

# Banks in a dilemma over ₹200-cr stressed loans

IBA withdraws note on FinMin letter which had PMO inputs

RAGHU MOHAN & ABHIJIT LELE  
Mumbai, 21 March

The banking industry is in a quandary after the Indian Banks' Association (IBA), the premier industry lobby, withdrew its communiqué calling attention to a finance ministry letter on the treatment of stressed companies that have taken loans of up to ₹200 crore.

The ministry's letter had said banks are to work with the promoters of these companies to find long-term solutions, even offering a one-time settlement scheme. This was to ensure that "under no condition are companies forced into closure and job losses furthered". It had observed that "banks, instead of arriving at a balanced solution, end up referring the matter freely to the National Company Law Tribunal (NCLT)".

The Department of Financial Services' (DFS) letter to the IBA, in turn, had been triggered by the input it had received from the Prime Minister's Office (PMO).

The IBA's withdrawal of its communiqué on February 17, just four days after issuing it, and the lack of guidance on the road ahead is creating confusion. The financial year comes to an end in less than a fortnight, and banks have to take a call on the treatment of stressed accounts, whatever the ticket size.

And the 10 state-run banks that are merging have to arrive at a common policy. Furthermore, some of these exposures (though small) could be part of a consortium, or multiple banks.

"The IBA communiqué was based on the suggestions received from authorities at the very top of the decision-making chain. And we have to act on the DFS letter at the policy level as it has not recalled its suggestion," said a senior banker.

Official at the association said the communication was withdrawn to make the focus clear. Plus, such issues need vetting by the IBA's highest decision-making



THE ISSUE

- FinMin has said companies should not be forced to shut under any condition
- It wants banks to arrive at a balanced solution; not refer cases freely to the NCLT
- There's a lack of guidance on the road ahead, even as the FY ends in less than 2 weeks
- Banks to take a call on stressed accounts, whatever the ticket size, this month
- May be taken up with RBI as North Block has, in effect, signalled forbearance

body — the management committee. However, it is not clear when that will be re-issued with suitable modifications. He, however, did not specify a timeframe for issuing revised communication.

Complicating matters further is the fact that if banks act on the DFS suggestion, they will draw in the Reserve Bank of India (RBI).

This is because North Block is in effect signalling forbearance on the part of banks for companies which have tak-

en loans of up to ₹200 crore, and are under stress.

The issue is also linked to the central bank's June 7 circular on the resolution of stressed assets, especially on the treatment of accounts under ₹1,500 crore.

"The DFS' letter appears to be suggesting that the range will now be between ₹200 crore and ₹1,500 crore," said another senior banker.

The central bank, on its part, has not yet declared the cut-off date for the treatment of such accounts. In the case of exposures above ₹2,000 crore, the effective date was June 7; for those that ranged between ₹1,500 and ₹2,000, it was January 1, 2020.

The June 7 circular was also categorical that all lenders must put in place board-approved policies for resolution of stressed assets, including the timelines for resolution.

"Since default with any lender is a lagging indicator of financial stress faced by the borrower, it is expected that the lenders initiate the process of implementing a resolution plan (RP) even before a default," it had said. And these guidelines were to kick in irrespective of the loan size.

The IBA, while confirming the recall of its communiqué, declined to give more details. It has been gathered that the IBA's management committee had not discussed the contents of the DFS letter even though the initial communiqué, and its subsequent withdrawal, came from Rajeev Dewal, the body's legal advisor.

The DFS letter was for empowering merit-based decision-making in banks and financial institutions without the fear of being questioned by investigative authorities. This, it noted, "can go a long way in terms of de-clogging the NCLT ecosystem". And an atmosphere needs to be created wherein every government servant works to protect against the closure of companies and loss of jobs.

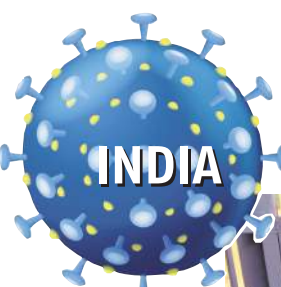
It was also explained that the Insolvency and Bankruptcy Code was passed for two primary reasons — to help banks recover dues from companies that have failed; and to prevent them from dying so as to limit job losses.

## 120 Indians stuck in Amsterdam allowed to return by DGCA

ANEESH PHADNIS  
Mumbai, 21 March

After spending three days in transit at the Amsterdam airport, Sanjay Sapra was relieved to board the KLM flight to Delhi on Friday. However, the joy turned into horror as the aircraft was refused permission to land in India and forced to return from the Russian airspace. The government relented on Saturday evening after the 120 passengers protested, and allowed KLM to operate the flight on

Sunday. "We were concerned about the passengers remaining stranded as India will be stopping all international flights for a week and have given the approval," said Director General of Civil Aviation Arun Kumar. India stopped all passenger traffic from Europe and Turkey from March 18 to stop the spread of COVID-19. Sapra and over hundred other Indian passengers were returning to India from the US and Canada.



