RBI's Covid relief: SFB loans to MFIs get priority sector status

Special liquidity for SFBs to help low-income groups, say experts

Subrata Panda & Abhijit Lele | Mumbai
Last Updated at May 5, 2021 23:02 IST

To soften the blow of the second pandemic on low-income groups, the Reserve Bank of India (RBI) will provide Rs 10,000 crore for three years at the repo rate to small finance banks (SFBs) to lend individuals, small and medium enterprises (SMEs), etc.

The RBI incentivised SFBs to lend microfinance institutions (MFIs) by granting priority sector lending status to such exposures.

Credit will be up to 10 per cent of a bank's priority-sector portfolio as of March 31, 2021. While the facility is there until March 31, 2022, loans disbursed will continue to be classified as priority-sector lending till the date of repayment/maturity, whichever is earlier.

RBI Governor Shaktikanta Das said the central bank would conduct special three-year long-term repo operations (SLTROs) of Rs 10,000 crore at the repo rate to provide cheap liquidity to SFBs. They can deploy such funds for fresh lending of up to Rs 10 lakh. This facility will be available for SFBs until October 31.

Rajeev Yadav, managing director and chief executive, Fincare Small Finance Bank, said the window gave liquidity. It will help more individuals and micro units and SMEs.

Agreeing with him, Krishnan Sitaraman, senior director, CRISIL Ratings, said the credit flow to small borrowers was being incentivised in two ways: One, by opening a special long-term repo operation (SLTRO) window for

SFBs; and two, by classifying on-lending by SFBs to microfinance as priority-sector lending.

LAST-MILE DELIVERY

Figures in ₹ crore	Mar 31, 2019	Mar 31, 2020
Deposits	55,686	82,488
Advances	69,856	90,576
Net profit	-727.0	1,968
Capital adequacy ratio(%)	16.70	20.20
Gross non-performing assets (%)	2.35	1.87

Source: RBI

"The availability of SLTRO funds at the repo rate should encourage SFBs because their spreads can rise 200-300 basis points versus the current cost of funds. The amount of Rs 10,000 crore is also sizeable at 10 per cent of aggregate advances of SFBs," he added.

While the benefits from the liquidity window are clear, usage may vary. "Eventual utilisation under this window (SLTRO) would depend on the risk appetite of SFBs as these advances are not guaranteed by the government, unlike the Emergency Credit Line Guarantee Scheme, which was fully guaranteed," said Ramya Muraledharan, director (ratings), Brickwork Ratings.

Unlike the asset-quality stress cycle five years ago, which involved large companies, this time smaller accounts, especially micro, small, and medium enterprises (MSMEs), and retail, are more vulnerable to the pandemic's second wave. Ajay Kanwal, chief executive officer, Jana Small Finance Bank, said cheap funds from the RBI were welcome. The focus of the package is on financial inclusion.

Analysts flagged risks saying while funds are coming cheap, the slippage risk would remain uncovered. The risk of defaults in hard times such as pandemic are high. The RBI's moves are targeted accordingly: A one-time restructuring for individual borrowers and MSMEs, and allowing lenders to offer a more supportive repayment structure under last year's restructuring package.

CRISIL said incentivising SFBs to lend MFIs, which typically face higher borrower vulnerability, was salutary.

What helps is that eight of the 11 SFBs were MFIs, so they would be in a better position to evaluate the credit profiles of smaller ones. Secondly, extending priority-sector lending eligibility to MFIs with an asset size up to Rs 500 crore will encourage credit flow to smaller MFIs.

Getting priority-sector status for exposure to MFIs will give incentives to a direct flow of money to institutions that fund people at the bottom of the pyramid, Yadav said.

The MFIN (Microfinance Institutions Network), the representative microfinance industry association, said the RBI's initiative to infuse liquidity for small MFIs should lead to tangible liquidity flow because SFBs understood the market well.

"Liquidity is the key," said Alok Misra, chief executive officer, MFIN.