GOVERNMENT OF INDIA
MINISTRY OF FINANCE
LOK SABHA
UNSTARRED QUESTION NO-2780
ANSWERED ON- 21/03/2022

CREDIT CRUNCH IN NBFCs

2780. SHRI RITESH PANDEY

Will the Minister of FINANCE be pleased to state:-

(a) whether the Government is aware that the Non-Banking Financial Companies (NBFCs) are suffering from credit squeeze, over-leveraging, excessive concentration, the massive mismatch between assets and liabilities, coupled with some misadventures by some very large entities;

(b) whether the Government has found any kind of permanent solution in policy-making to solve these problems in the NBFC sector and if so, the details thereof; and

(c) if not, the details of the measures the Government proposes to take to deal with the NBFC sector which is in a dire situation?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(DR. BHAGWAT KARAD)

(a) to (c): NBFCs are regulated and supervised by the Reserve Bank of India (RBI) as per powers vested in it under the provisions contained in Chapter IIIB of the RBI Act, 1934. RBI's Financial Stability Report (FSR) of December 2019 highlighted the issue of asset liability mismatches of NBFCs in the aftermath of Infrastructure Leasing and Financial Services crisis. FSR of January 2021 reported that NBFCs were adversely impacted by COVID related stress. Also, as per FSR of December 2021, system level stress tests was conducted for a sample of 191 NBFCs under different risk scenarios and that the Gross Non Performing Asset (GNPA) ratio of the sample NBFCs stood at 6.5% and Capital to Risk Weighted Asset Ratio (CRAR) at 26.6% (as against the minimum regulatory requirement of 15%). Further, as per RBI's report on trend and progress of banking in India 2020-21, in FY 2020-21, the share capital and reserves of NBFCs expanded as some NBFCs raised additional capital *via* rights issues. NBFCs also built liquidity buffers, with their cash and bank balances growing. Balance sheet size of NBFCs increased from Rs 30.81 lakh crore in March 2020 to Rs 35.11 lakh crore in September 2021 mainly due to pick up in investments by NBFC– Non-Deposit-taking Systemically Important (NBFC-ND-SI). NBFCs also recycled their extant high-cost borrowings for new debt at a lower cost. NBFCs are also gradually swapping their short-term borrowings for long-term borrowings and their borrowings from banks increased from Rs 6.94 lakh crore in March 2020 to Rs 7.31 lakh crore in September 2021. NBFCs' credit increased from Rs 24.61 lakh crore in March 2020 to Rs 26.62 lakh crore in September 2021. With regard to asset liability management, the mismatch (inflows minus outflows) in one-two months, two-three months and three-six months buckets improved as on March 2021 vis-à-vis March 2020.

Government and RBI have taken various steps to strengthen, to extend liquidity support and to increase credit flow to NBFCs, which includes, *inter alia*, the following:

(i). The Liquidity Risk Management framework of NBFCs was strengthened by RBI with the introduction of granular maturity buckets with tolerance limits and liquidity coverage ratio.

(ii). NBFCs with assets over Rs. 5,000 crore have been asked to appoint a Chief Risk Officer to improve the standards of risk management.

(iii). The regulatory framework for NBFCs was revised in October 2021 effective from 1.10.2022 to introduce scale-based regulation with additions such as introduction of common equity tier 1, leverage requirements, mandatory listing, and qualification of board members.

(iv). RBI issued guidelines on 24.6.2021 on dividend distribution by NBFCs wherein the eligibility criteria for dividend pay-out were linked to their capital adequacy and net NPA levels, and a ceiling on the maximum dividend pay-out ratio was specified.

(v). RBI issued guidelines for appointment of Statutory Central Auditors /Statutory Auditors for NBFCs in April 2021 to improve the quality and standards of audit in the NBFCs.

(vi). RBI put in place a Prompt Corrective Action (PCA) framework for NBFCs on 14.12.2021 effective from 1.10.2022 based on their financials as at 31.3.2022. The framework prescribes certain mandatory and discretionary actions on breach of parameters such as CRAR and Tier I capital ratio, net NPA ratio and leverage ratio as applicable. Some restrictions includes requirement of promoters to infuse additional capital, reduction in leverage and concentration of exposures, capital expenditure, borrowings.

(vii). Open market operations have been conducted by RBI, in addition to regular Liquidity Adjustment Facility auctions, to inject liquidity in financial markets.

(viii). Government approved Special Liquidity Scheme of Rs. 30,000 crore to improve liquidity position of NBFCs (including MFIs)/HFCs.

(ix). The RBI announced On Tap Targeted Long Term Repo Operation scheme on 9.10.2021 for up to Rs. 1 lakh crore at repo rate with end-use guidance and on 5.2.2021 also permitted banks to provide funds to NBFCs for incremental lending to specified sectors.

(x). An additional special liquidity facility of Rs. 5,000 crore to National Bank for Agriculture and Rural Development for a period of one year at repo rate was provided for refinancing NBFC-MFIs and other smaller NBFCs of asset size of Rs. 500 crore and less.

(xi). Scheduled commercial banks other than Regional Rural Banks and Small Finance Banks have been allowed to engage with NBFC-ND-SI to co-originate loans for creation of priority sector assets.

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