

Financials: NBFC

Ideally, every NBFC should benefit, particularly those with a higher proportion of non-PSL bank borrowings.

There could be a ~2-5bp decline in the overall borrowing costs for AAA/AA-rated NBFCs.

We expect an insignificant 0.5%-1.0% increase in earnings due to the reduction in the cost of borrowings.

NBFCs like CIFIC, LTFH, MUTH, and MGFL, which have a relatively higher proportion of non-PSL bank borrowings, could be relatively better placed.

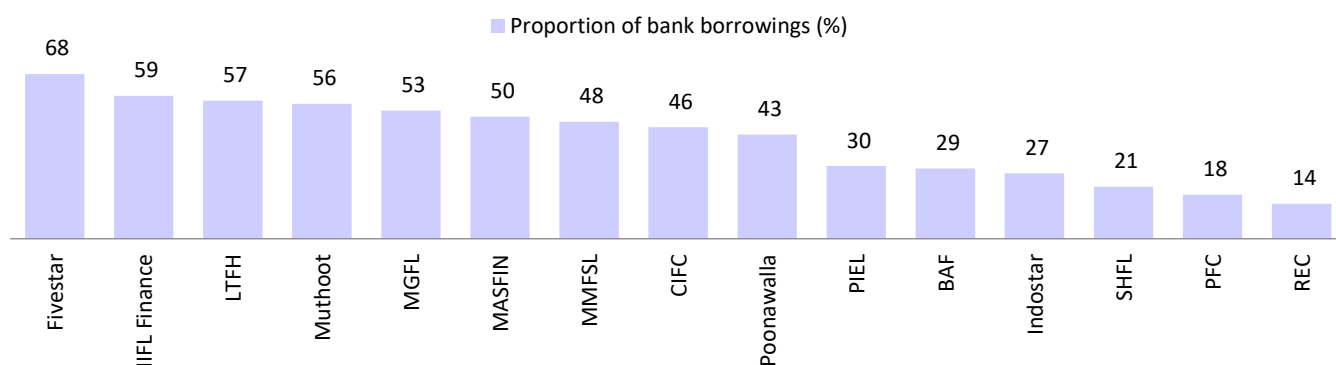
Reduction of risk weights on bank loans to NBFCs

Sentimentally positive but will lead to a marginal reduction in CoB for NBFCs

- On 25th Feb'25, the RBI issued a circular addressed to all Scheduled Commercial Banks (SCBs), including Small Finance Banks (SFBs), restoring the risk weights on their exposures to NBFCs, which will now be according to the external rating. This change will take effect from 1st Apr'25.
- Following the increase in risk weights on bank loans to NBFCs in Nov'23, banks began rationing credit to NBFCs. At the same time, NBFCs (based on RBI's directions), started diversifying their liability mix towards debt capital markets and ECBs. With the reduction in risk weights, banks are expected to be more forthcoming in extending credit to even some lower credit-rated NBFCs. Therefore, we view this reduction in risk weights as sentimentally positive for the NBFC sector.
- In Nov'23, when RBI increased the **risk weights** on bank loans to NBFCs, most AAA/AA+ credit-rated NBFCs were able to **negotiate (or push back)** interest rate hikes on their existing bank borrowings. For incremental non-PSL bank borrowings, interest rates increased by 10-25bp (in the wide spectrum of AAA to A-rated NBFCs).
- It is important to note that bank loans to HFCs and loans to NBFCs eligible for PSL classification were excluded from the increase in risk weights. For NBFCs, bank borrowings under PSL did not see any increase in interest rates. Additionally, NBFC-MFIs (like CREDAG) that took bank loans under PSL were not impacted by the increase in risk weights. The increase in interest rates, resulting from the higher risk weights, primarily affected non-PSL bank borrowings, which were predominantly from **select** PSU banks.

Our view: Sentimentally positive but insignificant impact on earnings

- There are no winners or losers among NBFCs solely based on RBI's change in risk weights on bank loans to NBFCs. Ideally, every NBFC should benefit from this restoration of risk weights, particularly those with a higher proportion of non-PSL bank borrowings in their liability mix.
- Most large and/or higher credit-rated NBFCs negotiated well with banks and experienced an insignificant increase in their overall cost of borrowings when risk weights were increased. With the restoration of risk weights effective from Apr'25, NBFCs are unlikely to see significant benefits in their CoB. **Benefits (if any) on non-PSL bank borrowings will be 10-15bp, potentially leading to a 2-5bp decline in the overall borrowing costs for AAA/AA-rated NBFCs. This would translate into an insignificant 0.5%-1.0% increase in earnings for these NBFCs due to the reduction in the cost of borrowings.**
- While the impact on CoB and earnings itself is insignificant, NBFCs like CIFIC, LTFH, MUTH, and MGFL, which have a relatively higher (compared to peers) proportion of non-PSL bank borrowings, could benefit (albeit marginally) more than their peers.**

