Journal of Contemporary Issues in Business and Government Vol. 27, No. 2,2021
https://cibg.org.au/
P-ISSN: 2204-1990; E-ISSN: 1323-6903
DOI: 10.47750/cibg.2021.27.02.260

TITLE: THE COVID-19 MORATORIUM: A REPRIEVE AND NOT A WAIVER

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Abstract

In the first MPC meeting held on 27.03.20, Finance Minister of India, Nirmala Sitharaman and the Governor of RBI, Shaktikanta Das announced a moratorium of three months on all loans and credit card instalments due between 1st March and 31st May initially, which was later extended to 31st August, in order to provide relief to the borrowers in the economy, in the current scenario of losses. Loans being on moratorium are supposed to have zero impact on the credit history of the borrower concerned, which means a no default situation.

Now, banking sector, which is the backbone of any economy, will have to carry the burden of this year for many more years to come. In this paper, it has been attempted to study the impact of the decision of putting the loans on moratorium on the banking industry of India, adding to the ever existing issue of high NPAs.

Keywords: Banks, NPA, Moratorium, Loans, Public Sector Banks, Private Sector Banks, Covid-19

1. Introduction

On 24th March, 2020, the Government of India under Prime Minister Narendra Modi declared a country-wide lockdown for a period of 21 days initially, which has been extended over the course of time. This was done in order to limit the movement of 1.3 billion people of India in order to create a precautionary measure against COVID-19 pandemic which has affected ~10 lakhs lives globally.

This led to a total shut down of all economic activities and the companies started facing cash flow problems. Individuals started to lose jobs and other businessmen witnessed a major drop in their income level. The globe had never before seen demand and supply evaporated simultaneously. The pandemic has also revealed our weak health systems and lack of social safety all over the world.

India has been witnessing a drop in the GDP (Gross Domestic Product) growth rate ever since early 2019 and the economists were still not sure whether the decline was structural or cyclical. In the middle of all this, we were struck by Corona virus which led to further decline on the GDP Growth rate to 1.9% currently.

P-ISSN: 2204-1990; E-ISSN: 1323-6903
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What does the term Moratorium mean, in general?

A very formal definition of the term is "a legal authorization for debtors to postpone the payment." It can be either imposed by the Government or by a Business entity, mostly done in times of crisis(like this one). Generally, as soon as the crisis is over, the moratorium is lifted.

The Indian Moratorium, 2020

The Indian Capital Markets and the Banking industry is as affected by the crisis as any other sector. Due to borrowers facing financial crisis and hardships(as explained in the abstract), the Government of India announced on 27th march, 2020 that all term loan EMIs and credit card instalments due will be on moratorium for a period of 3 months. However, it was also mentioned" Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium." This is short term relief to all the borrowers facing cash flow issues due to the nationwide lockdown. However, availing the facility of moratorium is a choice, meaning the ones with no cash flow issues can still go on and pay their dues, which is a very rare case in the current scenario.

This term was revised and extended by the Government on 17th April and 23rd May and now, the moratorium stands applicable on all loans until 31st August, 2020. This also includes agricultural term loans and Retail and crop loans now.

It was also noted that the highest court of law i.e. the Supreme Court had questioned the RBI on the situation of moratorium. This saga was considered to be quite unfortunate where the SC had to come in to ask questions to the apex bank regarding financial operations, and the central bank was, indeed, answerable too.

The Impact on Borrowers, to avail or not to avail:

For the borrowers with liquidity issues, the regulation is basically a relief where their loan accounts will remain Standard and their credit score will not get adversely affected. The question is, what will be the price that the borrowers will have to pay for this relief.Suppose, you have a house loan of Rs. 50 lakh at 8.5% interest for 10 years. The EMI is Rs. 62,000 (approximately).

You have to pay the first instalment in April, but you choose to take the moratorium. This means the principal of Rs. 50 lakh attracts interest at 8.5%/12 = Rs. 35,000. So your loan amount at the end of April is Rs. 50,35,000.You don't pay in May. Interest applies on the full amount of 50.35 lakh now, so it's a little closer to Rs. 36,000 in May. The total outstanding becomes Rs. 50.71 lakh. After three months, your new principal is Rs. 51.07 lakh.

