

NBFCs WITH A HIGH EXPOSURE TO AIFs AND BUILDER LOANS TO BE HIT MOST, SMALLER BANKS COULD BE IMPACTED, TOO: ANALYSTS

NBFCs Tank 5-10% on Tighter AIF Norms

Mumbai: Shares of various non-banking finance companies (NBFCs) and banks dropped on Wednesday in reaction to the Reserve Bank of India's new rules barring these lenders from investing in any scheme of alternative investment funds (AIFs) which has investments in a debtor company. Shares of NBFCs, like Piramal Enterprises, Indiabulls Housing Finance and Edelweiss Financial Services, fell 5-10% on Wednesday. The Nifty Bank index declined 0.9%.

NBFCs with a high exposure to AIFs and builder loans will be the two segments with the highest impact from RBI guidelines and we

High & Low

Company	LTP (₹)	Day's Change (%)	Year to Date Returns (%)
Indiabulls Housing Finance	205	-10.4	32.3
Piramal Enterprises	885	-8.0	5.7
Edelweiss Financial Services	79	-5.0	24.0
Aditya Birla Capital	157	-4.9	0.8
Tata Investment Corp	4,112	-4.5	94.2
Mahindra & Mahindra Financial	268	-4.3	11.1
Sundaram Financial	3,546	-2.9	54.3
L&T Finance Holdings	3,417	-2.4	63.5
Bajaj Finance	7,481	-2.0	14.2
Cholamandalam Investment & Fin	1,236	1-1	68.9

100% provision whose impact will be seen on the P&L. RBI suspects some of lenders used the AIF route to evergreen loans that are under stress, thereby delaying the classification of such loans as non-performing assets (NPA). "The regulator is also concerned about the evergreening of loans and due to this we may see some NPAs in the coming period but that will not be immediate," said Kurian. "Investors must wait for some clarity from the management and should hold the stocks right now," said Trivedi. Kurian suggests that investors must only consider NBFCs which have market leadership, strong parentage, large capital base, strong ALM (asset and liability management), and diversified liability position.

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Blackstone Sells ₹6,172-cr Stake in Embassy REIT

Mumbai: Blackstone Special Purpose Vehicles (SPVs) sold 19.55 crore shares in Embassy Office Parks REIT through block deals on Wednesday. The transactions involved sale of units at ₹316 each, amounting to a total deal value of ₹6,172 crore. As of September 30, the Blackstone Sponsor Group maintained a 23.59% ownership stake in the overall outstanding REIT units. Buyers in this transaction included APAC Company, HDFC Mutual Fund, Fidelity Fund, ICICI Prudential Fund, SBI MF, and Smallcap World Fund, among others. — Our Bureau

IndusInd Bank Sells 2.86% Stake in Nippon MF

MUMBAI: IndusInd Bank sold shares of Nippon Life India Asset Management on Wednesday through block deals valued at ₹795 crore. According to BSE Block deal data, the transaction involved the sale of 1.79 crore shares, representing a 2.86% stake in the asset management company, at ₹445.35 per share. Some of the buyers in this transaction were SBI Mutual Fund and ICICI Prudential Mutual Fund. — Our Bureau

Is Evergreening Evergreen?

RBI's drastic rules likely to hurt genuine lenders; dodgy ones can tap other options

Mumbai: After waking up to a problem, the Reserve Bank of India has slammed the sledgehammer. It did it after pausing and mused for a while, as it typically does on most things, to examine the malady. It would have probably used a scalpel. But, it panicked when an old bugbear was poked.

For years, 'evergreening of loans' — throwing new loans to help a stressed or delinquent borrower repay old loans — has worried the regulator. Since rules prohibit lenders from doing this, blatantly, some of them, mostly non-banking companies, had figured out a different way some years ago. They cut special deals with foreign credit funds, which bet on comparatively lower-rated bonds, to set up

repay the old loans it had taken from the NBFC. There was a reason why foreign credit funds struck such deals. The AIF holding the debentures issued by the borrowers of the NBFC, was not a blind pool — here, the foreign investor enjoyed a 'senior' status while the NBFC held 'junior' units, which meant the latter would be paid only after the overseas investor was paid off. 'Thousands of crores of loans, which would have turned into non-performing assets, were moved from the books of such NBFCs. This wasn't a permanent solution, but only a play to buy time and airbrush the asset books. For months, the deals escaped the regulatory radar.