Exhibit 1: Proportion of bank borrowings in the liability mix for NBFCs (excl. HFCs and NBFC-MFIs) under the MOFSL coverage

Note: Data is for MOFSL NBFC coverage, excluding HFCs and NBFC-MFI; Data as of Dec'24; Source: MOFSL, Company

Exhibit 2: Borrowing mix (%)

Name of the company	Aavas	BAF	Canfin	CFC	CRETAG	Homefirst	LTFH	MASFIN
Banks/ Term Loans	50	29	60	46	72	61	57	50
Assignment/Securitization	25			17	2	16		22
NCDs	9	37	18	14	8	6	29	11
Cash credit				2				13
Deposits		20	1					
ECBs		4		12	18		5	
NHBs	16		14			17		
CP		9	7	2			7	
Sub Debt & PDI		1		6	0			3
Others							2	
Total	100	100	100	99	100	100	100	100

Note: Data as of Dec'24; Source: MOFSL, Company

Exhibit 3: Liability mix for our NBFC coverage universe (%)

Name of the company	MMFSL	PNBHF	Poonawalla	Spandana	SHFL	Fivestar	Fusion	IIFL Finance
Banks/ Term Loans	48	40	43	78	21	68	70	59
Assignment/Securitization	6				17	20		
NCDs	26	10	7	22	17	11	11	25
Cash credit			20					
Deposits	9	29			24			
ECBs		3	7		19	1	19	
NHBs		12						16
CP	6	6	21		1			
Sub Debt & PDI			1		1			
Others	3		1		0			
Total	100	100	100	100	100	100	100	100

Note: Data as of Dec'24; Source: MOFSL, Company

Exhibit 4: Borrowing mix (%)

Name of the company	Indostar	LICHF	MGFL	Muthoot	Repco	PIEL	PFC	REC
Banks/ Term Loans	27	33	53	56	91	30	18	14
Assignment/Securitization	19					16		
NCDs	45	54	18	26		37	63	53
Cash credit			26					
Deposits		3						
ECBs			2	13		7	19	32
NHBs		5			9			
CP		4	0	5		9		-
Sub Debt & PDI		1		-				
Others	9		1	1		1	-	
Total	100	100	100	100	100	100	100	100

Note: Data as of Dec'24; Source: MOFSL, Company

Exhibit 5: Trends in the cost of borrowings for our NBFC coverage (%)

Name of the company	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
BAF	7.0	6.9	7.3	7.4	7.5	7.5	7.7	7.9	7.8
CIFC	7.3	7.4	7.8	7.8	8.0	8.0	7.9	7.9	8.1
LTFH	7.0	6.8	6.9	7.0	7.1	7.0	6.9	7.1	7.3
MAS financial	8.7	9.7	9.6	9.2	9.7	9.3	9.6	9.4	9.3
MMFSL	7.2	7.3	7.5	7.6	7.8	7.8	7.8	7.8	7.9
Poonawalla	7.5	7.9	8.0	7.2	7.5	8.2	8.0	8.0	7.8
SHFL	8.0	8.3	8.7	8.9	8.7	8.8	8.7	8.7	8.8
Fivestar	8.9	8.3	9.0	9.3	9.7	9.1	9.7	9.6	9.6
IIFL finance	9.2	9.1	9.1	9.5	9.5	9.7	9.5	9.7	9.5
Indostar	9.8	10.8	10.7	11.9	9.4	11.0	10.9	11.2	10.9
MGFL	8.4	8.5	9.1	9.1	9.3	9.5	9.4	9.4	9.8
Muthoot	8.0	8.0	8.4	8.7	8.6	8.4	8.7	9.0	8.7
PIEL	8.2	8.3	8.6	8.7	8.7	8.9	8.9	9.3	9.1
PFC	7.2	7.0	7.3	7.4	7.4	7.2	7.4	7.3	7.4
REC	7.1	7.1	7.3	7.2	7.2	7.3	7.2	7.3	7.3
Aavas	6.8	6.9	7.3	7.5	7.7	7.4	7.5	7.9	8.0
Canfin	6.6	6.9	7.3	7.3	7.3	7.4	7.5	7.4	7.6
Homefirst	7.2	6.6	6.7	7.2	7.2	7.8	8.2	8.1	8.1
PNBHF	7.6	7.6	7.9	8.0	8.1	7.9	7.9	7.9	7.9
LICHF	7.2	7.2	7.4	7.6	7.6	7.5	7.5	7.6	7.6
Repco	7.5	7.6	8.2	8.3	8.4	8.4	8.6	8.6	8.8
CRETAG	9.7	9.2	9.3	9.8	9.6	9.4	9.6	9.8	9.6
Spandana	10.9	10.6	12.8	12.9	12.7	11.5	11.4	12.4	12.6
Fusion	10.3	10.5	10.5	10.4	10.4	10.3	10.1	10.2	10.7
CoB for NBFC coverage (%)	7.3	7.3	7.6	7.7	7.7	7.7	7.7	7.8	7.8

Source: MOFSL, Company

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