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Market Watch

RBI allows lenders to provide 3-month moratorium on loans

BY SALONI SHUKLA, ET BUREAU | UPDATED: MAR 28, 2020, 08.06 AM IST

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Mumbai: The [Reserve Bank of India](#) (RBI) sought to cushion both borrowers and lenders against the unprecedented disruption engendered by the Covid-19 outbreak, allowing companies a three-month grace period on loan repayments. It also gave [banks](#) the breathing space on default tagging in the event of customers skipping payments.

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All term loans, including agricultural term loans, retail and crop [loans](#) and working capital payments, will be covered by the three-month [moratorium](#). Banks will now have discretion in deciding the limits on working capital, with RBI saying that no [payment](#) miss should be considered a default and reported to credit information companies.

“All commercial banks, NBFCs (nonbanking finance companies), all-India financial institutions are permitted to grant a moratorium of three months on payment of all instalments falling due between March 1, 2020, and May 31, 2020,” the RBI said Friday.

‘Interest will Accrue’

The measures came on the day the central bank slashed the benchmark repo rate to a record low to help spur demand when the nation of a billion-plus consumers is to end its Covid-19 lockdown by mid-April as per the current timetable.

“The repayment schedule for such loans as also the residual tenor will be shifted across the board by three months after the moratorium period,” the central bank said. “Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.”

According to State Bank of India (SBI) chairman Rajnish Kumar, customers wanting to avail of the benefit will have to opt for it.

“My understanding is that, across the board, all term loan payments will get automatically deferred by three months,” Kumar said. “Banks will reassess working capital limits on a case-to-case basis and wherever relief is required will be given.”

OPTIONAL FOR BORROWERS

Kumar further explained that the scheme would only be applicable to those who cannot pay their dues on time. Customers who have given standing instructions to deduct equated monthly instalments (EMI) toward borrowings will also have to approach their banks to seek the benefit. “I also have a housing loan from the bank. I am not planning to change the outgo. It will be continued to recover from my salary — I am not seeking the deferral. There is a choice,” he said.

While NBFCs are prepared to pass on the deferral benefit to their retail borrowers, they are worried about whether banks will extend the same benefit to them.

“The RBI has left this to the discretion of the lenders. For us, a moratorium is a given for our retail borrowers because giving this on a case-to-case basis will be an operational nightmare,” said Raman Agarwal, senior vice president, SREI Equipment Finance. “What worries me is whether banks will also allow a similar moratorium for us because it’s a call they have to take.” The rise in Covid-19 cases and the 21-day lockdown announced by the government are likely to cause large-scale disruption to businesses. The full impact from the virus outbreak on growth and delinquencies would be visible from Q1FY21, experts said. The lockdown began on March 25.

EXPOSURE TO SECTORS

According to RBI data at the end of January, banks have an outstanding exposure of Rs 11 lakh crore to the micro, small and medium enterprises (MSME) sector and Rs 7.37 lakh crore to the NBFC sector. Banks have also lent Rs 3.73 lakh crore to the manufacturing sector, Rs 2.27 lakh crore to the commercial real estate sector, Rs 1.41 lakh crore to the transport sector and over Rs 45,000 crore to the tourism and hotels segment.

A Crisil review of 120 companies in the airline, hotel, tourism, mall, organised brick-and-mortar retail, multiplex and restaurant sectors led to rating action on 81 companies — 22 were downgraded, 40 saw downward revision in rating outlook, and the remaining 19 were put on negative rating watch.

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