Effectively you'll have about Rs. 1 lakh in extra interest to be paid to the bank.
The loan stretches three more months at the end, but this Rs. 1.07 lakh extra is additional so either you have to increase the EMI, or request for reduction in ROI.
For the borrowers, therefore, the choice of moratorium works out quite well. It will be a smart move to avail the facility only if there are genuine issues of cash flow.

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Table 1- To avail or not to avail

No Moratorium Availed					
Due Date	**Principle at the beginning**	**EMI**	**Interest**	**POS**	**Principle at End**
10th February	1000000	12000	7500	4500	995500
10th March	995500	12000	7466	4534	990966
10th April	990966	12000	7432	4568	986398
10th May	986398	12000	7398	4602	981796
10th June	981796	12000	7363	4637	977160
Moratorium Availed for 2 months					
Due Date	**Principle at the beginning**	**EMI**	**Interest**	**POS**	**Principle at End**
10th February	1000000	12000	7500	4500	995500
10th March	995500	12000	7466	4534	990966
10th April	990966	0	7432	4568	986398
10th May	986398	0	7488	4512	1005886
10th June	1005886	12050	7544	4506	1001381
Moratorium Availed for 3 months					
Due Date	**Principle at the beginning**	**EMI**	**Interest**	**POS**	**Principle at End**
10th February	1000000	12000	7500	4500	995500
10th March	995500	0	7466	4534	1002966

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Table 1- To avail or not to avail

10th April	1002966	0	7522		1010488
10th May	1010488	0	7579		1018067
10th June	1018067	12300	7636	4664	1013403

The Impact on Lenders, the State-run Lenders

The lenders are under the expectation that once the lockdown fully eases out, the economy will be back on track and the businesses will be back on line, therefore, not letting them lose out on their loans under moratorium. As of now, almost 30% of outstanding loans of banks is under moratorium. For large lenders, the figure is almost 70%.
However, the banks are under relief until September 2020. This amount is expected to add up to the NPAs of the banks in 2020-2021. Currently, the NPA figure is of about Rs.10 lakh crores. This figure is expected to rise by 200-300 basis points in the future.

The five largest lendersSBI, BoB, PNB, BoI and Canara Bank have a minimum of INR 7.9 trillion loans under moratorium. This accounts for 20% of total advances.

SBI has provided a very simple technique for finding out how much extra the borrower has to pay if he/she avails the moratorium facility provide, for a period of 3 months or 6 months, whichever is suitable. The bank reported a profit of Rs. 3581 crores in the Quarter 4 of 2020, which is a 327% YoY Growth.

Table 2: SBI Auto Loan

	Additional amount payable	
	Deferment for 3 months	Deferment for 6 months
Principle 600000	19000	36000
Remaining Maturity 54 Months		
EMI 12000	1.5 Additional EMI	3 Additional EMI

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Table 3: SBI Home Loan

	Additional amount payable	
Rate 6.95% per annum	Deferment for 3 months	Deferment for 6 months
Principle 3000000	234000	454000
Remaining Maturity 15 Years		
EMI 26881	8 Additional EMI	16 Additional EMI

The Punjab National bank reported that one-third of its total book is under moratorium. 30% of borrowers, mainly Retail and SME borrowers, have availed moratorium. However, unlike its peers, the bank has kept aside a 5% provisioning amounting to INR 142.57 crores against the accounts under moratorium and this is why the bank thinks that this situation will not affect the health of the bank, MD SS Mallikarjuna Rao was quite confident about it. The bank has already declared a net loss of Rs. 697 crores as contrasted to a net loss of Rs. 4749 last year.

RBI has allowed and advised the banks to set aside 10% as a provision, over a period of 6 months, so that 5% can be spread over each quarter.

2. **Understanding NPAs**

The definition of NPA has evolved a lot over the years.

Besides this, in the currents Covid-19 scenario, a loan needs to be overdue for above **180 days** in order to be classified as an NPA.

