

CORPORATE RELAXATIONS INTRODUCED BY THE GOVT. WITH RESPECT TO COMPANIES

With the threat of COVID -19 permeating all spheres of life, the Government of India has introduced several relaxations in order to provide relief to the corporate sector in India. Apart from the relaxations introduced by way of the Companies Act, 2013, other authorities in India have also stepped up and eased statutory regulations and compliances in order to tide over corporate India through this crisis.

1. Reserve Bank of India

- a) **Moratorium:** A three month moratorium has been announced by the RBI on all term loans EMIs outstanding as on March 2020 and as well as on all working capital facilities. This implies that for the next three months, no EMI would be deducted from the account of anyone who has a loan outstanding providing respite to everyone whose income has become uncertain. Consequently, payment of EMIs will resume after the moratorium period gets over. It is important to note that Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period. The said moratorium would be applicable on corporate loans, home loans, car loans and even personal loans.

Furthermore, the asset classification of term loans that are granted relief under this head will be determined on the basis of revised due dates and revised payment schedule.

While it may appear that this step by the RBI will ease the financial burden on borrowers for the short term, however, it is relevant to note that they will have to bear the accumulated amount on the expiry of 3 months, which may also pose to be a challenge. Borrowers will have to ensure that they have the entire amount with them at the expiry of the moratorium



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period; otherwise it may potentially lead to a default.

- b) **Interest payment:** The RBI has also allowed deferred interest payment on working capital facilities falling due between 01.03.2020 and 31.05.2020 by three months and the accumulated interest for the period will be paid after the expiry of the deferment period.
- c) **Working Capital Financing:** The RBI has provided respite to borrowers facing stress on account of the economic fallout of the pandemic by providing lenders an option to reduce their margins on working capital loans and/or by reassigning their working capital cycle. This relief will be available in respect of all such changes effected up to 31.05.2020 and will necessarily be contingent on the satisfaction of the lending institution that any such reduction is directly caused due to the economic implications of COVID-19. Furthermore, such accounts that have been provided with the relief set out under this scheme will also be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.

It is relevant to mention here that the relief set hereunder is conditional on the borrower being able to demonstrate that he has directly been affected by the economic impact of COVID-19. Therefore, it can be inferred that relief would be granted under this scheme on a case by case basis and there is no blanket relief being provided. Furthermore, the scheme does not provide any specific list of criteria that a borrower may fall under to be covered by the scheme, therefore, any relief granted by the financial institution would be completely discretionary and would depend entirely upon it being satisfied that a borrower is seeking respite because of the adverse economic effect of the pandemic and not some other reason. Therefore, the borrower will have to prove beyond doubt to the respective lending institution that it requires relief because he has faced an economic beating due to COVID-19.

It is also pertinent to note that none of the abovementioned three relaxations will result in asset classification downgrade due the fact that they are not to be treated as “a change in the terms and conditions of loan agreements and/or concessions granted due to financial difficulties” of the borrowers. Such changes will also not culminate in a “default” and furthermore, credit information companies shall ensure that any action taken pursuant to the abovementioned changes does not negatively impact the credit history of the borrower.

- d) **Liquidity Measures:** The RBI also announced targeted long-term repo operations (LTRO)¹ up to three years for a total amount of Rs 1 lakh crore in order to inject liquidity

¹ LTRO - Under LTRO, RBI provides longer term i.e. 1 to 3 years, loans to banks at the prevailing repo rate. As banks get long-term funds at lower rates, their cost of funds falls. In turn, they reduce interest rates for

in the Indian financial system. These will be issued at a floating rate linked to the benchmark repo rate. In an effort to bring the above to fruition, the RBI has already cut the repo rate by 75 basis points to 4.4%. This rate cut is particularly significant for investors as it will reduce the EMIs of existing borrowers and also make it cheaper to avail new loans. This comes with the underlying assumption that whenever a rate cut is announced, it is accompanied with a lower interest rates on deposits made by fixed deposit investors.

- e) **Export Proceeds:** At present, the value of the goods or software exports made by the exporters is required to be realized fully and repatriated to the country within a period of 9 months from the date of exports. However, keeping in mind the disruption caused by COVID-19, the time period for realization and repatriation of export proceeds for exports made up to or on July 31, 2020, has been extended to 15 months from the date of export. This measure will enable the exporters to realize their receipts, especially from COVID-19 affected countries within the extended period and also provide greater flexibility to the exporters to negotiate future export contracts with buyers abroad.

This extension of 6 months in the payment of export proceeds is a welcome respite for exporters and MSMEs as typically in case of delay of payments, exporters have to explain the reason for the delay to the RBI. If the reason seems to be genuine then the exporter may get an extension otherwise appropriate penalties would be levied on the exporters. Further, this extension also implies that no penalty will be levied for non-realization of exports proceeds for a total period of 15 months from the date of exports which otherwise would have been levied if the non-realization would have been beyond the period of 9 months.

2. IBBI

CIRP Regulations: The IBBI has amended the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016. Under the amended CIRP Regulations the period of lockdown imposed by the Central Government in the wake of COVID-19 outbreak shall not be counted for the purposes of the timeline for any activity that could not be completed due to the lockdown, in relation to a corporate insolvency resolution process. This means that the timeline of the 330 day period may be extended if the CIRP falls within the lockdown period. Illustratively, if there was a hearing which would have taken place in respect of the resolution plan or appointment of resolution professional and the same was not able to take place because of the lockdown, the timeline would be extended for that resolution process. There is a bright side to it for all the resolution applicants. In case, if the timeline of 330

borrowers. LTRO has contributed in ensuring that banks reduce their marginal cost of funds-based lending rate, without reducing policy rates.

days is ending for a company on April 15, the resolution professional would have filed the liquidation plan. Now the resolution professional may explore a resolution plan if acceptable in next three weeks.

3. SEBI

- a) SEBI has extended the timeline for filings such as secretarial audit, submission of compliance share transfer certificate on share transfer facility, submission of annual financial results, holding of AGM (by top 100 listed companies). Furthermore, relaxations have also been brought to the fore with respect to the mandatory meetings of other Board Committees to June 30, 2020.
- b) **AIFs and VCFs:** SEBI has decided to extend due dates for regulatory filings for AIFs and VCFs for the periods ending March 31, 2020 and April 30, 2020 by two months over and above the timelines prescribed under SEBI regulations. These include the periodical reports, reports on a quarterly basis and the compliance test report submitted by AIFs to SEBI

CRAs: In light of the moratorium permitted by Reserve Bank of India (RBI) on loan servicing, working capital facilities etc. for three months if the CRA is of the view that the delay in payment of interest/principle has arisen solely due to the lockdown conditions creating temporary operational challenges in servicing debt, including due to procedural delays in approval of moratorium on loans CRAs may not consider the same as a default event and/ or recognize default under the guidance issued by SEBI. This relaxation is applicable till the period of moratorium permitted by the RBI. Further, such relaxation shall also be applicable to any rescheduling in payment of debt obligation done by the issuer, prior to the due date, with the approval of the lender or investor. This means that the application of this relaxation by a CRA is discretionary and parties may need to establish that any delay is on account of COVID-19.

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