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NBFC

06 August 2020

New RBI policies offer limited succour

RBI today introduced development policies along with the monetary policy, laying out new guidelines on the restructuring of personal loans – this has historically been a source of slippages and, together with extension of the MSME restructuring scheme, makes for a ticking time bomb in our view. RBI's additional Rs 100bn refinance facility to NABARD and NHB may help NBFCs raise funds. An LTV increase for gold loans by banks gives them regulatory arbitrage, but may not materially affect market share of NBFCs.

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Additional refinance facility to help NBFCs garner funding: RBI has introduced an additional refinance facility of Rs 50bn each to NABARD and NHB, illustrating the regulator's intent to reach out to HFCs and MFIs. We believe this move coupled with a thawing of bond markets is a positive for lower rated NBFCs.

Restructuring of personal & MSME loans a ticking time bomb: Restructuring of personal loans under the new guidelines is likely to elongate the credit stress faced by lenders, albeit while maintaining their capital buffers at adequate levels. MSME loan restructuring has been extended till 31 Mar 2021.

LTV hike for bank gold loans unlikely to affect NBFC market share: The regulatory arbitrage given to banks by increasing the LTV for their gold loans from 75% to 90% is unlikely to materially change the market share of NBFCs as this hike is only till 31 Mar 2021. Also, originating gold loans at 90% LTV raises the probability of default, thereby negating the benefits. Over FY12-FY14, when RBI had given a similar regulatory arbitrage to banks, their market share went up by only 2-3% over an 18-20-month period.

Key announcements

- **Refinance facility:** RBI has announced an additional refinance facility of Rs 100bn, split equally between NABARD and NHB. This will be over and above the Rs 250bn/Rs 100bn in refinance facilities announced earlier for NABARD/NHB.

- **MSME restructuring scheme extended:** The central bank had previously announced a policy for debt restructuring of MSMEs under the 'standard' category as on 1 Jan 2020, with restructuring to be completed by 31 Dec 2020. This policy has now been extended to MSMEs that were 'standard' as on 1 Mar 2020, with their restructuring implementation deadline allowed up to 31 Mar 2021.

- **Higher LTV for gold loans offered by banks:** RBI has raised the permissible loan-to-value ratio (LTV) for loans against pledge of gold ornaments and jewellery (only for banks) for non-agricultural purposes from 75% to 90%. This enhanced LTV ratio will be applicable up to 31 Mar 2021 to enable borrowers to tide over their temporary liquidity mismatches on account of Covid-19. Accordingly, fresh gold loans sanctioned on and after 1 Apr 2021 shall attract an LTV ratio of 75%.

- **Restructuring framework for all loan categories (ex-MSME):** Under the new framework, only those borrower accounts that were classified as standard, but not in default for more than 30 days as on 1 Mar 2020, will be eligible for resolution. These accounts should continue to be classified as standard till the date of invocation of resolution under this framework.

  Resolution may be invoked not later than 31 Dec 2020 and must be implemented within 90 days from the date of invocation for personal loans and 180 days for eligible corporate exposures. Lenders will have to set aside 10% as provisions on the post resolution debt; after invocation, asset classification will be retained as standard.

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BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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