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 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.