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Banks readying debt recast for Covid-hit companies

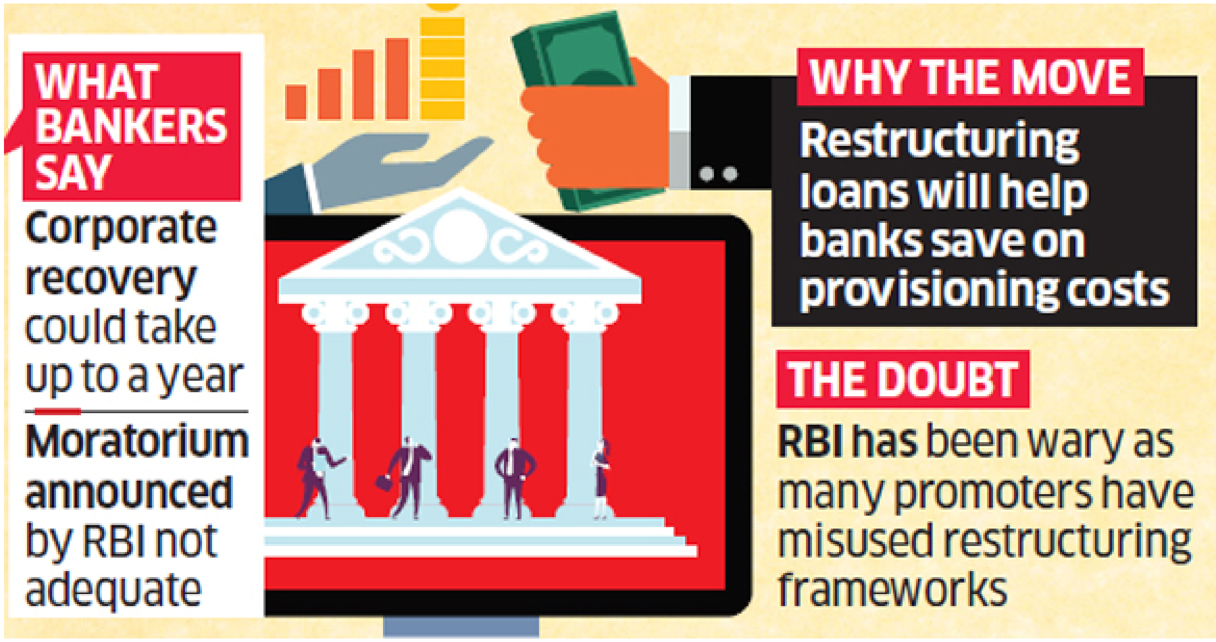
BY JOEL REBELLO, ET BUREAU | UPDATED: APR 22, 2020, 08.19 AM IST

Mumbai: The Indian Banks' Association (IBA) is finalising a special restructuring proposal to be offered to companies impacted by the Covid-19-induced disruption, bankers said. The proposal will allow banks to extend loan tenures without classifying them as nonperforming assets (NPAs).

Bankers feel companies hit by the lockdown will need at least a year to recover, and that the March to May moratorium announced by the RBI is not adequate. The draft restructuring proposal could be sent to the RBI for approval by Wednesday, said people familiar with the plan. Bankers are hoping to hear from the regulator soon.

"We are trying to work out a restructuring package without calling for a change in ownership while allowing the loans to remain 'standard'. Both present as well as future cash flows of many companies have been hit due to this crisis. The situation is such that even if we take them (the impacted firms) to bankruptcy courts, there won't be any buyers," said a person involved in the talks.

Current RBI norms specify that a loan account undergoing restructuring without a change in ownership cannot be classified as 'standard'. Keeping these accounts standard would also allow banks to save on costs by way of extra provisions.



Banks to Save on Provisioning Costs

The IBA plan is to give the companies more time to pay back loans by extending the moratorium and in some cases extending the tenure of term loans. For working capital loans that are short term, the interest payment period could be extended to three years.

Misuse of previous restructuring frameworks by promoters has made the RBI wary of approving any such rejig with existing promoters at the helm. Bankers are mindful that any proposal has to have strong checks and balances to ensure it is not misused.

“We may also rope in rating agencies and auditors to ensure only companies that need it benefit from it,” said the person quoted earlier.

Bankers argue that an extended loan moratorium and keeping loans as standard will help banks save on capital, and thus lend more.

“This is an unprecedented situation. Growth has fallen off the cliff and a recovery will be hard to come by if we do not act now. While provisions are necessary and is the right banking practice, it is not what is needed now. A provisioning holiday will help us concentrate on what is necessary — pushing credit and saving jobs,” said another person involved in the deliberations.

Bankers are also not sure of the impact of the current crisis on their own balance sheets. Loan growth is already at a 58-year-low, and could slip further due to demand destruction caused by the crisis.

“A restructuring plan will help not only the corporates, but also banks, because lenders will also struggle to forecast receivables for companies hit by the Covid crisis,” said one of the persons.

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