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INVESTORS RELIEVED AS RBI'S PROPOSED NORMS FOR NBFCS LEAVE BREATHING SPACE

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India's big non-banking finance companies (NBFCs) would soon have to meet stricter guidelines than their banking peers are subject to, leaving less elbow room to lend.

The Reserve Bank of India (RBI) has listed out an elaborate tier-wise classification of NBFCs and regulations that will govern them in a discussion paper last week. But going by the sharp gains in shares of big NBFCs today, it seems investors are fine with it. In fact, investors seem to be relieved that the paper didn't clip the wings of lending of these companies.

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The central bank wants big systemically important NBFCs to have a core common equity tier-1 ratio of 9%, differential standard asset provisioning depending on the sector exposure, mandatory listing, and leverage thresholds. The paper proposes a four-layered structure, with an upper layer consisting of the top 25-30 NBFCs, a middle-layer with non-deposit taking NBFCs including housing finance companies, asset finance companies, core investment firms, and even infrastructure finance companies. The bottom or the base layer will consist of NBFCs with asset size of up to 1000 crore and this will be the biggest population with 97% of NBFCs falling here.

Investors can breathe easy as these non-bank lenders won't be subjected to cash reserve ratio (CRR) and statutory liquidity ratio (SLR), which would have meant setting aside a big portion of the liquidity instead of lending. That is the main relief for the market on which shares of big lenders such as Bajaj Finance Ltd, Shriram Transport Finance Corporation Ltd, Mahindra and Mahindra Financial Services Ltd and Housing Development Finance Corporation Ltd have gained smartly today.

Analysts at Jefferies India Pvt. Ltd noted that the exclusion of CRR and SLR is a big positive and said that most big NBFCs are close to their thresholds. Those at Motilal Oswal Financial Services Ltd pointed out that regulatory arbitrage between banks and NBFCs may lessen due to these rules. Furthermore, prescribing rules based on size rather than a one-size fits-all approach would help NBFCs, they said.

The Central bank has called for feedback on the paper by 22 February, based on which the RBI may issue draft guidelines and then release the final ones. The long-drawn-out process is unlikely to immediately hit operations or profits. Analysts at CLSA expect no lasting impact on profits even after the rules get formalized.

That said, smaller players and their investors must watch out.

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