

# Moratorium on term loans may hurt biz

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The moratorium granted by the Reserve Bank of India (RBI), both on term and working capital loans, to provide a helping hand to corporates and customers struggling with inadequate liquidity, may become a cause for concern for them later.

Under the RBI scheme, there is a three-month moratorium on the interest payment on working capital loans.

So, after the end of three months, the deferred interest (of three months) will be collected immediately after the moratorium ends. Hence, corporates may end up paying four months interest on their loans together.

This could come as a blow to companies, given the current situa-

tion. C S Setty, MD at SBI, told the media on Wednesday that if anyone is unable to pay the amount after the moratorium period, it will not immediately impact the asset quality though the account will become special mention account 1 (SMA 1).

Even if they delay the payment by another 60 days, it will be a SMA 2 account and not a non-performing asset.

SMA 2 accounts are those where repayment has been delayed by between 61 and 90 days. If an account sees repayments delayed by 90 days, it turns into an NPA.

Setty said businesses may face difficulty in paying four months interest immediately after the end of moratorium.

"We may speak to the Indian Banks' Association and get clarification from the RBI if such loans can be restructured." Similarly, those who opt for moratorium may end up paying more. Any deferral of interest by borrowers under the scheme will add to the total cost paid by the borrowers, Shetty said.

If customers have the ability to pay the EMIs, then they should shy away from availing the scheme because the cost will add up, he added.

"Unpaid interest amount on your loan account during this period will be capitalised, that is, added to your outstanding principal amount. To keep your instalment at the current level, the tenor of your loan will be enhanced accordingly. As a result, while your EMI amount will remain same, the amount of interest cost on your loan will increase due to extension of the

remaining tenor," Balaji Hirserv said in a note to its customer.

SBI has also extended the timeline for payment of settlement amount under the one-time settlement (OTS) scheme by three months. Also, in keeping with the RBI's moratorium of repayments, a lender will refund the FMI. If it has already been debited for March, it will be refunded.

"The scheme is for everyone and the customer has to just send an email to the bank saying they want to avail it (options)," Shetty added.

Sanjiv Chadha, MD and CEO, Bank of Baroda, said it will not raise demand on the customer. They have the option to



discontinue the standard instruction (for deduction of EMI).

If some customer wants to reverse the transaction for March, the bank will do it, Chadha said.

The flexibility on both counts — OTS and EMI — comes in the backdrop of the current disruption in the market and the 21-day lockdown.

SBI said customers on boarded under settlement scheme SBI OTS 2019, RIN Samadhan 19-20 and General Compromise can meet payment obligations by June 30.

Under OTS 2019, the extension will be available only to those where the first two instalments of 5 per cent/15 cent and 20 per cent/25 cent have been received within the stipulated time of 30 days and 60 days, respectively. The balance OTS amount can be paid by June 30. The bank will not charge any interest on the amount for this extended period.

Y S Chakravarti, MD & CEO of Shriram City Union Finance, said, "We are giving a moratorium but we suggest it is better for you to pay."

Those who are in the manufacturing sector may be opting for it and it may take around three to four months for them to bounce back to normalcy. "For trading and services, which comprises majority of customers, it would be a faster recovery. I expect around 50-60 per cent of our customers to go for moratorium," he said.

Rajiv Sabharwal, MD & CEO of Tata Capital, said retail borrowers will have the option of moratorium. For large-value (corporate) clients, it will ask for extra information on how the Covid-19 and its aftermath impacted business.

With inputs from  
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