RBI’s new norms likely to boost funding for NBFCs

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- **The guidelines will provide more confidence to potential investors, experts said.**
- **RBI has proposed classifying NBFCs into four categories based on their size and risk perception.**

The Reserve Bank of India’s (RBI) proposed guidelines for non-bank lenders are not as stringent as feared and are expected to improve the funding conditions of the sector and provide more confidence to potential investors, experts said.

Last week, RBI proposed stricter regulation for non-banking financial companies (NBFCs) and proposed classifying them into four categories based on their size and risk perception. The proposed regulations would vary according to the size of the NBFC, RBI said.

“We believe the reforms would preserve non-banking financial institutions’ (NBFIs) niche business models and could improve the fun-ding environment for some entities by strengthening investor confidence in the sector," Fitch Ratings said in a note on Wednesday.

India’s non-bank lenders have been plagued by a liquidity crunch since a series of defaults by Infrastructure Leasing & Financial Services in September 2018. This proposed alignment of NBFC regulations with their size and importance, RBI said, will help preserve financial stability and reduce systemic risks.

“We believe the moves to strengthen risk controls and frameworks should be manageable for Fitch-rated NBFIs. For example, they should already comfortably meet the suggested requirement for ‘upper layer’ NBFIs, expected to include 25-30 of the largest entities including Fitch-rated names, to maintain a minimum common equity tier 1 ratio of 9%," Fitch Ratings said. Analysts pointed out that the RBI paper has only prescribed a broad framework for non-bank regulations, without prescribing any cash reserve ratio (CRR) or statutory liquidity ratio (SLR) buffers.

“We however believe that in the post IL&FS era, RBI will monitor large NBFCs more closely and possibly facilitate a banking transition for some of the players, as alluded to by the internal working group to review ownership guidelines and corporate structure of private banks," Kotak Institutional Equities said in a report on 25 January. Kotak said while RBI ensured sufficient liquidity for NBFCs and managed a smooth transition throughout the moratorium, its supervision of large NBFCs will remain high and some tightening of rules cannot be ruled out. Others also said that the proposals lack strict regulations on maintaining a specific liquidity buffer by non-bank lenders. Citing this, rating agency Moody’s said on 25 January that this means the proposal does not address the key weakness of the NBFCs; the sector will continue to pose risks to banks’ asset quality because they are the largest lenders to NBFCs.

Last Friday, the central bank proposed that all NBFCs with assets of up to ₹1,000 crore will fall under the ‘base layer’ category.

RBI has also raised the net-owned funds requirement for these NBFCs to ₹20 crore from ₹2 crore earlier. The existing non-performing loan classification norm for these NBFCs will also be changed to 90 days from 180 days now.

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