

## PNB calls for change in loan recast scheme, cites 'tough times'

**Call for closer look at borrowers who delay repayment up to eleventh hour just to avoid NPA tag**

**Somesh Jha | New Delhi August 10, 2020 Last Updated at 17:47 IST**



*“We have the probability of assessing visibility of cash flow for industry which can recover quickly after Covid-19, as every sector won't bounce back immediately... We are unsure about the consumer behaviour, too,” S S Mallikarjuna Rao, MD & CEO, PNB*

Stressed companies that have defaulted for more than 30 days, too, should get an opportunity to restructure their loan accounts, Punjab National Bank (PNB) Managing Director (MD) and Chief Executive Officer (CEO) S S Mallikarjuna Rao said in an interview to Business Standard.

“The economy has been passing through tough times in the past two years, especially MSMEs (micro, small, and medium enterprises). We have seen that repayments generally came at the last minute and a majority of stressed accounts wouldn't slip into NPAs (non-performing assets) as the money is paid before it. We need to look at such customers too,” Rao said.

The Reserve Bank of India (RBI) had on Thursday announced a loan-restructuring scheme for all types of borrowers — companies, MSMEs, and the personal loan segment. But one of the criteria for restructuring is that the borrower should not be in default for more than 30 days as of March 1, 2020.

Such restructuring can be sought till December 31 this year.

There are three types of stressed assets, technically known as Special Mention Accounts, before an account becomes an NPA: SMA-0 are those in which loan repayments have been overdue for a period of up to 30 days, SMA-1 are the ones that have been overdue for a period between 31 and 60 days, while SMA-2 accounts are those with a delay of 61-90 days.

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For MSMEs, the RBI has allowed all the three stressed assets to avail of restructuring, if their exposure is not more than Rs 25 crore. But for others, including MSMEs with loans of more than Rs 25 crore, the restructuring window will not be available if they fall in the SMA-1 or SMA-2 categories.

“The window will be denied to those, including MSMEs with exposure of above Rs 25 crore, who have defaulted on payments of more than 30 days. We need to look into these issues,” the MD and CEO of the second-largest state-owned bank said. He added that a special case could be made for accounts categorised as SMA-1 or SMA-2 till March 1 but had subsequently become standard or SMA-0 in the following months due to timely repayments.

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Rao said that the bank's priority for restructuring would be to look at the most stressed category, i.e. SMA-2 accounts “which would become NPA at the end of September failing any repayments”.

“Our first target would be such MSME accounts. We need to examine whether the unit is running or not,” he added.

For personal loans, the bank will prefer a longer duration of repayments for customers but for industry loans, it would consider two dimensions — cash flow and the debt service coverage ratio (which will show the ability of a firm to cover the interest).

“Suppose there is capability to cover the interest but not instalments, then we can give a moratorium on instalments. The company will pay the interest in the first year and from the second year onward, will pay the instalments, too. This will depend upon the visibility of the cash flow,” Rao said.

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Following RBI's diktat for lenders, PNB conducted a stress test, which shows that its gross NPAs may go up by 3-4 per cent. This is in line with the regulator's estimates. At the end of March 2020, PNB's gross NPAs stood at 14.21 per cent. While the first phase of the test focused on rating downgrades in the near future, the second phase will examine the possibility of the account becoming an NPA, which will be visible in October-November this year.

PNB has planned to raise Rs 14,000 crore in this financial year with a target of keeping its capital adequacy ratio at 12.5 per cent, up from 12.32 per cent as of April 1, 2020, by the end of 2020-21. The bank has targeted raising Rs 7,000 crore through equity, much of which has been planned through the qualified institutional placement (QIP) route.

“We want to go to the market (for QIP) in December. We will initiate the process by the end of this month,” Rao said, admitting that raising Rs 7,000 crore would be a challenging task. The bank expects it would be able to gather Rs 3,000-5,000 crore through QIP, looking at the bank's size and the market conditions. The government is yet to discuss recapitalisation plans with state-owned banks.