

Business Standard

Firms ask lenders to modify accelerated payment clause in loan agreements

Bankers said such rules for accelerated payments are in place to protect the interest of lenders

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Corporates are attempting to renegotiate covenants in loan agreements with lenders as some banks have sought accelerated repayments after multi-notch rating downgrades. Lenders say the covenants give lenders the right for seeking early payments. This actually may push firms into more financial difficulty and

increase chances of default.

Hence, corporates want to renegotiate terms to ease the conditions to tide over the current adverse business environment, said rating agency analysts and corporate advisors.

Bankers said such rules for accelerated payments are in place to protect the interest of lenders. But in practice, very few banks take recourse to such provisions in loan contracts to ensure payments. In a communication to the stock exchanges on November 26, Reliance Capital said the rating downgrade has led to demands for immediate payment by certain lenders.

The payments were otherwise due and payable in a phased manner over the next eight years till March 2028, according to the original terms of lending. It is expected that debt servicing will be delayed, said Reliance Capital.

Admitting to increase in the number of requests for renegotiating terms, a senior Punjab National Bank executive said when the external rating is downgraded, there is review of internal rating (by banks). If the fall in rating is substantial, there is rise in pricing, reflecting risks to banks. A borrower has a choice to agree for change in price or look for other lenders. In the current circumstances, there are few lenders who can step in.

Hence, they (the affected corporates) are demanding reworking of loan covenants as times are difficult. The decision about leeway is not a policy decision but is case specific, based on the size of loans. Banks also take into account issue status on exposure to the sector or the group entity, the PNB executive said.

G Yadwadkar, corporate finance advisor and former deputy managing director, IDBI Bank, said there have been rating downgrades in various segments due to pressure on repayment capacity in times of economic slowdown.

The multi-notch downgrades jack up the risk weights on such loans and facilities to as high as 150 per cent, locking more capital for banks.

Based on provisions in the agreement, banks have the option to increase interest rates, ask for early payments or, in extreme cases, recall loan.

Ashvin Parekh, MD, Ashvin Parekh Advisory Services, said borrowers have to take into account slowdown in the normal course and create cushion for payments. It is a harmful practice to change rules as that could create long-term challenges for lenders, Parekh added.

What's the issue

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- This increases the risk weight on such loans and facilities to as high as 150%, locking more capital for banks
- Based on provisions in the pact, banks have the option to increase interest rates, ask for early payments or, in extreme cases, recall loan
- This is what companies want changed