A year ago, capital market regulator Sebi (which regulates AIFs and has been tentatively watching the 90% year-on-year growth of AIFs) was the first to sense it. Soon, the AIFs were told to stop the 'junior-senior' structures. On Tuesday, RBI clamped down on banks and NBFCs (entities regulated by RBI) with sweeping dos and don'ts: no bank or NBFC can invest in any AIF having investments in any company which has borrowed from the bank/NBFC; if a bank/NBFC is already an investor in such an AIF it has to liquidate the investments, or make 100% provisioning — in other words, take a straight knock on its books — if it can't get rid of the investment; no bank/NBFC can hold 'subordi-



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nated' or 'junior' units of AIF. The last rule puts an end to the 'priority distribution model' under a junior-senior arrangement with AIFs.

TOSSING THE BABY WITH THE BATHWATER

RBI's intention was to splash cold water on the dodgy 'priority' deals involving AIFs directly sponsored by the lenders themselves. But the directors — covering all kinds of AIFs with retrospective effect impacting existing exposures — will hurt many lenders, mostly banks, which had put money in AIFs as part of asset diversification, better returns, and contributed just 5-10% of the corpus of funds which has invested in a dozen companies. At times, banks after investing approach AIFs to ask portfolio companies to become their clients. No bank or NBFC would prefer a fire sale to sell off the investment in 30 days. And, if a bank or NBFC is a sponsor to an AIF it may be forced to wind up the fund.

GOODBYE AIF...HELLO TRUST

Whether banks or NBFCs should at all invest in AIFs is a question that surfaced in the US with the

Volcker report in the wake of the 2009 meltdown. Leading banks shut the funds they had sponsored. But the context here is different: RBI's recent strictures are driven by lenders dressing up sticky loans, not because such investments are perceived to be speculative.

By the time RBI has come out with the rules, the sharp practice of book-cleaning through AIFs is largely over, largely due to SEBI's restrictions. Today, some of the finance companies are believed doing similar deals by sponsoring trusts with a large overseas investor, like a credit fund. The trust buys out the loans (which are showing early signs of stress) from the NBFC with the money it receives from the investments by the NBFC and its foreign partner. In such a deal, the trust issues 'junior' pass through certificates (PTCs) — instruments that are similar to bonds — to the NBFC while the overseas investor gets 'senior' PTCs. Instead of AIF, it's the trust that does the same job of housing the loans; and instead of 'junior units' of an AIF, the NBFC now holds 'junior PTCs' of the trust. New rules, new game.

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NSE, MFs in a Spot After Morningstar Sustainability's Exit

NSE operates two ESG indices on Morningstar dat, ratings; some MFs too use the benchmarks

Rajesh Mascarenhas

Mumbai: The discontinuation of services by Morningstar Sustainability, an ESG rating provider, in India following tighter rules introduced by the capital markets regulator earlier this month has put the National Stock Exchange and Indian mutual funds in a spot. NSE operates two ESG indices that received data and ratings from Morningstar while these benchmarks are used by some of the mutual funds that run ESG schemes.

In March 2018, NSE launched two indices — Nifty100 ESG Index and Nifty100 Enhanced ESG Index — to capture the environmental and social governance scores of Nifty 100 companies. The companies on these two indices were assessed annually by the ratings provided by Sustainability.

Eight fund houses run ESG schemes with a total asset under management of around ₹1,000 crore. Some of the schemes are benchmarked against NSE ESG indices.

NSE did not respond to a query seeking comment.

A spokesperson for Morningstar Investment Research India told ET that they will no longer be providing 'second-party opinions' in the Indian market.

"Following a careful assessment

of the recently adopted new eligibility requirements by the Sebi for ESG Ratings Providers, Morningstar Sustainability will no longer distribute ESG data and ratings to clients and users in India by December 1, 2023."

On July 3, Sebi issued a master circular on ESG rating providers outlining the procedures to be followed in an attempt to bring uniformity in the process. According to the new norms set by Sebi, an entity seeking to become an ESG rating provider must adhere to several requirements. This includes having a minimum of four employees with specialisation in areas such as governance, sustainability, social responsibility, data analytics, finance, information technology and law.

