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'OVERALL DATA ON NBFC SECTOR NOT AVAILABLE WITH ANYBODY'

Centre, Reserve Bank working on new system to gather data on NBFCs

ENS ECONOMIC BUREAU
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THE GOVERNMENT and the Reserve Bank of India (RBI) are working on a new source of data on non-banking financial companies (NBFCs) as "the overall data on the sector was not available with anybody" in the wake of the IL&FS crisis and the subsequent liquidity crunch.

Economic Affairs Secretary Subhash C Garg said when the IL&FS issue came to light, the government was interested in getting in touch with somebody representing NBFCs as a sector, to get insights into the status and developments in the industry, but to no avail.

"The overall data on the sector was not available with anybody... so the government, along with the RBI, is working for developing a source of data through strengthening of institutional mechanism," Garg said.

"Forget about daily data points, which are needed, we didn't even have monthly data regarding the performance of NBFCs," the Economic Affairs Secretary said on Saturday at the national conference on NBFCs, organised by CII.

After IL&FS defaulted on repayments in October last, the NBFC sector faced a liquidity crunch, leading to demands for more credit flow to the sector.

Stating that common investors are now investing in risk assets like mutual funds through equities and debt instruments, Garg said that NBFCs should work for developing an instrument to channelise household savings into the sector.

"Assets under management of MFs crossed Rs 26 lakh crore, showing that investors are ready to invest in risk-based alternative assets like debt and equity, though they are not as secure as fixed deposits. That trend is driven more by trust that their funds are safe and secure and can offer slightly higher returns," he added.

He said NBFCs as an industry has to develop that trust where the intermediaries will play an important role.

Stating that there was a large pool of domestic and foreign funds waiting to invest in the NBFCs, the Economic Affairs Secretary said that regulations have to be tweaked in such a way that these funds are channelised into NBFCs.

The loan book of NBFCs is Rs 22 lakh crore, while that of housing finance companies (HFCs) is at Rs 9 lakh crore — which is also part of the definition of NBFCs — compared to Rs 90 lakh crore assets of banks.

Uday Kotak, president designate of CII, and managing director and CEO of Kotak Mahindra Bank, said the regulators and NBFCs need to closely track the signals coming from the providers of risk capital about the NBFCs they are investing in. "Do not wait disproportionately long to get the best price to raise the capital when the sun is shining," Kotak advised NBFCs.

According to Kotak, one of the areas where there is an arbitrage between banks and NBFCs is financing of land. "While banks cannot lend against land, NBFCs are allowed to do so. NBFCs have to be careful in valuation of land as this is an illiquid asset," he said.

Ajay Srinivasan, chairman if CII National Committee on NBFCs, and chief executive of Aditya Birla Capital, said there was a need to open up alternative sources of funding for NBFCs and HFCs by re-aligning the investment guidelines of life insurance companies and pension funds.

EXPLAINED

Asset-liability mismatch of NBFCs a concern

WHEN THE IL&FS payment crisis hit the financial sector, bank credit to NBFCs slowed down considerably, leading to a liquidity squeeze. The fundamental issue, however, is an asset-liability mismatch in the operations of NBFCs like IL&FS.

These firms borrow funds short-term from the market and lend for longer tenures. In a scenario where interest rates are rising, this hurt the NBFCs as their margins came under severe pressure and sourcing of funds became tough. The RBI Board did not consider any proposal to boost liquidity for the sector despite a strong pitch by the board members.