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Moratorium can give Rs 2.1 lakh crore liquidity breather to corporates

The moratorium announced by the Reserve Bank of India (RBI) on interest and principal obligations due between March 1 and May 31, 2020, would tantamount to a liquidity breather of Rs 2.10 lakh crore[1] if all companies opt for it.

Separately, the government has also urged companies to ensure salary payments are made in full and there are no layoffs during the nationwide lockdown. While companies are expected to use their own resources to fund salary payouts, the moratorium offered by banks would provide additional liquidity. Almost every borrower-company can benefit since banks are willing to extend the moratorium to all. However, company-specific impact would vary, based on financial leverage and employee-cost intensity[2].

This is based on assessment of 9,300 CRISIL rated non-financial sector companies across 100 sectors. Sectors with higher leverage, such as power, telecom, roads, textiles and fertilisers, will be the major beneficiaries and account for ~47% of the total breather available.

Furthermore, CRISIL assessed whether this liquidity breather can substantially support corporates in meeting salary payouts and estimated their 'salary cover', which is the ratio of additional liquidity on account of deferment of interest and principal repayment falling due during the moratorium to total employee expenditure in the same period. Here it will be pertinent to note that the salary cover does not indicate the willingness or ability of a company to pay salaries, but the incremental liquidity available because of the moratorium that can support such payouts.

Says Subodh Rai, Senior Director and Head Analytics, CRISIL Ratings, "All companies will substantially benefit from the moratorium as the median salary cover is 0.65 time. About 40% of them even had a cover of over 1 time, indicating the benefit from moratorium exceeds employee cost during the lockdown. These companies are from sectors such as electricity generation, agricultural products and trading. They have high financial leverage, which maximises their gains from moratorium, but relatively low employee-cost intensity."

While the moratorium provides substantial benefit to India Inc, actual salary payments will depend on liquidity available on the day of the payout. Companies into information technology consulting and automobile makers have low leverage and will gain relatively less from the moratorium. But they typically maintain high liquidity, which can be used to pay salaries.

On the other hand, automobile dealerships could face some challenges in salary payouts despite materially benefiting from the moratorium. That is because, continuing slowdown in the automobile industry and complete halt in operations because of the lockdown have severely impaired their liquidity. Such companies can use existing liquidity or seek incremental bank/promoter funding for salary payouts.

Incremental benefits in the form of fiscal incentives such as interest rate subvention, soft loan or government guarantee in select sectors, funding support through additional credit lines by banks, or enhanced liquidity from the capital market can strengthen the ability of businesses to weather the prevailing uncertainties.

[1] *Arrived at by considering total principal and interest falling due in the 3-month period*
[2] *Employee cost intensity is measured through proportion of employee cost in the total cost*

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