INTERVIEW: **SUNIL KANORIA,** vice-chairman, Srei Infrastructure Finance

# 'One-time loan recast scheme hard to implement'

*The resolution plan proposed under the RBI's new one-time loan recast scheme appears complex, and would be difficult to implement, says* **Sunil Kanoria**, *vice-chairman, Srei Infrastructure Finance. In an interview with* **Mithun Dasgupta**, *Kanoria says going forward, NBFCs would face a "serious mismatch" in their cash flows as it seems that loans borrowed by them may not to be eligible for the latest one-time restructuring. Excerpts:*

**The RBI decision to allow the one-time restructuring of loans must have brought relief as the industry has been demanding it for many months. What are your views?**

The government and the RBI have been trying their best to cushion the impact of Covid-19 on the economy and businesses. While it was a welcome move to allow one-time restructuring of loans without classifying assets as non-performing, the resolution plan, which has been proposed, appears complex and will be difficult to implement. After reading the details, one could be forgiven for thinking that it is like give with one hand and take away with the other.

**Help us understand why the one-time loan restructuring will not yield desired results?**

I think it is the complexity of the policy that will prevent it from being effective. For instance, it seems that loans borrowed by NBFCs may not be eligible for one-time restructuring. NBFCs have been directed to offer moratorium to their clients and will also have to restructure loans of their customers. NBFCs are not manufacturers of goods, they borrow money from banks and the wholesale market. So, this will create a serious mismatch in their cash flows.

Also, the proposed plan has set March 1 as the reference date for the outstanding amount of debt restructuring, provided the loan continues to remain standard till restructuring is invoked. Most companies have opted for a moratorium, which ends on August 31. And if they fail to service the loan from September, they will become NPA and will not be eligible for restructuring.

**In your opinion, what could have been done differently?**

In my opinion, the way a loan should be restructured should be decided by lending institutions after analysing and assessing the financial position and future cash flow of borrowers. The RBI justifiably wants to protect depositors from any possible shocks of future defaults. To mitigate that risk and considering the risks in the current operating environment, banks can be directed to increase their general provisions to 5-10%.

In my opinion, lending institutions should be given the freedom to decide how to restructure loans based on the customers' profile and business requirements. Alternatively, we can wait for the expert committee to design the loan restructuring programme.

**Coming to demand for loans, has there been any revival since the 'unlocking' of the economy?**

In June, due to the pent-up demand we saw a bit of a pick-up, but July was slow because of the intermittent lockdown of economic activities. Demand for credit is seen mainly from sectors like mining, roads, railways, & from water & urban infrastructure projects.

**Are you seeing green shoots of recovery?**

It is still early to discuss recovery, which, in my opinion, will take some more time. A lot of infrastructure works happen at the state government and local municipal authority levels, where there is hardly any action at present. While there could be some improvement compared to April-May, but still on a year-on-year basis, I expect the sale of construction and mining equipment to fall by 30-40% in this financial year.

**How is Srei planning to navigate through the challenges?**

We have been focusing on growing the equipment finance business, and it will continue to be our area of focus going forward. We believe that this is a sector where recovery, even if it takes six to nine months, is bound to happen.