

RBI's loan moratorium may spell trouble for NBFCs looking for funds, as investors' trust weakens

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The effect of loan moratorium is expected to make a dent in the liquidity profiles of non-banking finance companies.



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RBI's decision to extend the moratorium period on retail loans may make investors more cautious about the performance of retail loan pools for the near term and may hurt the securitisation market, severely affecting liquidity for NBFCs. While the extension would provide relief to many retail borrowers, it would be detrimental to the securitisation market which has been a key funding source for the NBFCs, HFCs, and MFIs, ICRA said in a report. It has also been estimated that securitisation volumes may remain significantly lower in the first half of the current fiscal.

The securitisation volumes had already come to a halt in April and May as the investors chose to stay away from purchasing pooled loans that are under moratorium and are further unlikely to result in any immediate cash flows. The report also suggested that the investors may take time to rebuild their confidence as the consumer behaviour towards loan repayments may also be impacted due to the long moratorium period and due to the ongoing economic stress, the ability of the borrowers to meet their obligations in a timely manner even after the moratorium remains unclear.

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The effect of loan moratorium is expected to make a dent in the liquidity profiles of non-banking finance companies as securitisation has been one of the key funding sources in recent years with certain originators having an off-balance sheet portfolio of as high as 30 per cent of their total assets under management. If the funding situation for NBFCs remains challenging in the coming months, fresh disbursements could remain

muted which would hurt the securitisation volumes even in H2 FY21, the report added.

Meanwhile, the rating agency highlighted that the revised partial guarantee scheme also does not support the immediate liquidity requirement of the NBFCs as investors may be cautious of certain asset classes and thus the extension of the moratorium by another three

months would further reduce the cash flows that would be earned by the investors during this period, making the purchase of pooled loan assets at this juncture less lucrative.



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