An asset was required to be classified as NPA :	
From the year ending 1995	If it was past due (30 days) for 2 quarters
From 31st March 2001	If it was overdue for 180 days
From 31st March 2004	If it was overdue for 90 days

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NPAs can further be divided into 3 categories:

Substandard assets	NPA for ≤ 12 months
Doubtful assets	Sub-standard for 12 months
Loss assets	Loss identified

Now, if we understand the components of calculation NPAs one by one:

Opening level of NPAs:

We generally see that the opening amount of NPAs at the beginning of a year is different from the closing amount of NPAs of the previous year. This creates confusions in the minds of readers. To clarify, this happens because banks make rectifications after reporting the data to RBI. This includes factors like divergence in reporting as mentioned by various banks after supervisory review.

Fresh additions during the year:

Addition of new NPAs can be due to various reasons. One reason that we know is decrease in credit quality. There can be other reasons as well. For example, there was a huge jump in new NPAs in the year 2018. This was mainly because of NPA disclosures through AQRs or Asset Quality Reviews. Another reason could be application of asset classification norms more strictly in the year onwards.

Reductions during the year:

Like additions, reductions in NPAs can also be due to various reasons. First of all, there can be an upgradation in the asset class from an NPA to a standard asset. This can be done by recovery through in-house recovery efforts like via settlements or legal measures like enforcing of security under SARFAESI, DRT, Lok Adalats or IBC.

GROSS NPAs OF INDIAN BANKING SECTOR (in Rs Crores)

COMPONENTS	2017	2018	2019
Opening NPAs	612000	726500	1038684
Addition	415700	604300	314449
Reduction	127400	128300	179711
Write off	108500	162700	236948
Closing NPAs	791800	1039800	936474
Gross NPA in %	9.30	11.20	9.10
Gross Advances	8513978	9283929	10290923

Potential Consequences of NPAs: What can NPAs do to a bank and an economy as a whole?

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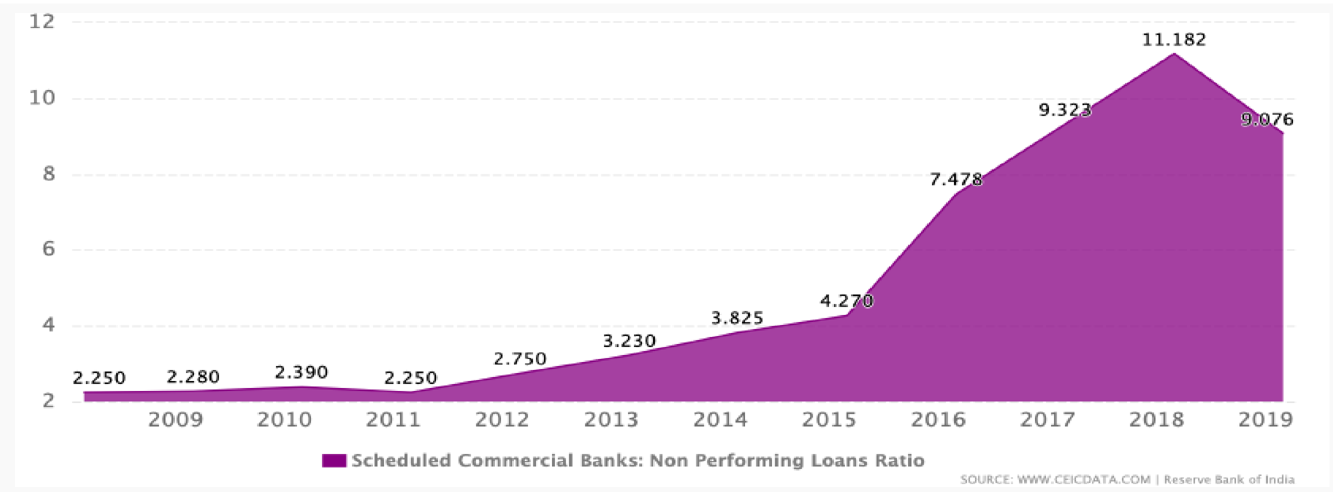
Profitability: The first impact of a very high NPA is seen as a pressure on the Income Statement and Balance Sheets of the bank concerned. In a way, NPAs affect both income(in the sense that the asset is not bringing in the expected/potential interest income) and expenses(expenses involved in the recovery process and also, higher provisioning requirements). A combined effect of both these actions reduce the profitability of banks.

