NBFCs Face Moratorium Issue with Banks

drishtiias.com/printpdf/nbfcs-face-moratorium-issue-with-banks

Why in News

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.

Key Points

- **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.

Source: IE