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Market Watch

Farm incomes help beat EMI blues in rural India

BY LIJEE PHILIP, ET BUREAU | UPDATED: MAY 02, 2020, 09.16 AM IST

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MUMBAI: About 20-25% of the farming community hasn't opted for the [moratorium](#) on loan repayments announced by Reserve Bank of India, according to finance companies. Executives ET spoke with at lenders such as Cholamandalam, [Mahindra Finance](#), HDFC Bank and L&T Finance said they were witnessing better collections at their rural branches than in urban centres.

A good harvest as well as the possibility of a faster economic recovery in rural India, much of which has remained free of Covid-19, are giving [borrowers](#) the confidence to repay. In urban centres, however, a "sizeable chunk" of borrowers are using the moratorium to conserve cash amid uncertainties over salary cuts and job losses, said an executive.

Also, [farmers](#) tend to pay off debt when they have money, according to economists.

"Most of the farmers do not want to avail of the moratorium, as they prefer to clear their liabilities, have a clean record without debt," said Madan Sabnavis, the chief economists at CARE Ratings.

The farming community takes loan primarily to buy tractors and pick-up vehicles, said Paul Thomas, the founder of ESAF, a small finance bank with significant rural presence. "By default the moratorium facility is given to the customers and, in our case, 20% of customers have not opted for it and were willing to make payments," he said.



Mahindra Finance has reached out to an estimated 15 lakh customers and 20% of them did not want to avail of the moratorium.

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“The rural farming community and local shop owners have money to pay up and did not want any financial burden to mount for the future” said managing director Ramesh Iyer. The company works primarily in the rural sector and most of its branches in UP, Bihar and Rajasthan saw collections picking up in the last few weeks, Iyer said.

Many rural customers who typically made repayments physically are now opting for digital payments because of the lockdown and social distancing norms.

A top executive at a Mumbai-based finance company said it was getting 2,500 digital **EMI** payments per day from rural branches. Digital collections used to be nil at these branches 10-12 months back, he added.

Economists and finance industry executives expect a fillip to farm-focussed activities, with a large part of the migrant labour force returning to

their native villages from urban centres, several of which are Covid-19 hotspots and are likely to see extended lockdown. This is expected to boost loan demand from the rural sector, for equipment such as tractors.

“Farmers are not highly impacted by this current pandemic, as 65-70% of the districts remain Covid free,” said Ashok Khanna, ex-group head of vehicle [loans](#) at HDFC Bank. “...the harvest has been good for wheat, sugarcane, pulses and the government will buy and warehouse these products. The farm cash flows should improve and the collections in April are coming from the farming community.”

The average loan size by a large finance company is Rs 4-5 lakh in rural India, while for a micro lender, it is Rs 30,000 to Rs 1 lakh. The average duration for repayment is 42-48 months.

Manoj Nambiar, MD, Arohan Financial Services and chairman of [Microfinancial](#) Institutions (MFIN) adds that he too sees at least one-third of the customers not opting for the extended moratorium. “We took a written declaration of those not opting for the moratorium. Many are paying up the EMIs, as they don't want to spoil their credit record. This could result in a section of our member companies coming under stress as the loan is not running its full tenure and beyond”.

While the rural environment looks positive despite the worries over the [coronavirus](#) outbreak in the country, a senior official at a Mumbai-based finance company has put in a word of caution: the wellbeing of the rural economy would still be dependent on farmers' ability to sell their produce and getting cash on hand, and that might face challenges because of the continuing spread of Covid-19.

A large part of the migrant labour force expected to return to their native villages is also likely to get into agriculture based activities in rural India providing a fillip to agri-based or farm focussed industries.

A senior official of a South based finance company said that there is going to be a demand for tractors and the dealerships in some of the locations have opened up and farmers would start buying tractors.

The unorganised sector today accounts for more than 90% of the country's workforce. The Reserve Bank of India announced a three-month moratorium option to provide relief due to the ongoing lockdown. Clearly the migrant sector is not taking up this offer, preferring to chart their own path instead.

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