Capital Adequacy: As stated above, high NPAs lead to low profits. When profits fall, the Retained Earnings of the banks are also bound to fall. This creates pressure on the Tier 1 component of Capital Adequacy Ratio i.e. Equity capital as well as core capital. Tier 1 Capital is very important as it is the capital that is used to absorb losses and this is the component that saves a bank from ceasing operations. Apart from this, TRWA or Total Rush Weighted Assets increase and both of these effects combined brings down the CAR of the bank.

Liquidity and Credit Growth: Lower profits lead to lower cash inflow. This in turn affects the liquidity of the bank. Now, the profits are low, CAR is down, liquidity is decreased. All this will lead to the bank not being able to expand its loan portfolio, which is bad for the economy as a whole. This can lead to credit rationing and a total credit crunch in the economy.

Stock Prices and Solvency: All things gone bad, the stock prices f the concerned banks will come down. The chart below shows the continuous rise of the NPA Ratio of SCBs in India. This ratio is a ratio of the GNPAs to the Gross advanced per year.

Highest Recorded NPA Ratio was in March 1999 at 14.7%



Lowest Recorded NPA Ratio was in March 2011 at 2.3%

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	GROSS NPA		**NET NPA**		**All figures in Rs. Crores**
YEAR	PUBLIC	PRIVATE	PUBLIC	PRIVATE	
2010	59927.26	17639.97	29643.42	6505.98	
2011	74663.89	18240.58	36054.55	4432.16	
2012	117838.92	18767.81	59391.24	4401.21	
2013	165005.7	21070.52	90036.93	5994.37	
2014	228273.7	24542.42	130634.83	8861.54	
2015	278467.92	34106.23	159951.08	14128.32	
2016	539956.35	56185.69	320375.14	26677.41	
2017	684732.28	93209.22	383088.76	47780.22	In this year, the Nationalised banks and State Bank and its associates were merged into one and named Public Sector Banks till date.
2018	895601.26	129335.24	454472.66	64380.47	
2019	739541.00	183603.66	285122.77	67308.86	

