**



Source: RBI, SEBI

The data in Figure 1 does not include liquidity made available to NBFCs by banks via the securitization route (direct assignment & pass-through certificates) and Treasury investments made by banks in the NBFCs' capital market issuances. Liquidity availed by NBFCs including HFCs through the securitisation route crossed Rs 0.55 lakh crore in Q1FY24.

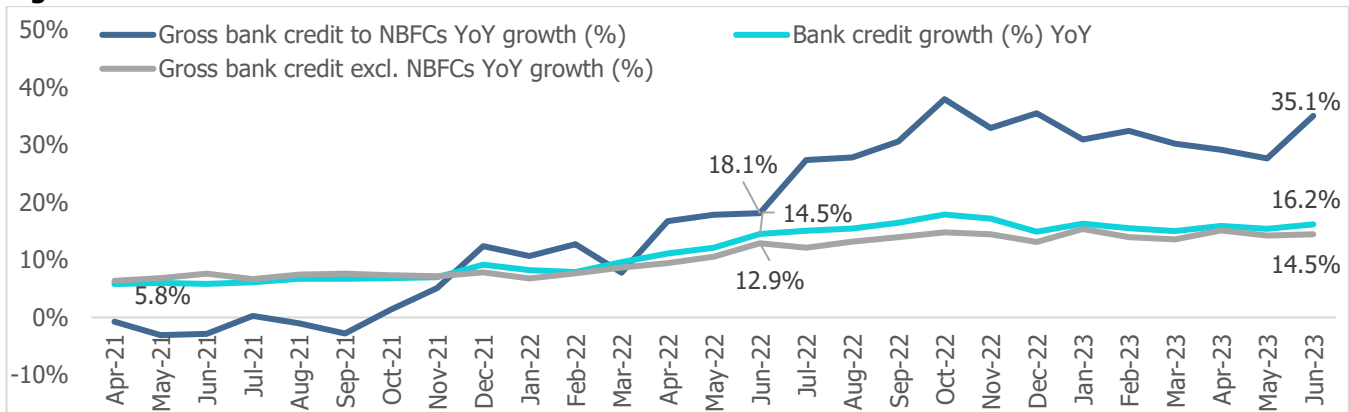
**Figure 2: NBFC Debt Sources (Rs lakh crore)**

	Feb-2018	Feb-2020	June-2023	Ab. Change (%)	
				vs. Feb-2018	vs. Feb-2020
Bank	3.90	8.40	14.24	265.0	69.5
MFs	2.31	1.64	1.62	-29.8	-1.1
<b>Total (Bank +MF)</b>	<b>6.21</b>	<b>10.04</b>	<b>15.86</b>	<b>155.4</b>	<b>58.0</b>

Source: RBI, SEBI

Compared to February 2018 numbers, absolute bank lending to NBFCs has jumped 3.65x, meanwhile, MF exposure has reduced by 29.8% over the last five years due to risk aversion by mutual fund managers. Interestingly, MF exposure to NBFCs as a share of Debt AuM has remained broadly constant hovering at around 10%, on the other hand, the share of banks' advances to NBFCs as a share of aggregate advances has doubled from around 4.5% in February 2018 to near 10% in June 2023 indicating the reliance of NBFCs on bank lending.

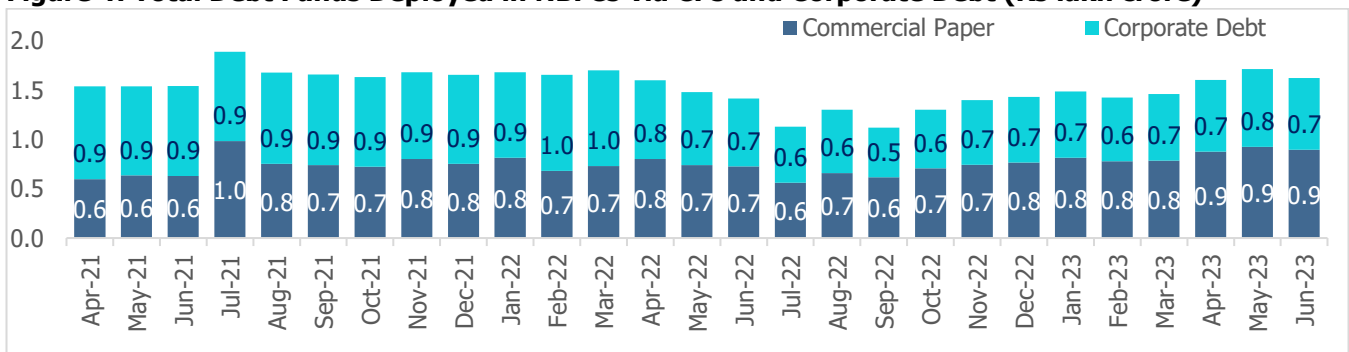
**Figure 3: Growth in Bank Credit to NBFCs vis-à-vis overall Bank Credit Growth**



Source: RBI

The credit extended by banks to Non-Banking Financial Companies (NBFCs) has exhibited a consistent upward trend since the second half of FY22, notably coinciding with the phased reopening of economies after the Covid-19 pandemic. This growth momentum further accelerated during the fiscal year FY23 and the first quarter of FY24. This trend can be primarily ascribed to the expansion in the Assets Under Management (AUM) of NBFCs. Additionally, the discernibly higher surge in global interest rates in comparison to the Indian market context played a pivotal role. This divergence in interest rate movements led to a decline in the utilisation of external commercial borrowings (ECBs) by NBFCs.

