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Many PSBs walking extra mile to provide succor to corporate borrowers: Bankers

BY [ATMADIP RAY](#) & [ANURADHA HIMATSINGKA](#), ET BUREAU | UPDATED: JUN 21, 2020,
08.22 PM IST

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KOLKATA: Many of the public sector lenders such as [State Bank of India](#) and Indian Bank are walking the extra mile to provide succor to distressed [corporate borrowers](#) as they decide to keep interest rates unchanged even for the ones that faced credit rating downgrades in the past three months, bankers said.

These banks have ordered their staff to not to raise borrowing costs for those companies facing rating action which in the normal circumstances would have faced an automatic increase in borrowing costs and tightening of lone covenants, they said.

[Punjab National Bank](#) chief executive SS Mallikarjuna Rao has also confirmed the development, saying his bank has not raised rates even if there was a downgrade and SBI chairman Rajnish Kumar told industrialists that there's an internal circular to that effect.

"Interest rates have fallen significantly over the past few months and we are passing on the benefit to every corporate, irrespective of the rating action being taken on them. So, in a way, we have maintained a status quo," Indian Bank general manager for corporate credit VS Narayanan said.

While the Reserve Bank of India has granted permission to banks to provide a six month moratorium to all borrowers there have been many disputes as banks used their discretion. A similar moratorium was not available for those whose bonds were falling due and the rating

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companies continued to downgrade. Even the non-banking finance companies struggled to benefit from the moratorium.

Reports from rating companies ICRA, India Ratings & Research and [CARE Ratings](#) show that there have been about 11 downgrades for every upgrade in April and May. Crisil would release the aggregate number of its rating action post-lockdown only in September.

A rating downgrade reflects rising credit risks and therefore typically attracts higher interest rates as banks seek premium on credit risk.

A majority of corporate loans are now being given in form of working capital while revival of term loan disbursement remained slow given the dearth of capacity expansions and new projects. Year-on-year bank credit has grown at a slower pace at 6.2% till June 5, compared with 12.3% a year ago.

The average monthly downgrades grew by 22% post-lockdown as against the FY20 average, ICRA said. It has taken negative rating actions against 315 firms, including 150 downgrades and 122 changes in outlook. The remaining 43 have been placed under rating watch. The negative rating actions since March account for 9.6% of ICRA's rated portfolio.

Covid-19 is a black swan event, which has presented itself in two different ways—short-term contraction of demand as well as supply or structural shift resulting in longer term impact on industry, said CARE Ratings. “The impact of Covid-19 on [India Inc](#) would be prolonged and accentuated for the small and mid-corporate sector and the financial services sector.”

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