NBFCs Face Moratorium Issue with Banks

Part of: GS Prelims and GS-III- Economy-Bank (PT-MAINS-PERSONALITY TEST)

Non-Banking Financial Companies (NBFCs) may face a tough time following the Reserve Bank of India’s recent directive on providing a moratorium on repayment.

- This is because though these entities are providing moratoriums to their customers, they still have to continue repaying banks and other borrowers.

Important

- **Banks are not willing to offer any moratorium** on term loans taken by the NBFCs. This has put significant pressure on liquidity profiles of many NBFCs.
  - A significant part of money disbursed by NBFCs is loan taken from banks.
  - **Moratorium simply refers** to a legal authorisation to existing borrowers to defer or postpone their loan repayments for a predetermined period.
- The Reserve Bank of India (RBI) had asked banks, co-operative banks and NBFCs to offer a three-month moratorium on loan repayments by their customers in the wake of the Covid-19 pandemic and the nationwide lockdown.
  - The RBI has not specifically said NBFCs should not be given moratorium by banks.
  - While a few banks are inclined to offer moratorium on NBFC loans, some of the big banks have ruled out any such facility.
- The NBFCs have already been facing liquidity problems due to the the IL&FS and DHFL crises.
- Total bank loan outstandings to Non-Banking Financial Company (NBFC) sector were Rs.7,37,198 crore as of January 31, 2020 showing a rise of 32.2 per cent on a year-on-year basis.
  - Collections from customers have declined due to the lockdown, closure of units and job losses.
  - Almost 60% of NBFC borrowings are from non-bank sources and require continuity in debt servicing.
  - With minimal collections, NBFCs can only depend on their **cash reserves and any backup credit lines from banks**, if available for servicing such debt.
  - Debt service is the cash that is required to cover the repayment of interest and principal on a debt for a particular period.
- Reserve Bank of India’s (RBI) Move
  - The RBI has made available Rs 1 lakh crore through its targeted long-term repo operations (TLTRO) window.
    - Corporates and government-owned financiers will also be interested in this window.
    - Only higher rated NBFCs may end up benefiting.
  - **Industry chamber Assocham** has proposed a special liquidity window for NBFCs, but the RBI has not shown any inclination so far.

Non-Banking Financial Company

- NBFC is a company registered under the **Companies Act, 1956**.
- It is engaged in the **business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities** issued by Government or local authority or
other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business.

- But, it does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.
- A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in **one lump sum or in installments by way of contributions or in any other manner**, is also a non-banking financial company (Residuary non-banking company).

**Features of NBFCs**

- NBFC cannot accept demand deposits.
- NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself.
- Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs.