ELP's Business Continuity Series - Update

RBI's COVID-19 Liquidity and Regulatory Packages

The Reserve Bank of India (**RBI**) in an eagerly awaited move, via a press release, announced development and regulatory policies to address the financial stress on account of the COVID-19 pandemic and also issued a notification on the Covid-19-Regulatory Package.

RBI's press release provided quite a comprehensive package for the stress caused due to COVID-19 and dealt with: (i) liquidity issues, (ii) regulatory and supervisory positions to mitigate debt servicing burden, and (iii) financial markets to improve depth and price discovery in the forex market. This was followed by relevant notifications on Covid-19-Regulatory Package, Liquidity Adjustment Facility – Repo and Reverse Repo Rates, Marginal Standing Facility, Standing Liquidity Facility for Primary Dealers etc.

Details are given below:

Liquidity Expansion

RBI has announced injection of additional liquidity of INR 3,74,000 crores vide the following:

- **Targeted Long Term Repos Operations:** Auction of the targeted term repos of up to three years tenor of appropriate sizes for a total amount of up to INR 1,00,000 crores at a floating rate linked to the policy repo rate. The first auction is being proposed on March 27, 2020 itself.
- **Cash Reserve Ratio (CRR):** RBI announced reduction of the CRR for all banks by 100 bps with effect from the reporting fortnight beginning March 28, 2020 with an intent to release primary liquidity of INR 1,37,000 crores in proportion to the liability of the constituents. A one time dispensation upto June 6, 2020 is also provided by reducing the minimum daily CRR balance maintenance to 80% instead of 90%.
- **Marginal Standing Facility (MSF):** Banks are allowed an overnight borrowing by dipping upto 3% into the Statutory Liquidity Ratio (**SLR**) as against the present 2% upto June 30, 2020. This would provide additional INR 1,37,000 crores liquidity by under the scheme at a reduced MSF rate.
- RBI also mentioned that with a view to widening the existing policy rate corridor the reverse repo rate under the liquidity adjustment facility would be 40 bps lower than the policy repo rate.

From its last meeting of the Monetary Policy Committee, RBI (including the new measures mentioned in the press-release) has infused a liquidity of 3.2% of the GDP in the industry.

Reducing Burden of Debt – Regulation and Supervision

RBI made an announcement for all lending institutions which includes all commercial banks (including all regional rural banks, small finance banks and local area banks), co-operative banks, NBFCs (including the housing finance companies and micro-finance institutions) and all-India Financial Institutions, permitting the following:

- **Moratorium on Term Loans** – The repayment schedule and all subsequent due dates, as also the tenor for all term loans, may be shifted across the board by three months.
- **Deferment of Interest on Working Capital Facilities** - Allow a deferment of three months on payment of interest in respect of all Working capital facilities in the form of cash credit/overdraft outstanding as

on March 1, 2020. The accumulated interest for the period may be paid after the expiry of the deferment period.

- **Easing of Working Capital Financing** - Recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers in respect of all Working capital facilities in the form of cash credit/overdraft.
- Deferment of implementation of Net Stable Funding Ratio (NSFR) for six months from April 1, 2020 to October 1, 2020.
- Deferment of implementation of Last Tranche of 0.625% of Capital Conservation Buffer (CCB) from March 31.

RBI also clarified that the aforesaid steps would not be treated as concessions granted to borrowers due to financial difficulties and hence this would not lead to asset classification downgrade or restructuring. Further, lending institutions would not need to report such loans to credit information companies. This also ensures that no adverse impact is caused on the credit rating of the borrowers.

RBI also stipulated the following conditions for the Covid 19-Regulatory Package vide RBI notification dated March 27, 2020 (bearing number DOR.No.BP.BC.47/21.04.048/2019-20)

- Lending institutions should frame policies approved by their Board for the aforesaid reliefs to all eligible borrowers, inter alia, including the objective criteria for considering reliefs on easing of working capital financing and disclose the same in public domain.
- Wherever the exposure of a lending institution to a borrower is INR 5 crore or more as on March 1, 2020, the bank/lending institutions would be required to develop an MIS on the reliefs provided to its borrowers which shall inter alia include borrower-wise and credit-facility wise information regarding the nature and amount of relief granted.