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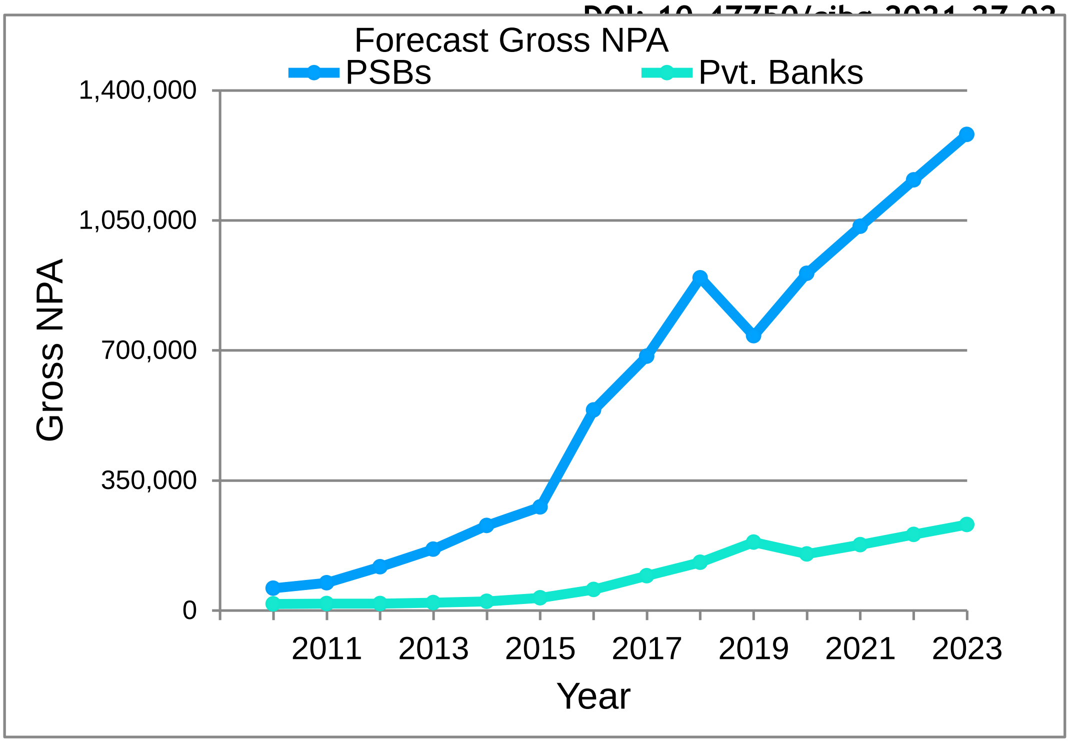
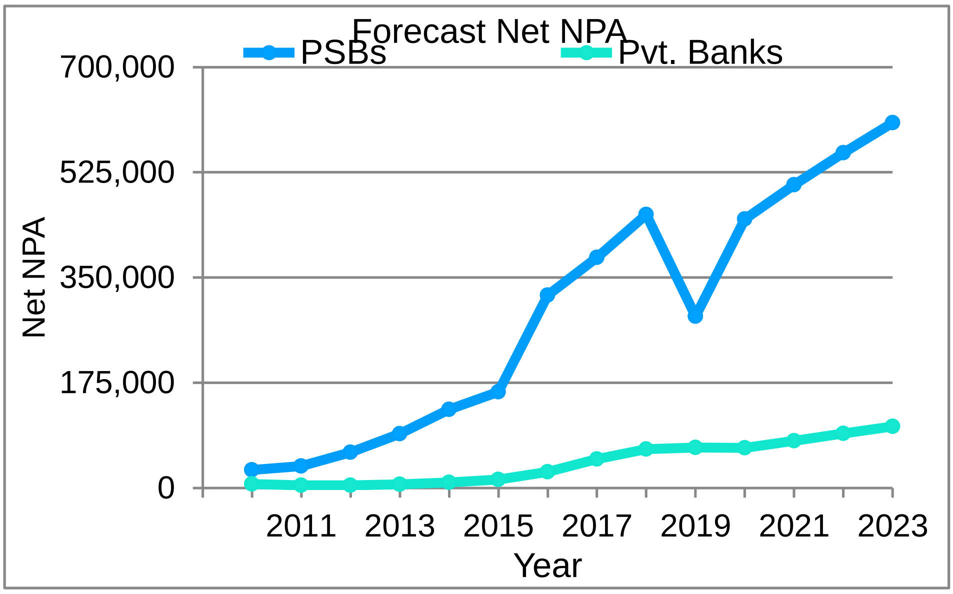


NPAs in 2020

In the year 2018-19, the gross NPAs in India declined from 11% to 9%. A major reason for this decline was the **recovery through IBC** and this made the economy believe that the worst was gone. But this analysis shows that recent developments in the ecosystem are likely to generate more NPAs again. And then, came in Coronavirus. Starting from 25th March, 2020, the country has been under a lockdown following the precau



tions against Coronavirus (COVID-19) pandemic.

RBI announced a moratorium on the payment due for a three month period beginning from March 1st, 2020. This means that for FY 2019-2020, the NPA accret ion will be for a period of 11 months, as the March instalments due but not paid will not be added up to the NPAs. This will also have an impact on the figures on NPAs in the coming FY 2020-2021

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NPA (as a % of Total Gross Advances) of Pvt. banks & PSBs

