

Benchmarks >

Sensex LIVE28,753.98 2079.95

NSE Loser-Large Cap >

YES Bank

30.45 -4.55

FEATURED FUNDS

Mirae Asset Large Cap Fund
Regular - Growth

★★★★★

5Y RETURN

1.71 %

INVEST NOW

Stock Analysis, IPO, Mutual
Funds, Bonds & More

Market Watch

Delay in bank loan repayment: Companies point to 'act of god', seek relief

BY SAKAT DAS, ET BUREAU | UPDATED: MAR 25, 2020, 08.41 AM IST

Post a Comment

Mumbai: Business owners from real estate, hospitality and tourism sectors have approached banks citing the “Act of God” clause in their loan covenants to delay payments and seek restructuring of past loans.

Big Change:
The end of Five-Year Plans: All you need to know

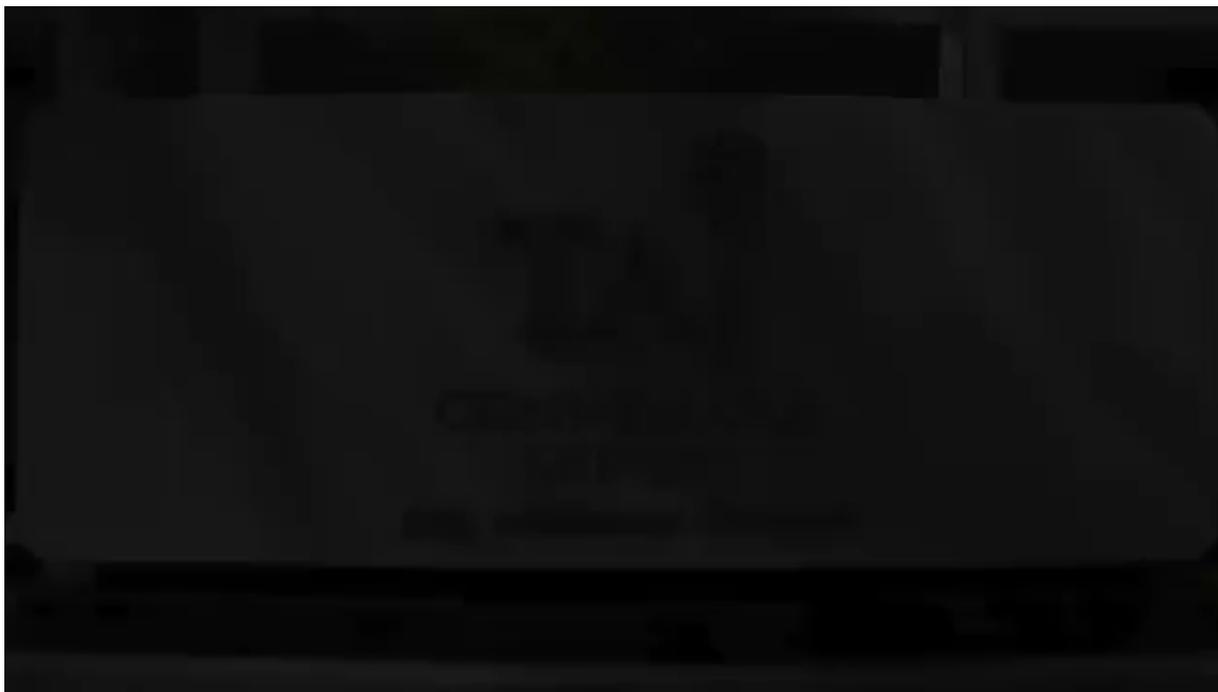
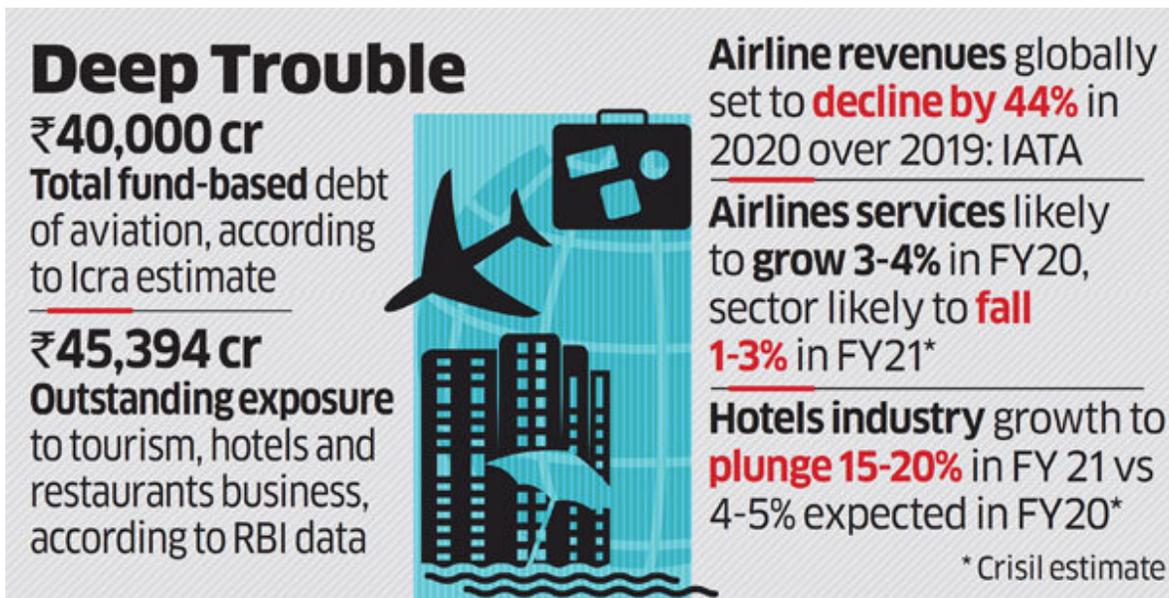
An [Act of God](#), or force majeure in legal parlance, describes an event outside of human control or activity, and is generally invoked in extreme circumstances where the business has been affected by a natural calamity, epidemic or war.

