Much needed measures to address liquidity troubles faced by NBFC/HFCs – says Brickwork Ratings

Brickwork Ratings, Mumbai, 11 December 2019: The revision in eligibility norms for "Partial Credit Guarantee Scheme", announced in the Union Finance Budget 2019-20 by the Union Cabinet, is a big positive step for NBFC and HFCs. There has been limited traction in the earlier scheme announced in the budget, due to the high rating requirement making it unattractive. In addition, higher credit enhancement required in the previous scheme made it less feasible.

This announced new scheme will substantially reduce the credit enhancement required and lower the cost of borrowings for issuers. Hence, we are likely to see extensive interest from NBFCs to utilize this scheme. Further, the extension available until June 2020 and the inclusion of SMA-0 is positive, as it increases the pool of eligible assets, which could be securitized under the scheme, says Rajat Bahl, Chief Analytical Officer and Head- Financial Institutions at Brickwork Ratings.

The Union Cabinet has approved the "Partial Credit Guarantee Scheme" for purchasing high-rated pooled assets from Non-Banking Financial Companies (NBFCs) / Housing Finance Companies (HFCs), with the amount of overall guarantee being limited to first loss of up to 10% of assets being purchased by the banks under the Scheme, or INR 100 billion, whichever is lower.

This scheme would cover NBFCs / HFCs that may have slipped into SMA-0 category during one-year period prior to August 2018, and asset pools rated BBB+ or higher from earlier announced AA category. Also, the window for one-time partial credit guarantee offered by government will remain open till 30th June, 2020 or till such date by which INR 100 billion assets get purchased by the Banks, whichever is earlier.

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