	Pvt. Banks					PSBs				
YEAR	**HDFC**	**ICICI**	**AXIS**	**KOTAK**	**YES**	**SBI**	**PNB**	**BOB**	**CANARA**	**BOI**
2019	1.3000	7.4000	5.3100	2.1400	3.3700	7.5300	15.5000	9.6100	8.8300	21.2500
2018	1.3000	9.9000	6.7900	2.2200	1.3300	10.9100	18.3800	12.2600	11.8400	23.4600
2017	1.0000	8.7400	5.2100	2.5900	1.5600	6.9000	12.5300	11.7300	9.6300	19.3200
2016	1.1000	5.8200	1.7100	2.3600	0.7700	6.5000	12.9000	11.9300	9.4000	12.6600
2015	0.9000	3.7800	1.3600	1.8500	0.4200	3.9900	6.5500	4.6400	3.8900	6.8100
MEAN	1.12000	7.12800	4.07600	2.23200	1.49000	7.16600	13.17200	10.03400	8.71800	16.70000
S.D.	0.17889	2.41229	2.40568	0.27344	1.14326	2.48753	4.38406	3.18988	2.93112	6.84467

Sector-Wise Average (for the period of 2015-2019) NPA (as a % of Total Gross Advances) of PSBs

	SBI	PNB	BOB	CANARA	BOI
A. PRIORITY SECTOR					
Agriculture & Allied Activities	9.0600	9.7300	9.7900	3.8600	11.3700
Industry	13.4700	16.1500	11.9500	15.7000	19.5400
Services	7.1900	7.8100	10.2700	1.7900	12.6400
Personal Loans	1.7100	5.6100	3.8000	0.0000	5.0100
Total	7.8575	9.8250	8.9525	5.3375	12.1400
B. NON PRIORITY SECTOR					
Agriculture & Allied Activities	4.9900	2.1400	9.7500	0.0000	13.1000

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NPA (as a % of Total Gross Advances) of Pvt. banks & PSBs

	Pvt. Banks			PSBs	
Industry	10.6700	27.7500	17.8200	13.6100	24.0000
Services	3.1900	9.2700	6.2600	0.0000	11.1700
Personal Loans	0.6200	3.2900	3.3000	0.9300	7.3700
Total	4.8675	10.6125	9.2825	3.6350	13.9100
Total of A & B	12.7250	20.4375	18.2350	8.9725	26.0500

Besides this, where a 90 days of overdue was classified as an NPA, now, in order to reduce the burden of NPAs, the central bank has increased it to **180 days**. Right now, the Assets are classified into **standard, sub-standard and doubtful**, based on the delay in repayment of the loans. **SMA-1** or Special Mention Account-1 is where the loan is overdue for 31 to 60 days and **SMA-2** is where it is overdue for 61-90 days.

Sector-Wise Average (for the period of 2015-2019) NPA (as a % of Total Gross Advances) of Private Sector Banks

	HDFC	ICICI	AXIS	KOTAK	YES
A. PRIORITY SECTOR					
Agriculture & Allied Activities	2.5000	3.2200	3.4800	2.5000	1.6900
Industry	1.8400	2.5000	2.6900	1.6800	0.6800
Services	1.5800	1.8100	2.3600	1.3700	0.4700
Personal Loans	0.8500	1.1900	0.8800	1.7600	1.6900
Total	1.6925	2.1800	2.3525	1.8275	1.1325
B. NON PRIORITY SECTOR					
Agriculture & Allied Activities	1.5700	0.0000	0.0000	1.7800	1.2100
Industry	1.0100	16.3200	8.9300	3.4300	2.0700

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Sector-Wise Average (for the period of 2015-2019) NPA (as a % of Total Gross Advances) of Private Sector Banks

	HDFC	ICICI	AXIS	KOTAK	YES
Services	0.8900	6.5700	3.5700	1.6700	0.9400
Personal Loans	0.6300	1.1600	0.8200	1.3900	0.3500
Total	1.0250	6.0125	3.3300	2.0675	1.1425
Total of A & B	2.7175	8.1925	5.6825	3.8950	2.2750

The time period taken into consideration is 2015-2019. The Pvt. banks taken into the study are HDFC, ICICI, Axis, Kotak and Yes Bank. The PSBs are SBI, PNB, BoB, Canara, BOI, basically the top 5 banks from each sector(as per total assets). For better understanding, the lending is divided into two categories as per the rule of RBI that states that banks have to lend 40% of their total advances to Priority Sector:

- **Priority Sector** (institutions that face difficulty in getting credit)
- **Non Priority Sector**

Each sector has further sub categories as shown in the tables below.

