Article

HFC investment to get a major boast

Ameet Roy

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Article

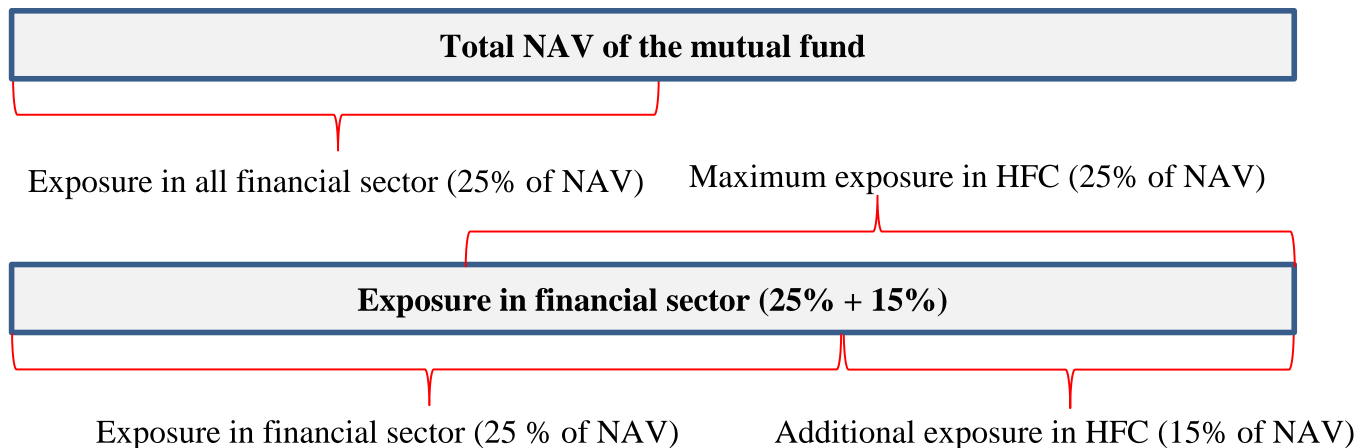
The SEBI vide its circular no SEBI/HO/IMD/DF2/CIR/P/2017/14 has provided for relaxation of investments by mutual funds in financial sector by a further 15% of their NAV. The circular allows debt oriented mutual funds to take additional exposures in the financial sector of 15% in excess of the limits that were already allowed; however, the additional 15% can only be invested in securities issued by NHB registered HFCs only which has minimum rating of AA.

Before this circular, debt oriented mutual funds were required to limit their exposure in the financial sector to the extent of 25% of their NAV, however, this change was brought in line with the objectives of the Pradhan Mantri Awas Yojana, so as to enable easy access to funds for the housing finance companies.

This additional exposure is also subject to a certain condition and that is, the additional exposure should be in AA rated securities issued by the HFCs and the maximum exposure to the HFCs must be restricted to 25% of NAV.

However exposures in Bank CDs, CBLO, G-Secs, TBills, short term deposits of Scheduled Commercial Banks and AAA rated securities issued by Public Financial Institutions and Public Sector Banks are still not considered while calculating the total exposure in financial sector by mutual funds.

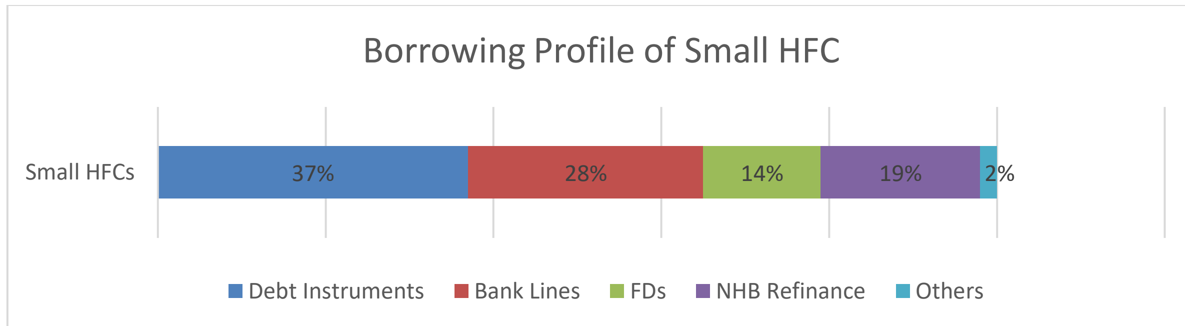
The Figure below would illustrate the current situation better:
Exposure in financial sector by mutual funds –



While the government is slowly devising new ways to push more funds into the housing sector, demand for finance for housing is still too large as compared to the volume of finance available. While the instant circular allows mutual funds to take added exposure in the financial sector by way of subscription to securities issued by HFCs, it has set a bit, too high criteria for the securities to qualify for the additional exposures by the debt oriented mutual funds. AA rating is something which the small HFC do not get easily, a reason why they tend to depend more on other sources of funding instead of issuing instruments in the market to raise funds.

Article

Around 60% of the investments by HFCs are financed by sources other market instruments which ultimately increases the cost of funds for the small HFCs. This in turn shoots up the rates charges by the companies to its borrowers and hence the cumulative burden of this inflated cost is ultimately passed on the borrower.



Therefore the qualifying criteria of the circular completely destroys its main intent. Hence to safeguard the main intent of the circular, securitized debt instruments created out of receivable of HFCs and issued by special purpose vehicles shall also be regarded as qualifying instruments for additional exposure in financial sector by debt oriented mutual funds.

This is a breathing space for the small HFCs trying to keep up with the competition with the large HFCs, as cheaper funds will bring them back in the game and then all the HFCs combined can work in consonance to achieve the national objective of housing for all, till the year 2022.