Public finance entities shift to bank credit as yields rise

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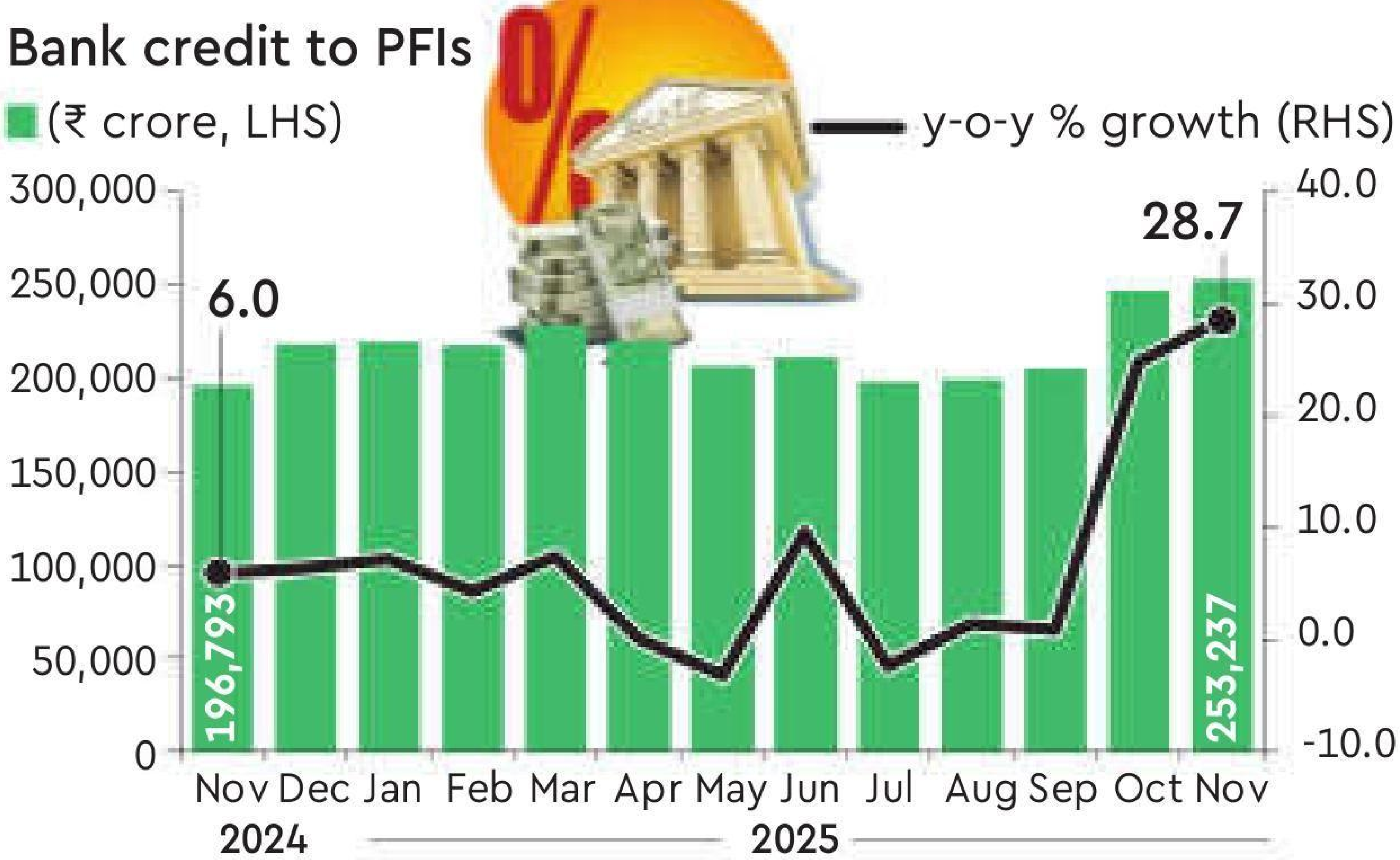
AT A GLANCE



Source: RBI

PUBLIC FINANCIAL INSTITUTIONS (PFIs) are growing their exposure to bank credit – PFI borrowing from banks jumped close to 29% in November, compared to 6% a year ago. In the past two months, it has risen 23%, according to the Reserve Bank of India's (RBI) sectoral deployment data. The outstanding credit stood at ₹2.53 lakh crore as on November 30.

"Yields have stayed elevated and have not declined in line with rate cuts. This pushed PFIs to move to bank credit for cheaper funding. High-rated entities can avail of cheaper EBLR loans, where transmission happens faster," said Sachin Sachdeva, vice president – financial sector ratings, ICRA. Despite cumulative 125-bps rate cut, yields stay elevated due to factors, including demand-supply mismatch and expectation of no more immediate rate cuts.

State-owned entities have been scrapping bond issuances amid higher yields. Recently, National Bank for Agriculture and Rural Development cancelled its ₹7,000-crore bond issuance. On December 24, Power Finance Corporation scrapped ₹6,000-crore issuance for the third time. Entities such as Small Industries Development Bank of India and Indian Railway Finance Corporation also cancelled issuances in the past, citing the same reason.

An official at a state-owned entity said they are currently more focused on domestic loan market, as it gives them a better pricing compared to debt market and overseas borrowing.

"For banks, PFIs are one of the pockets for growth. By funding them, banks ultimately support infrastructure, especially in the renewable energy space. These are the sectors which are seeing a significant growth compared to general corporate capex," Sachdeva said. "Banks are more comfortable in lending to PFIs given their high ratings, compared to low-rated NBFCs."

The overall bank credit to NBFCs have also improved since October. The growth in bank lending to NBFCs and unsecured retail is showing signs of revival, the RBI said in its Financial Stability Report released on Wednesday. The bank lending to NBFCs grew 9.5% YoY in November, compared to 7.5% a year ago.