The table above shows the following:

1. NPAs of Pvt. Banks are much less than PSBs. (See Mean: Less than 5% in case of private sector banks)
2. This in turn proves that the Asset Quality of Pvt. banks is much better.
3. Among Pvt. banks, ICICI has the largest % and HDFC has lowest.
4. Similarly, among PSBs BOI is highest whereas SBI is lowest.

The table above shows the sector wise NPA of public sector. As we can see, Non-Priority sector has a higher % than Priority sector lending. This can be due to the reason that the government has mandated only 40% of total lending to Priority sector. However total average NPAs in both the sectors is more than 5%. A major chunk of lending in both categories is going to the Industry sector i.e. the Manufacturing sector, the lowest being Personal loans.

The table above shows the sector wise NPA of private sector. As we can see, Non-Priority sector has a higher % in only some sub categories than Priority sector lending. This shows that somewhere the funds are evenly distributed. However total average NPAs in all the sectors is less than 5%. It is quite evident that a major chunk is going to Agriculture sector in Priority and Industries in Non Priority sector.

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Findings

- The study revealed that whether private sector or public sector, it is **impossible for a bank to have zero NPA**. However, PSBs have a much higher rate of NPAs than that of Pvt. banks.
- Pvt. banks are more successful to cover debt than PSBs. As a result, PSBs need more attention of the Government and other Regulatory bodies when it comes to handling NPAs. Suggestions: The Revival Plan

Suggestions: The revival plan

Once 31st August closes in, the Indian Banking system will come across a herd of individuals who will no longer be in a position to continue repaying the loans. This will cost Indian Banks an approximate hole of **INR 20 trillion (a conservative estimate)**, by the year end. What can the government do about it?

If the Government starts **diluting its stake** in PSBs up to 33%, the PSBs will be able to raise capital from the financial market. As mentioned by RBI Governor Shaktikanta Das, a recapitalisation plan(more investments) for PSBs as well as Private banks has become really necessary.

Portion of Current Loan (under moratorium) Defaults	Impact on Bad Loans(Current level being INR 10 Trillion)
One Twentieth	INR 12 Trillion
One Fifth	INR 20 Trillion

Charging Interest on interest for deferred loan payment instalments would help the banks to cover some of its losses and get an extra payment round the edge.

There should also be a One Time Restructuring of Real estate Loans and banks should allow end-to-end execution of housing loans online.

Apart from this, the government should also ease external commercial borrowing rules, besides the need for realignment of ready reckoner rates by RBI.

Conclusion

Covid-19 is a challenge, a challenge for the World at large. For India, given the large population and the already slowing GDP (even in the pre-covid period), the sum total of the impact of the Lockdown, the loss of business and the loss of jobs will be huge. The country has seen farm loan waivers and interest waivers in the past, and now this moratorium, which is not exactly a waiver. But the question is will the Indian Banking Industry be able to take the setback that is going to be caused by the ever-increasing NPAs.

The recovery can be either L-shaped, V-shaped or U-shaped. The policymakers should now focus on the V-shaped recovery. Having Zero NPAs is a myth. However, the management of banks, together with the gov-

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ernment, should focus on speedy recovery to overcome existing and new problems. More provisions should be made for faster settlement of cases under NPA. Mandatory lending to priority sectors should also be reduced as this is where a major chunk of the problem lies.

Now that we know that the loans on moratorium account for 30% of O/S Loans for some banks and a whopping 70% for some other lenders. This can be a reason why the NPAs can increase two-fold by the end of the fiscal year, only to be known by 31st of August.

For the borrowers, the only relief that the moratorium is providing is that their Loan A/C remains classified as Standard for as long as their interest is getting accumulated on the interest. Their credit score(CIBIL score) will also not be affected, as they won't be defaulting. But, as explained above, is it worth it?

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