

LENDINGS SEE 41% RISE OVER THE 12 MONTHS TO SEPTEMBER Fresh lending to the sector during the month reached six-month high of ₹56,469 crore

Growth in Bank Loans to NBFCs Surges to 7-Yr High

Gayathri.Nayak@timesgroup.com

Mumbai: Loans by high-street banks to NBFCs surged 41% in the past one year to September, the fastest pace of increase in seven years, pointing to the lenders' significant exposure to a sector that provides financing to many traditionally unbanked clients and businesses.

In the one-year period ending September 2018, banks lent Rs 1.68 lakh crore to NBFCs, with outstanding advances rising to Rs 5.46 lakh crore, central bank data showed. Fresh lending to the sector in September, when liquidity crunch at the para-banks began making national headlines, was at a six-month high of Rs 56,469 crore, amounting to about a quarter of total disbursements the banks had nationally made that month.

To be sure, there could be a sharp drop in this exposure in October even as banks are providing liquidi-



ty support by buying loan portfolios of NBFCs.

"The impact of NBFC asset purchase will reflect in the October-December quarter," said Rajkiran Rai, managing director and CEO of Union Bank. "Such portfolio purchases do not reflect as exposure to NBFCs in the bank balance sheets,

but to the sector of which the portfolio is purchased."

Union Bank plans to buy loans worth Rs 5,000 crore during the quarter. The country's largest lender, State bank of India, plans to purchase loans worth Rs 45,000 crore from NBFCs this fiscal.

NBFCs started facing a liquidity

crunch after infrastructure lender IL&FS defaulted on loans worth Rs 1,000 crore early September. By end-September, the crisis appears to have engulfed the entire sector, restricting the flow of funds to NBFCs.

The portfolio buyout by banks is seen as a way to get liquidity support for this sector at a minimum risk for the lender. "It is a win-win proposal for us," said a public sector banker.

NBFCs were the largest net borrowers of funds from the financial system, with gross payables of around Rs 7.17 lakh crore and gross receivables of around Rs 41,900 crore in March 2018, according to the central bank's latest financial stability report. A breakup of gross payables shows that NBFCs borrowed the highest from commercial banks - totalling 44% of their total funds.

Ratings firm Icrs said that 41% of the fund requirements of the sector were met through commercial papers, or CPs.