

Shadow banks' share in LAS jumps

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Promoters strapped for funding, following the Securities and Exchange Board of India's (Sebi) move to tighten norms regarding loan against shares (LAS), have found some relief from non-banking financial companies (NBFCs). These now account for over 53 per cent of the ₹2.06 trillion worth of shares pledged by promoters as of December 31, 2019.

In January 2019, NBFCs' share stood at 39 per cent or ₹85,919 crore, showed the data from nseinfobase.com. As of December 31, their exposure to promoter pledging was ₹1.11 trillion, up 29 per cent.

"NBFCs are treading the segment carefully and are extending LAS-credit to select promoters. They need to ensure that the money comes back in time and they are not required to sell the collateral for recovery as it may not always be a practical option," said Ajay Manglunia, managing director and head of institutional fixed income at JM Financial.

According to market observers, lenders have turned cautious on this segment following sharp volatility in shares of promoter group companies in Essel Group, the Anil Ambani group, Rana Kapoor firms (YES Bank promoter), and the Wadhawan group (DHFL promoter) leading to an erosion of collateral value. "NBFCs need to assess borrowers' intention to repay before extending LAS-credit. Risks crop up when there is overleverage," Manglunia said.



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Market participants say that yields on LAS have turned attractive, with other investors steering clear of this segment and the risk-premium kicking-in amid concerns around this segment. The value of pledged

CALCULATED RISKS

Attractive yields draw NBFCs to promoter funding market

| Month-end | Share of pledged shares (%) | | | Value of pledged shares (₹ trillion) |
|-------------|-----------------------------|-------|--------------|--------------------------------------|
| | MFs / trustees | NBFCs | Indian banks | |
| 31 Dec, '19 | 26.06 | 53.78 | 16.82 | 2.06 |
| 30 Nov, '19 | 25.99 | 52.32 | 16.31 | 2.11 |
| 31 Oct, '19 | 26.28 | 49.3 | 16.53 | 2.16 |
| 30 Sep, '19 | 26.68 | 47.97 | 15.1 | 2.12 |
| 31 Aug, '19 | 30.89 | 49.49 | 16.55 | 1.99 |
| 31 Jul, '19 | 31.7 | 49.27 | 17.13 | 1.96 |
| 30 Jun, '19 | 32.56 | 47.92 | 16.74 | 1.97 |
| 31 May, '19 | 34.72 | 45.6 | 16.56 | 2.09 |
| 30 Apr, '19 | 35.17 | 44.76 | 15.36 | 2.17 |
| 31 Mar, '19 | 34.6 | 43.51 | 15.35 | 2.24 |
| 28 Feb, '19 | 35.65 | 41.62 | 15.13 | 2.09 |
| 31 Jan, '19 | 37.4 | 39.48 | 14.68 | 2.17 |

Source: nseinfobase.com

shares as a percentage of total promoters' market cap has slipped from 3.19 per cent at the beginning of last year to 2.79 per cent as of December 31, 2019. As against the last six-month average of ₹11,595 crore, the value

of fresh pledges created was down 14 per cent to ₹9,935 crore in December. "Investors, such as mutual funds, which earlier actively participated in the LAS segment, are unwinding their positions with the market regulator taking a dim view of such structured debt exposure," said a fund manager.

"Recent episodes have shown investors exposed to LAS-structures caught on the wrong foot when a company is unable to pay as refinancing options had disappeared because of liquidity squeeze after the IL&FS crisis. The alternative of selling equity at beaten-down share prices will not necessarily lead to a full recovery either," he said.

MFs' share in promoter pledged shares declined from 37 per cent at the beginning of last year to 26 per cent (₹53,943 crore worth of pledged shares), as of December 31, 2019. Experts say promoter funding can tighten further before there is any recovery. "In the near term, we don't see this segment improving. The overall pledging levels can continue to come down in the next months, as there is not enough risk-appetite for such funding avenues at present. However, NBFCs could develop greater risk-appetite over the medium-to long-term and increase their exposure," said Pranav Haldea, managing director of PRIME Database.

Last June, Sebi stated MFs can only extend credit in LAS structures if the equity cover is four times the underlying credit exposure. Further, liquid schemes, which ran large-sized portfolios, were barred from LAS or other credit-enhanced structures.