Additionally, the ESG rating provider is required to maintain a website and disclose ratings, along with other details, including all confidential aspects of the rating methodologies. Furthermore, an ESG rating provider is prohibited from directly or indirectly holding 10% or more shareholding or voting rights in any other ESG rating provider.

"Our decision not to pursue registration in light of the elevated regulatory requirements was a difficult one that balances these requirements with the market opportunity," Morningstar said.

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D-Street Debut

Doms Industries Lists at 77% Premium

Mumbai: Shares of Doms Industries, a stationary products maker, were listed at ₹1,400 on the BSE Wednesday, about 77.2% above its IPO price of ₹790 per share. The stock closed at ₹1,330.85, 4.94% below its listing price after touching a high of ₹1,434.25. The company had raised a total of ₹1,200 crore in the IPO, out of which ₹350 crore was via a fresh share issue and ₹850 crore by an offer for sale. The IPO was subscribed 93.52 times. Doms' market capitalisation was ₹8,076.56 crore on listing day. — Our Bureau

India Shelter Fin Lists at 24% above IPO price

Mumbai: India Shelter Finance Corp listed on the BSE at ₹61.70 on Wednesday, a premium of 24.3% over its IPO price of ₹49.3 per share. Shares touched a high of ₹62.5 during the day and closed 11.3% below the listing price of ₹54.50. The ₹1,200-crore IPO had received a subscription of 89.7 times. It touched a market capitalisation of ₹5,818.23 crore on debut. — Our Bureau

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		EXTRACT OF STATEMENT OF UNAUDITED STANDALONE AND CONSOLIDATED FINANCIAL RESULTS FOR THE QUARTER AND HALF YEAR ENDED SEPTEMBER 30, 2023							
		(₹ in millions except earnings per share)							
Sr. No.	Particulars	Standalone			Consolidated				
		Quarter Ended	Six Months Ended	Year Ended	Quarter Ended	Six Months Ended	Year Ended		
		30-Sep-2023 (Unaudited)	30-Jun-2023 (Audited)	30-Sep-2023 (Unaudited)	31-Mar-2023 (Audited)	30-Sep-2023 (Unaudited)	30-Jun-2023 (Audited)	30-Sep-2023 (Unaudited)	31-Mar-2023 (Audited)
1	Revenue from Operations	2,443.10	2,304.47	4,747.57	9,038.72	2,570.06	2,466.98	5,037.03	9,426.60
2	Net Profit/(Loss) for the period/year (before Tax, Exceptional and/or Extraordinary Items)	445.38	415.55	860.94	1,512.54	442.45	429.51	871.97	1,578.11
3	Net Profit/(Loss) for the period/year before Tax (after Exceptional and/or Extraordinary Items)	445.38	415.55	860.94	1,512.54	442.45	429.51	871.97	1,578.11
4	Net Profit/(Loss) for the period/year (after Tax, Exceptional and/or Extraordinary Items)	333.50	309.63	643.14	1,115.98	331.56	321.38	652.93	1,170.39
5	Total Comprehensive Income/(Loss) for the period/year [Comprising Profit/(Loss) after Tax, and other comprehensive income (after tax)]	329.02	301.94	630.96	1,114.38	327.07	313.68	640.76	1,168.79
6	Equity Share Capital	466.94	466.94	466.94	466.94	466.94	466.94	466.94	466.94
7	Other Equity (Excluding Revaluation Reserve)				3,792.84				3,882.56
8	Earning/(Loss) per Equity Share of Rs. b each (not annualised for Quarter and Six Months)	3.57	3.32	6.89	11.95	3.57	3.44	7.01	12.54
	Basic (in ₹)	3.57	3.32	6.89	11.95	3.57	3.44	7.01	12.54
	Diluted (in ₹)								

Notes:
1. The financial results have been reviewed by the Audit Committee of Board and Approved by the Board of Directors at its meeting held on December 20, 2023.
2. The above is the extract of detail format of Quarterly and Half Yearly Financial Results filed with stock exchanges under Regulation 33 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The full format of Quarterly financial results are available on the website if the stock exchanges www.nseindia.com and www.bseindia.com and on the Company's website https://www.flairworld.in/investor-relation.html

Place: Mumbai
Date: - December 20, 2023

For FLAIR WRITING INDUSTRIES LIMITED
Sd/-
Vimalchand Jugraj Rathod
Managing Director
DIN- 00123007