Queries relating to rescheduling of term loan

- **What it means?**

ELP Comment

Banks may allow moratorium of 3 months on payment of instalments in respect of term loans outstanding as on March 1, 2020. Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted by 3 months. This does not mean that instalments accumulated/unpaid during the period of such moratorium will immediately become payable at the end of such a moratorium period. If moratorium is allowed then banks will have to revise the repayment schedule and shift the tenor and repayment dates so as to accommodate the moratorium period. For example, a term loan with a repayment schedule/tenor of 60 months will, after such moratorium of 3 months, become a term loan with a tenor of 63 months and will (subject to instalments already paid) be repaid in 63 months and no instalment will be paid/repaid during the said moratorium period.

- **Is there a moratorium on payment of interest on term loans?**

ELP Comment

The press release states that lending intuitions are being permitted to allow a moratorium of 3 months on payment of instalments in respect of all term loans outstanding as on March 1, 2020. It further states, inter-alia, that due dates may be shifted by three months.

Unlike home loans, personal loans and other retail loans, in case of corporate loans, repayment schedule of the principal amount of loans are separate from the interest payment dates. Accordingly, for such corporate loans, whether the terms 'instalment' and 'all subsequent due dates', which are permitted to be shifted under the press release, would cover interest of such corporate term loans in addition to the principal amounts thereto also needed further clarification.

RBI in its circular on Covid-19-Regulatory Package issued on March 27, 2020 clarified that instalment would include the following payments falling due from March 1, 2020 to May 31, 2020: (i) principal and/or interest components; (ii) bullet repayments; (iii) Equated Monthly instalments; (iv) credit card dues. RBI also clarified that interest shall continue to accrue on the outstanding portion of term loan during the moratorium period.

In case of retail loans such as home loans, personal loans etc. repayment is done by way of equated monthly instalments (comprising of both principal plus interest). As far as retail loans are concerned, it may be interpreted that the moratorium is applicable for the interest payment as well since principal plus interest are paid under each single instalment.

- **Does the moratorium cover credit card payments?**

ELP Comment

Although the credit cards limits are in the nature of line of credit and revolving credit RBI has clarified in the notification on Covid 19-Regulatory Package that the term 'instalment' shall include credit card dues also.

Financial Markets

With an intention to improve depth and price discovery in the forex market segments, RBI has announced removal of segmentation between onshore and offshore markets for Non-Deliverable Forward (**NDF**) market. The press release stated that RBI, in consultation with the Government, has decided to permit banks in India which operate International Financial Services Centre (**IFSC**) Banking Units (**IBUs**) to participate in the NDF market with effect from June 1, 2020 through their branches in India, foreign branches or through their IBUs.

ELP Comment

It should be noted that the press release and COVID-19 regulatory package notification are directive in nature and provides option to the lending institutions to take the aforesaid steps including allowing relaxation to their borrowers. For the Borrowers to avail benefit, they would have to make request to their respective lending for rescheduling the payment terms of their loans. However, the intent seems to be to ensure that the lending institutions compulsorily adheres to such requests made by the Borrowers. Borrowers should also note that the interests on the outstanding amounts on loans shall continue to accrue and plan accordingly.

It may be observed that the press-release and the notification are sector agnostic and specific sectors like aviation, hospitality, tourism etc. would await further relief and packages.

Feasibility of the Borrowers complying with the stipulation of payment of accumulated interest immediately after the completion of the aforesaid period will need to be addressed and resolved. However, the Borrowers have created a debt service reserve account as part of the terms and conditions of the loans, they may utilise the same for payment of the accumulated interest at the end of the time prescribed in the package by RBI.

While the announced package will no doubt enhance liquidity of banks and will also address concerns of the industry and the common man, no clarity is provided on the offshore loans including loans by foreign portfolio lenders and External Commercial Borrowings (**ECBs**) provided by the offshore branches of Indian banks and other eligible lenders of ECBs.

Further clarifications would also be required in cases of debentures and other debt securities issued by companies in India.

If you have any questions or any other concerns around the impact of COVID-19, please contact the team at insights@elp-in.com. We will continue to keep a close watch on legislative developments, with a particular eye on issues that may impact our clients and their businesses.