BANKING

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Relief measures by RBI extended further

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Loan moratorium extended by another three months: RBI has permitted lending institutions to continue offering moratorium on term loan instalments for another three months till 31 Aug 2020. Currently, the loan portfolio under moratorium for banks under our coverage varies between 25% and 40% – with the share being higher for retail loans (especially micro credit, agri loans, CV loans and unsecured retail credit), given that most banks offered the relief measure by default and customers had to opt out. With this extension, we expect a further rise in borrowers (corporate/SME/retail) availing moratorium.

Asset impairment relief also extended: RBI has permitted the asset classification standstill benefit for standard accounts to continue till 31 Aug 2020, including for those which are overdue but yet to be classified as NPA. We believe banks will continue to build higher provisions (above those mandated by the regulator) to strengthen their balance sheets.

Group exposure limit raised to 30%: In order to facilitate the flow of resources to corporates and enable them to raise more funds from banks, RBI has raised the group exposure limit of banks from 25% of their net worth to 30% till 30 Jun 2020. In our view, public sector banks are more likely to make use of this relaxation as risk aversion or cherry picking of loans by private banks will continue.

Resolution timeline to exclude moratorium period: At present, banks are required to hold an additional 20% provision in case of large accounts under default if a resolution plan is not implemented within 210 days. The central bank has allowed banks to exclude the 6-month moratorium period from calculation of the 30-day review period or 180-day resolution period, thereby deferring the 20% provision requirement by a period of 180 days.

Deferred interest on working capital to be converted into funded loan: The regulator had earlier stated that the interest accumulated on working capital facilities during the moratorium had to be repaid in one installment. However, to ease the cash flow burden, especially of MSMEs and small corporates, the accumulated interest (up to 31 Aug 2020) can now be converted into a funded interest term loan and be repaid in FY21.

Policy rates reduced by 40bps: Providing comfort via interest rate measures, the central bank has reduced the policy repo/reverse repo rates by 40bps each to 4%/3.35%.

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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