

Press Release

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NPAs in wholesale loan-book of non-banks to rise as moratoria lapse*Sluggishness continues in current fiscal; AUM de-grew further by 3-5% in first half of fiscal 2020*

Wholesale loan book of non-banks – comprising non-banking financial companies (NBFCs) and housing finance companies (HFCs) – de-grew further by 3-5% in the first half of fiscal 2020 following a de-growth of 2% in the second half of fiscal 2019. This comes on the back of a 32% compound annual growth rate (CAGR) between fiscals 2016 and 2018; and 11% growth in the first half of fiscal 2019 (refer Annexure 1). With disbursements sluggish in the first half of this fiscal, prospects for the current year are subdued.

The de-growth is largely on account of funding challenges faced since September 2018 due to confidence deficit amidst concerns over asset quality in the wholesale loan books (including real estate financing, structured credit and promoter financing). The real estate sector is experiencing significant headwinds while the financial flexibility of many underlying operating companies in the structured debt space has been impacted due to the overall slowdown in their business. Juxtaposed with this is the fact that major chunk of the loan books focused on wholesale financing is under moratorium.

Says Krishnan Sitaraman, Senior Director – CRISIL Ratings, “The principal moratorium is estimated at 50-70% of assets for some non-banks, going as high as 90% in some cases. As the moratoria lapse, slippages will manifest. Consequently, non-performing assets are expected to rise in the near-to-medium term in the wholesale portfolios, as an increasing proportion of the loan book comes out of moratorium.”

On the funding side, lenders have been selective. Even though many non-banks have reduced their shorter-tenure borrowings and increased on-balance sheet liquidity, interest from institutional investors in the debt capital market has remained tepid. A significant reversal in this trend is unlikely in the near term even as bank funding has not yet fully bridged the gap.

Non-banks with strong parentage and those who are retail focused with strong credit profile and sound liquidity have managed to access funds and have reported growth, while others haven't. And wholesale-oriented standalone non-banks face relatively higher confidence deficit because of lingering concerns about asset quality.

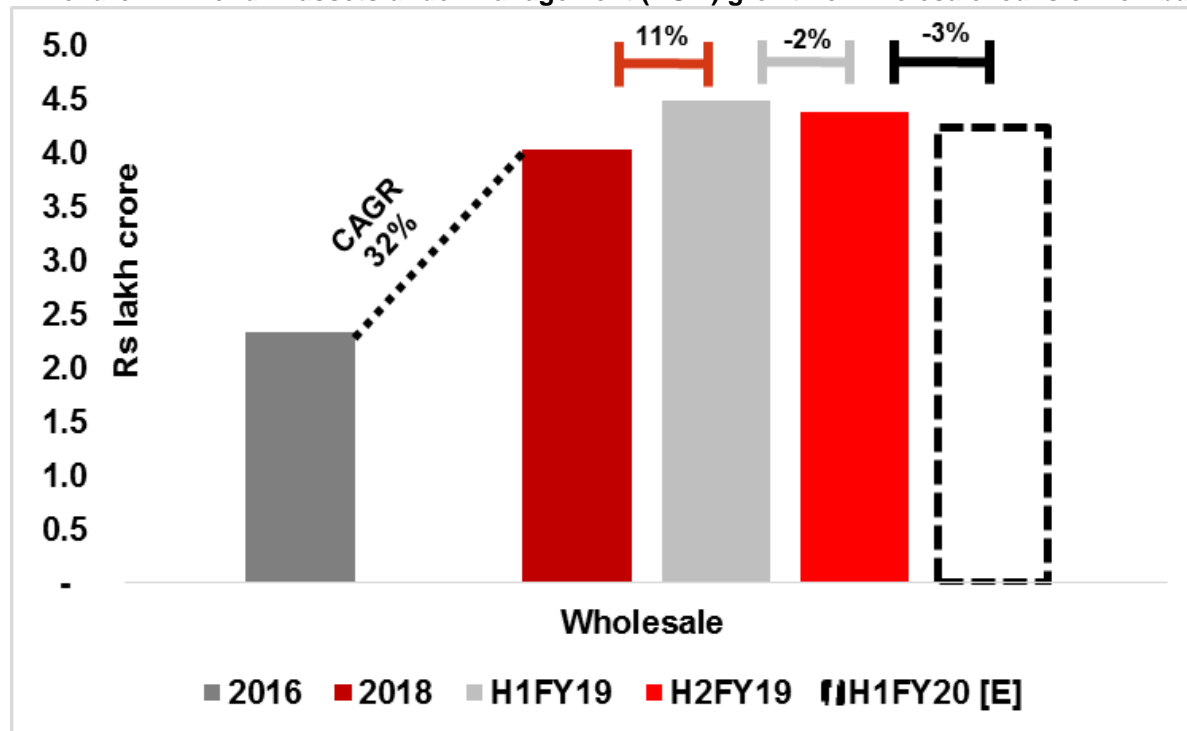
An analysis of commercial-paper (CP) issuances – a good barometer of market confidence – by non-banks validates this trend. Issuance of CPs by non-banks with strong parentage in recent months has bounced back close to the peak average issuance of June-August 2018. However, CP issuances by non-banks without strong parentage – especially wholesale-oriented NBFCs and HFCs – have wilted, plunging as much as 90% in certain cases. To be sure, a part of this reduction can be attributed to non-banks consciously going slow on CP issuances to improve their asset liability maturity (ALM) profiles.

Says Ajit Velonie, Director, CRISIL Ratings, “Even as the ALM profile has improved for many non-banks, funding access challenges continue as market concerns have shifted towards asset-quality metrics. Apprehensions over the asset quality of wholesale-oriented standalone non-banks are not unwarranted. A significant portion of the exits for non-banks in the past was through refinancing. The current economic environment poses challenges in this regard, although some good quality assets will still draw interest from investors.”

That will also have a bearing on funding access for wholesale-oriented standalone non-banks – their ability to raise funds from diversified sources on a periodic basis and at an optimal cost remains a key monitorable for their credit profiles.

Annexure

Annexure 1 – Trend in assets under management (AUM) growth of wholesale loans of non-banks



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