Extension of moratorium credit-negative for NBFCs: Moody's

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The extension of the repayment moratorium by the Reserve Bank of India (RBI) from May 31 earlier to August 31 is a credit-negative for the liquidity profile of non-banking financial companies (NBFCs), rating firm Moody's said on Monday.

NBFCs manage their liquidity primarily by matching outflows — mainly debt repayments — with inflows from customer loan repayments. The moratorium on customer loan repayments has led to a significant decline in cash inflows and adversely impacted the liquidity of these lenders. The extension of the moratorium will add additional stress to cash inflows, which will continue for at least three more months, Moody's analysts said in a note.

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"The government of India (Baa2 negative) and the Reserve Bank of India have announced a series of measures to alleviate liquidity stress at the NBFIs. However, the measures have been mostly ineffective," the note said, pointing out that in the most recent measure announced on May 14, where the government said it will guarantee up to Rs 30,000 crore of NBFC debt, only debt maturing within three months is eligible. "The short tenure of the debt guarantee means we expect it to have little effect in alleviating the liquidity stress being experienced by the NBFI sector," Moody's said.

Currently, the moratorium by banks to NBFCs on loan repayments is the only meaningful relief for NBFCs to withstand liquidity stress. Bank loans are an important source of funding for NBFCs; therefore, repayment holidays from bank loans will significantly help NBFCs manage liquidity, the note added.

"However, it's not clear whether all of the NBFIs will benefit from the bank moratorium as we expect banks to evaluate individual NBFIs on a case-by-case basis. Further, a moratorium on bank loan repayments does not address the structural access to funding issues of NBFIs," analysts at Moody's wrote.

The impact of the extension of the moratorium will be different for public and private sector banks. Public-sector banks (PSBs) in general have been much more open to offering moratoriums than private sector banks, the rating agency said.

As lockdowns are progressively removed, private-sector banks will be much more proactive in their collection efforts, magnifying the difference in stands of PSBs and private-sector banks. "As a result, public sector banks may end up holding more residual credit risk, which will expose them to more asset quality risks," Moody's said in the same note.