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WILL RBI REACT TO MFIS' DISTRESS CALL?

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

KOLKATA: The Reserve Bank of India (RBI) appears to have swung into action as microfinance firms pressed the panic button over liquidity mismatches after several banks refused to pass on the moratorium benefit to them.

Besides, about 90% of the MFIs with below investment grade ratings don’t have access to money markets to meet the liquidity gaps as suggested by the regulator. Borrowing from the market to pay back loans is any way not an ideal situation, captains of the industry said.

RBI has collated business details, size of borrowing, liquidity position and credit rating profile from NBFC-MFIs via a series of communications since Sunday, apparently to get to the bottom of the issue.

Confusion reigned on whether NBFC-MFIs are eligible to the get moratorium support from their lenders. Many believe that RBI’s announcement on moratorium only covers retail loans, in contrast to what the ministry of finance said in its frequently asked questions : "It (rescheduling of payments) is applicable for all term loans in all the segments, irrespective of the segment and the tenor of the term loans." NBFC-MFIs raise term loans from banks for on-lending to micro borrowers.

“Situation is much worse now. Most banks are not giving back-to-back moratorium to MFIs, citing confusion prevailing in the market,” said Harsh Shrivastava, chief executive at the Microfinance Institutions Network (MFIN), a self-regulator for the sector.

MFIN and Sa-Dhan, another lobby group for MFIs, have jointly pitched for a clarification from the regulator on the issue.

“MFIs’ own cash flows would be precarious as they are not collecting any money, even for their own operating costs, leave aside being in position to service their debt,” they said in a letter to Governor Shaktikanta Das dated April 4, requesting him to remove the doubts on the matter.

They also argued that MFIs raise funding mostly in the form of term loans from banks and financial institutions and repayments are made after collection from borrowers. Out of Rs 55853 crore outstanding borrowing as on March 31, 2020, merely 0.5% is raised through commercial papers (CPs) and about 11.5% through non-convertible debentures (NCDs).

RBI did not respond to ET’s mail seeking its comment on the issue.

On March 27, the regulator created an enabling provision for lenders to provide a three-month moratorium on term loans for the borrowers under stress. The regulator also announced a targeted long term repo operations (LTRO) and told banks to deploy liquidity availed through this in investment grade corporate bonds, CPs and NCDs.

“In steady state, no NBFC maintains liquid cash, to pay their obligations to lenders, and opex beyond a few months," said Kshama Fernandes, chief executive at Northern Arc Capital, which arranges capital for smaller firms. "If the flow of moratorium/debt to NBFCs isn't restored, with all the best intentions, this isn't going to work, and the NBFC tap will soon run dry and they will not be able to service their clients for long,” she said.

MFIN and Sa-Dhan argued in their joint letter that moratorium would also be required for direct assignment deals where banks have purchased MFI loans, as also for the business correspondence arrangements where MFIs source and collect on behalf of banks — since in all these cases, underprivileged women who have taken microfinance loans will not be repaying for next three months.

“On one hand, each of our client knows that they don’t have to repay loans till the end of May, leading to zero cash flow; and on the other hand, our lenders are refusing moratorium support. How can we pay the lenders?” asked Manoj Nambiar, managing director of Arohan Financial Services and chairman of MFIN.

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