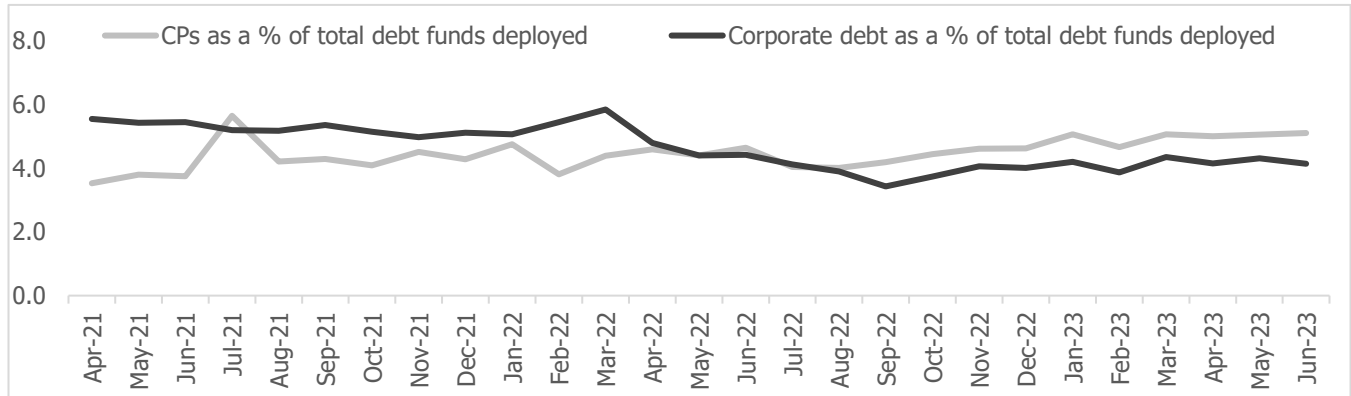
**Figure 4: Total Debt Funds Deployed in NBFCs via CPs and Corporate Debt (Rs lakh crore)**



Source: SEBI

Investment in corporate debt of NBFCs rose by 5.1% y-o-y to Rs.0.73 lakh crore in June 2023. On the other hand, the share of total corporate debt to NBFCs contracted to 4.1% in June 2023 from 4.4% in June 2022. Meanwhile, the outstanding investments in CPs of NBFCs increased by 23.5% y-o-y to Rs.0.90 lakh crore in June 2023. CPs (less than 90 days) rose by 7.4% y-o-y to Rs.0.60 lakh crore in June 2023, CPs (90 days to 182 days) dropped by 10.0% to Rs.0.07 lakh crore, and CPs (more than 6 months) increased by over 151.8% to Rs.0.22 lakh crore in the reporting period.

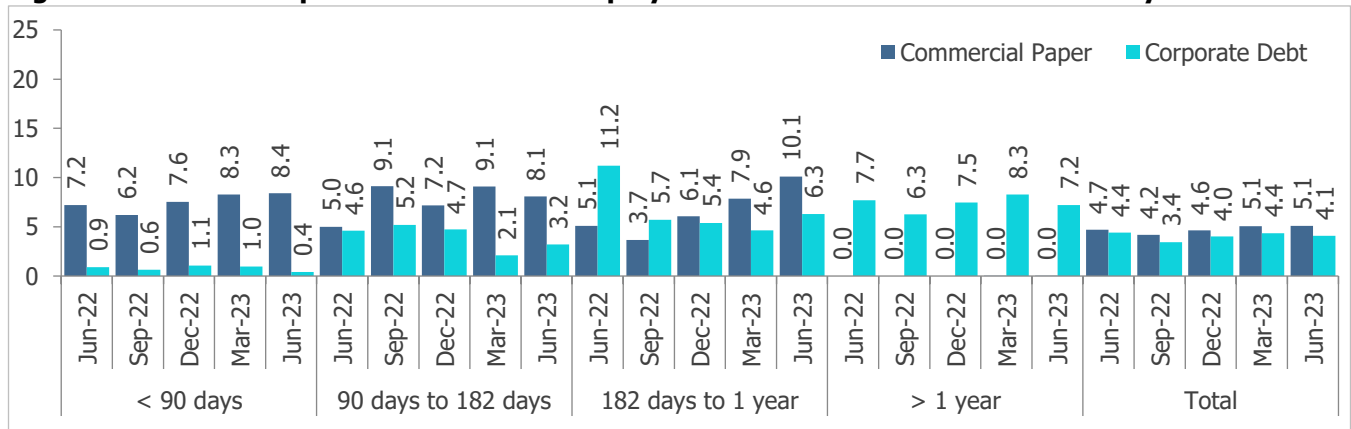
**Figure 5: Total Debt Funds Deployed in NBFCs via CPs and Corporate Debt (%)**



Source: SEBI

The percentage share of funds deployed by MFs in CPs as a percentage of banks' exposure to the NBFCs stood at 6.3% in June 2023, dropping by 60 bps y-o-y. The proportion of CPs (less than 90 days) deployed in NBFCs as a percentage reached 8.4% in June 2023 as compared to 7.2% over a year ago period, the percentage of CPs (90 days to 182 days) rose to 9.1% from 5.0% over a year ago, and CPs (greater than six months) percentage grew to 10.1% in June 2023 as compared to 5.1% over a year-ago period.

**Figure 6: Trend in Proportion of CPs & CD Deployed in NBFCs as a % of Debt Funds by Duration**



Source: SEBI

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