“We have started receiving requests from several companies citing “Act of God” clause to restructure loans and give leeway in payments. In some cases, these loans are upwards of Rs 200 crore,” said a banker adding that the [coronavirus](#) impact has started to show.

[Bankers](#) are hoping that the RBI gives an industry wide asset classification forbearance because the banking industry is in a precarious position.

“Lenders are likely to be less affected in Q4, FY20 with the lockdown becoming widespread only in the last week of March this year,” said Ravikant Bhat, analyst at IndiaNivesh Securities.

“The current lockdown shall affect every business and individual. Hence, the economic fallout shall require a comprehensive package based on needs of each affected segment.”



'Regulatory Forbearance will Help'

The [Reserve Bank of India](#) and the government should be generous with any assistance they may provide to key industry sectors reeling under the total demand collapse caused by the spread of the coronavirus pandemic and the total government-ordered nationwide shutdown, industry officials said.

"A regulatory forbearance will definitely help both lenders and aviation companies avert any genuine financial crisis," said Subrata Ray, senior group vice president, ICRA Ratings. "Airlines with robust liquidity position would be able to sustain meeting repayments on schedules."

"Regulatory curbs over [Covid-19](#) has triggered significant disruptions," he said.

ICRA has reviewed credit risks of aviation companies and has retained the outlook at negative for now. It will review the rating if any relief measures are announced by the government.

The total fund-based aviation industry debt (excluding Jet Airways debt and the capitalisation of leases) is pegged at around Rs 40,000 crore, according to an Ica estimate.

Airline revenues globally in 2020 is set to decline by 44% over 2019, the International Air Transport Association (IATA) said. "Revenue loss of \$250 billion in 2020 over 2019... which is a 44% decline over 2019... Before any recovery takes place, airlines may run out of cash," said Brian Pearce, chief economist at [IATA](#).

In February, IATA had estimated global airlines loss at \$113 billion due to the pandemic.

Banks, which are awaiting clear instructions from the RBI on asset classification, say that they will have to take a case-to-case view in case no forbearance is granted.

The banking system had an outstanding exposure of Rs 45,394 crore to tourism, hotels and restaurants business, show RBI data until January end. Likewise, they also have an outstanding exposure of Rs 2.27 lakh crore to the commercial real estate sector.

According to credit rating agency Crisil, airlines services is estimated to grow 3-4% this financial year. The growth will fall by 1-3% next financial year that begins from April 1.

The virus effect will likely to be deeper for hotels industry as the sector growth is estimated to plunge by 15-20% next fiscal year compared with 4-5% expected this year.

“Given the banking sector had finally begun a recovery cycle with absolute level of gross bad loans beginning to decline, we believe efforts shall be made to ensure there is no relapse,” Bhat said. Any such relapse affects banks’ ability to do incremental business. A delay in bad loan recognition cycle to 180 days from 90 days can also be useful.

Recently, the government raised excise duty on petrol and diesel. Aviation turbine fuel could well be spared from the increase. “The current social distancing measures will severely impact airlines, hotels, malls, multiplexes, restaurants and retailers, Crisil said in its report.

“Lower footfalls and occupancies, decline in business volume and sub-optimal operating efficiencies will impact cash flows of companies in these sectors,” it said.

Brokerage house Nomura in a report said it expects economic activity coming to a grinding halt with a near-nationwide lockdown. This will impair both the manufacturing and services engines of growth.

“No one knows the end game to the financial stress that could be caused by the coronavirus, hence it is critical that borrowers, banks and regulators come forward with a generous heart to help each other in this hour of crisis,” said Rajesh Narain Gupta, managing partner at law firm SNG & partners. “The regulator should come forward to put such rules in place which are practical and support the restructuring / new arrangements...,” he said.

(With inputs from Mihir Mishra)

Stay on top of business news with The Economic Times App. [Download it Now!](#)