■ All businesses except groceries, medics will stay shut to observe Janata curfew in Noida

- Govt caps maximum retail price of 200 ml hand sanitizer at ₹100 till June
- Delhi govt to hold all press conferences online
- Indian embassies issue advisories worldwide for distressed nationals
- Railways relaxes refund rules for travel between March 21 and April 15
- 215 people at ITBP quarantine facility asymptomatic after a week
- CBSE launches toll-free helpline for students, parents on safeguards
- Bengaluru police chief cautions people against venturing out
- Air India to send aircraft to bring back Indians stranded in Rome



PHOTO: KAMLESH PEDNEKAR

## Governments announce a slew of measures to alleviate COVID pain

- Coronavirus positive cases in Maharashtra rise to 63
- Environment ministry suspends meetings of its green panel till March 31
- 8 COVID-19 patients recovered in Uttar Pradesh, says official
- Vice-president urges people to follow Janata curfew on Sunday
- Bihar shuts down bus services, restaurants, banquet halls
- Indian Oil initiates rare protocol to keep fuel supplies running
- Big financial package need of hour, India must follow global practices, says Rahul Gandhi
- 12 more test positive in Kerala, total

- Mock drill on March 22 for emergency response to handling coronavirus cases in govt hospitals
- Chhattisgarh govt orders all offices to remain shut till March 31
- Ration per person being increased by 50%, will be provided free in Del: Kejriwal
- We are contact-tracing over 7,000 persons, says health ministry
- NCLAT to only hear "urgent matters"
- Autos, taxis to remain off-road in Delhi during Janata curfew
- UP health minister, who attended party with singer Kanika Kapoor, tests negative for COVID-19
- 5-day Delhi Assembly Budget session curtailed to single day
- Delhi Metro services between 6 am and 8 am on Monday will be available only for people involved in essential services
- No lockdown in Delhi for now, but will have to do it if need arises: CM
- Woman with no foreign tour history tests coronavirus positive in Maharashtra, attended wedding

# Rumours & fears grip aviation sector

Many in the industry argue that there will be at best three to four players over the long term, and that the weaker airlines will be weeded out

ANJULI BHARGAVA  
New Delhi, 21 March

Two rumours gripped the aviation industry as the COVID virus revealed its full stranglehold over the sector earlier this week. One, the aviation industry in India has been speculating on which would be the next airline to down shutters. This question has been a topic of much debate for a long time now — ever since Jet Airways became history. Many in the sector argue that there will be at best three to four players in the sector over the long term and that the weaker airlines will be weeded out sooner or later.

The epidemic has brought home that reality with a bang. Even CAPA's Chief Executive Officer (CEO) Kapil Kaul, usually an industry cheerleader who always errs on the positive side of caution, seemed pessimistic. "If this continues for another two weeks with the same severity, a shutdown of certain players cannot be ruled out," he said.

Almost all the airlines are seeing a drop in loads, which is expected to intensify as the numbers for March come in. International operations have been suspended by almost all players. A senior official in IndiGo said that while loads had currently shown a dip of 12-15 per cent, the drop in bookings in the coming weeks was even sharper and therefore they expected a further dip in loads for April. But airports in India are equally stressed and claim they need support too.

On March 16, Mumbai-headquartered GoAir began to give everyone the jitters. The airline stopped all international operations, drastically reduced domestic flights, and asked employees to stay at home without pay. The contracts of 70-odd expat pilots, signed as recently as August last year, have been terminated and the pilots have been asked to return to their home countries with a promise that their "full and final settlement would be done in due course". The airline asked its own employees to go on leave without pay, aiming to cut at least 35 per cent of its staff across departments and close to 50 per cent in support functions. A staggered salary cut of 20 per cent has been suggested for the remainder staff. GoAir has reduced its fleet



Almost all the airlines are seeing a drop in loads, which is expected to worsen as the numbers for March come

from 54 to 38 and will be reducing further down to 20 aircraft. In an email response, the airline maintained that this was temporary and in response to the present crisis but that the airline expects to remain on track and add 12-15 aircraft every year to its fleet right up to 2025. In the airline's case, sources maintained that it faced a double whammy as there was no senior management to handle the crisis.

SpiceJet reported a sharp fall in loads starting mid-March. While the February loads remained high, it is March onwards that traffic has virtually dried up. The airline is suspending its international flights but has not yet grounded any aircraft although it has reduced utilisation and future grounding cannot be ruled out. Ajay Singh, the airline's CEO, is likely to delay vendor payments and is largely expected to manage to keep his ship afloat as he has through past crises. He is expecting a large compensation for the delay in the Max aircraft by Boeing but the two sides have not yet agreed on the final amount. The chances of compensation, however, are looking brighter since the US government is expected to bail out Boeing in the coming weeks. Vistara too has not yet grounded its domestic fleet but has reduced utilisation.

