

Lockdown Brings Back Default and Credit Quality Concerns at Banks

The Impact

CARE RATINGS PREDICTS

The Maharashtra lockdown could shave off **0.32%** growth in India

₹40,000 crore of gross value added will be impacted due to a month long lockdown

EXPERTS SAY

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₹48,102 crore

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Joel Rebello and
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Mumbai: Indian banks are fretting over another potential spike in defaults as tighter mobility and business curbs in Maharashtra, the biggest sub-national economy and home to India's financial hub, have put the spotlight yet again on credit quality. Given the infectious nature of the virus and the likelihood of other states following Maharashtra's example, the threat appears real.

Therefore, banks led the decline on the stock markets Monday, with the Bank Nifty falling almost 1,500 points before ending the day 3.5% lower. Banks account for more than a third of India's biggest index, the Nifty. All leading banking and non-bank stocks fell between 3% and 6%, accentuating the fall in the broader markets.

Rating agency Care predicts the Maharashtra lockdown could shave off 0.32% growth in India. Care predicts that ₹40,000 crore of gross value added will be impacted based on a single month of lockdown. "Any extension of the same will result in further loss of output from the state... unless these infection numbers come down sharply by April end, it would be logical not to bring in any unlocking of the Maharashtra economy. Therefore, this trend needs to be studied closely before any relaxation can be brought in by the government," Care said.

On Sunday, Maharashtra announced a weekend lockdown starting 8 pm on Fridays to 7 am on Mondays and also extended the night curfew until further orders. Moreover, shopping malls, bars, restaurants and other eateries will be open only for take-aways while religious places, gymnasiums, amusement parks, indoor sports complexes, parks, playgrounds, beaches, salons and beauty parlours will re-

main closed.

The restrictions will hit sectors like hospitality, tourism and transport and could halt the post-Covid-19 recovery.

"Sectors like malls and multiplexes will be hit badly. For restaurants, the availability of take home options will cushion some impact. But ultimately, however you look at it, discretionary spending will be hit. The key is how long this second wave lasts because if it comes under control by the end of this month, then the damage would be controlled," said Suresh Khatanhar, deputy managing director IDBI Bank.

Reserve Bank of India data show that outstanding bank loans to tourism, hotel and restaurants at ₹48,102 crore are just about 0.50% of the ₹94.94 lakh crore non food credit outstanding in the sector.

There could be a larger impact on MSMEs related to tourism, hotel and restaurant sectors, say experts

But there could be a larger impact on micro and small enterprises (MSMEs) linked to these sectors or those having supply chains passing through severely

hit states like Maharashtra.

"Majority of service providers are all MSMEs by definition. Hospitality and tourism industries were still trying to come out of the impact of the last lockdown. They will be hugely impacted by this directive and we should be more worried about them," said Sudhir Mutalik, chairman of CII Maharashtra, an industry lobby.

Manufacturing units in Maharashtra are operating uninterrupted as of now. However, if the lockdown extends to other parts of the country, supply chains and demand would be impacted, putting pressure on the sector, factory owners said.

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