

Retail loans accounted for greater share of banks' moratorium books: RBI

By: FE Bureau

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A bulk of retail loans in the financial system — 55.3% as a share of total outstanding loans — were under moratorium as on April 30, showed the June 2020 edition of the Reserve Bank of India's (RBI) Financial Stability Report (FSR). This data point, coupled with a spate of job losses and pay cuts at companies, is leading analysts to conclude that an asset-quality storm may be brewing in the retail segment.

Banks and non-bank lenders are almost unanimous in stating that the share of their asset books under moratorium has already begun to decline in the second phase of the moratorium, starting June. This is partly the result of a change in the way the moratorium was administered by public-sector banks (PSBs), many of whom adopted an opt-out model during March-May and then switched to the opt-in mechanism.

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The decline in moratorium books may also have been achieved by not extending the moratorium to some borrowers who may have asked for it. For instance, [Axis Bank](#)'s moratorium book fell to 9.7% at the end of June from over 25% earlier after it turned more picky about extending the moratorium. "The bank has adopted an approach of recovery of Moratorium1 rather than extension of moratorium. Only customers impacted by the Covid crisis and through a review/ approval based approach have been extended the benefit of Moratorium 2," [Axis Bank](#)'s management told analysts last week.

The approach to recover from a larger number of retail borrowers in the second phase of the moratorium may not be entirely successful, as evidenced by the high failure rate of auto-debit transactions in June. The bounce rate on auto-debit transactions on the National Automated Clearing House (NACH) platform, many of which are EMI mandates, shot up to 45% in June against the six-month range of 31-38%.

Experts said there is reason to be concerned about the state of retail asset quality. Madan Sabnavis, chief economist, [CARE Ratings](#), said that retail borrowers typically take longer to recover from financial shocks than large companies. "If a retail borrower opts for the moratorium it is because they have lost their job or are getting a lower salary and these things don't get reversed easily during the course

of a year," Sabnavis said, adding that for corporates a return to normalcy is faster because they can resume repayments as and when revenues start coming in.

Sector analysts are already factoring in a spike in retail bad loans. In a report earlier this month, [Emkay Global Financial Services](#) said that the retail gross non performing asset (GNPA) ratio for banks under its coverage could potentially inch up to 3.5% in FY21 from 1.5% in FY20, with some spill-overs continuing into FY22.

"Apart from these segments (mortgages and cards), we believe delinquencies in PL (personal loans), TW (two-wheelers) and CV (commercial vehicles) too may accelerate, which coupled with slower credit growth, will shoot up NPAs," analysts at Emkay wrote.

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