In a more precarious position, sources argued, is Air Asia India. That the Tatas have been less than happy with the way this venture has unfolded is well known but sources in Mumbai's aviation circles and in the ministry of civil aviation (MoCA) speculated that this might be the "perfect opportunity" for the Tatas to put an end to this sad saga.

"Considering the mayhem that airlines in Malaysia too are currently facing, the Tatas' partner in the venture Air Asia Berhard may not be as resistant either," pointed out a senior government official. Sources said that a Tata team had gone recently to meet Tony Fernandez to stress the fact that the Tatas could no longer put in any more funds to keep the airline going. This has been conveyed to him more than once, said a Tata source. The auditors of the airline have raised concerns on it being called a going concern on the grounds that the accumulated losses of the airline for the year ended 2018-19 are now ₹1,284 crore against a share capital of ₹534 crore. In addition, the company's current liabilities exceed current assets by ₹962 crore.

According to sources, the MoCA and finance ministry are looking at a package to bail them out. The bailout includes waiving all kinds of taxes (including on aviation turbine fuel) and lowering various charges. A top MoCA official, however, told this writer that "consolidation among Indian carriers has

been long overdue and perhaps this is the best time". He argued the government's financial situation itself was precarious with goods and services tax collection below expectations.

But private airlines argue that this is by that yardstick perhaps the best time for the government to close down Air India also. The airline recorded a higher than ₹8,550 crore in 2018-19 and this year is expected to be even higher. The beating the traffic has taken since the beginning of this year will reflect in the financial year's results, many argued. They pointed out that cancelled flights were in fact the bright spot because the aircraft loads had dipped so sharply.

Moreover, there are unlikely to be any buyers for Air India for a while to come. "The chances of sale of the airline are down to nil in the present environment. Before suggesting the private airlines consolidate, the government should put its own house in order," said a private airline CEO. He argued that the most inefficient players should be the first to bow out and Air India should lead that pack.

Airlines around the world are seeking support from their governments and several governments are stepping in to support the sector. India has not yet announced anything and pressure on the government is building up. Whether it succumbs is a several billion rupee question.

# City migrants flee to villages as coronavirus measures take toll

REUTERS  
Mumbai, 21 March

Thousands of city migrants whose livelihoods have collapsed due to India's coronavirus measures headed back to their villages on Saturday, raising fears that the exodus could carry the virus to the countryside.

About one fifth of India's 271 confirmed coronavirus cases has been reported in the western state of Maharashtra — home to Mumbai, the country's largest city and economic powerhouse. So far, India has registered four deaths due to the virus.

Prime Minister Narendra Modi has urged Indians to stay at home to fight the outbreak. Maharashtra state authorities ordered on Friday the closure of all shops and offices, apart from those providing essential services, until March 31.

For Indians who drive rickshaws or run food stalls, the economic shock of such control measures has been huge, pushing them to leave for family homes where they typically do not pay rent and food is cheaper. "Work has stopped. I'll go back and work on the farm," said Rakesh Kumar Gupta, 40, who sells mosquito nets and was heading back to his family house in the northern state of Uttar Pradesh.

On Saturday, hundreds of



PHOTO: PTI

people, many young men wearing masks and lugging backpacks, jostled in long queues to board trains at Mumbai's Lokmanya Tilak Terminus station.

India's state-run railway operator laid on 17 special train services starting on Friday to ferry people out of the Mumbai area to eastern and northern India, spokesman Shivaji Sutar said.

Health specialists say large-scale population shifts to rural areas could hasten the spread of coronavirus in India, a country of 1.3 billion people with weak public health care — especially in the countryside. India has about 120 million migrant labourers, according to labour rights group Aajiveeka.

"This really is the beginning of community spread, assuming there haven't been forerunners," said Dr. Rajib Dasgupta, a professor of community health at the Jawaharlal Nehru University in New Delhi.

The Indian Railways spokesman said they were screening passengers and had trained workers on board in case of emergencies. But anxious travellers were cramming into overcrowded trains, according to a Reuters witness, likely increasing the chances of infection.

India has about 120 million daily basis — including 9,000 passenger trains and 3,500 mail express trains.

The four people in Godan Express had come to India from Dubai last week and travelled in B1 Coach. They tested positive on Friday. Sources said Railway Board chairman Vinod Kumar Yadav, who was present in a parliamentary panel meeting attended by the BJP MP Dushyant Singh, has taken precautionary measures needed for a second contact, as directed by a medical team.

Dushyant Singh, along with his mother former Rajasthan chief minister Vasundhara Rajje, had opted for self-isolation after attending a party with singer Kanika Kapoor, who later tested positive for COVID-19.

NEWS ANALYSIS