'RBI opens banking tap to ease liquidity crunch at NBFCs'

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INDUSTRY BODY ASSOCHAM on Saturday hailed the Reserve Bank's decision to incentivise banks to enhance their lending to non-banking finance companies (NBFCs), saying the step will help them in tackling liquidity crunch.

The RBI on Friday allowed the banks to use government securities equivalent to their incremental credit to non-banking financial companies (NBFCs) for a three-month period to meet their liquidity coverage ratio (LCR) requirements.

The provision will allow banks to free up ₹50,000-60,000 crore of liquidity which banks can lend to NBFCs till December 31.

"This shall also send a message that the recent developments do not indicate any systemic problem but it is merely a case of sentiments having gone wrong after one of the big NBFCs defaulted," Assocham said.

The industry body said the whole issue of asset liability mismatch is more relevant in case of long-term lending companies like the housing finance companies and infra financing NBFCs.

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"A typical NBFC model is a retail lending model with short tenures of two-five years and small ticket sizes where asset liability mismatch is not a concern. NBFCs have shown impressive growth for the last few years maintaining a high capital adequacy ratio which is higher than the minimum prescribed levels. This growth has also been healthy as reflected in better asset quality," Assocham said.

However, provision of a dedicated refinance window, especially, for the large number of small- and medium-sized NBFCs is very important to ensure future growth, it said further.

The latest measure by the RBI to boost capital flow to NBFCs has been however downplayed by industry players and analysts and described it as too little and too late.

According to them, it will not help much, especially to those NBFCs which are into home and auto loans. The only beneficiary will be those into short-term consumer loans as well as microfinance loans, feel the experts.

The NBFCs have come under heavy pressure with their stock prices witnessing sharp fall on the bourses, triggered by a series of loan defaults by IL&FS group firms about a month ago and has crippled the prospects of smooth credit flow of the sector.

Sensing the enormity of the crisis IL&FS group which is laden by debt to the tune of ₹91,000 crore, the government swung into action quickly and took the management control by disbanding its board and replaced it by six newly appointed members headed by banker Uday Kotak of Kotak Mahindra Bank.

Besides, LIC and SBI—who are amongst the key stakeholders in IL&FS—have come to the rescue of IL&FS and are expected to infuse capital by raising their respective stakes in the company.

Separately, country's largest lender SBI has also announced to buy quality assets worth ₹45,000 crore from the NBFCs.

Assocham hails RBI move to incentivise banks for enhancing NBFC lending

Industry body Assocham on Saturday hailed the Reserve Bank of India's (RBI's) decision to incentivise banks to enhance their lending to non-banking finance companies (NBFCs), terming the move helpful in tackling liquidity crunch. The RBI on Friday allowed the banks to use government securities equivalent to their incremental credit to NBFCs for a three-month period to meet their liquidity coverage ratio requirements.

The provision will allow banks to free up ₹500-600 billion of liquidity, which banks can lend to NBFCs till December 31. "This shall also send a message that the recent developments do not indicate any systemic problem but it is merely a case of sentiments having gone wrong after one of the big NBFCs defaulted," Assocham said.

The industry body said the issue of asset liability mismatch was more relevant in case of long-term lending companies such as the housing finance companies and infra financing NBFCs. "A typical NBFC model is a retail lending model with short tenures of two-five years and small-ticket sizes where asset liability mismatch is not a concern. NBFCs have shown impressive growth for the past few years maintaining a high-capital adequacy ratio, which is higher than the minimum prescribed levels. This growth has also been healthy as reflected in better asset quality," Assocham said. PTI

LIQUIDITY CRUNCH AT NBFCS

Assocham praises RBI's steps for easing process

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