KPMG

COVID-19 - Government backed re-financing scheme for businesses

The Central Bank of Sri Lanka ("CBSL") has set up a LKR 50.0Bn refinancing scheme to facilitate concessions such as the debt moratorium and working capital facilities for business and individuals impacted by COVID-19.

Funding schemes for businesses	What is it	Who is it for	How do you access it	Key considerations
1. Existing performing loans	– 6 month debt moratorium for affected industries and eligible sectors for term loans and trade finance loans. – 6 month extension for permanent overdraft facilities. – 2 months extension for temporary overdraft facilities for eligible borrowers and the interest rate to be capped at 13%.	– Tourism, direct and indirect export-related businesses including apparel, IT, tea, spices, plantation and related logistic suppliers adversely affected by work disruption and overseas lockdowns. – SMEs in business sectors such as manufacturing, services, agriculture (including processing), construction, value addition and trading businesses including authorized domestic pharmaceutical suppliers with turnover below LKR 1.0Bn.	– Approach banks with well structured funding request.	– Eligible trade finance facilities falling due or maturing or were under review during the period shall be extended by 6 months. – Pawing facilities falling due or maturing during the period up to be extended by 6 months.
2. Existing Non Performing Loans	– The penal interest charged up to 25th March 2020 to be waived off. – Rescheduling NPL's for a 3 year period with a 6 months moratorium.		– Approach banks with well structured funding request	– If financial institutions have commenced or given notice of recovery action, such recovery action to be suspended, provided that the financial institution and the client reach an agreement. – Banks may reclassify NPLs as performing loans, provided the borrower serviced the interest for 6 consecutive months during the moratorium period for any outstanding instalment interests.
3. Granting of new loans	– LKR 25.0Mn per borrower, per bank (LKR 10.0Mn for other NBFIs) or 2 months of WC requirement, whichever is higher at an interest rate of 4% by banks and 7% by NBFIs. The facility shall be repaid across 2 years. – Investment loan facility can be granted for performing borrowers up to LKR 300.0Mn per borrower at a maximum interest of AWPLR plus 1.5% with a repayment period of 5 years. – A moratorium for a period of 6 months will be granted for both working capital loans and investment loans.		– Approach banks with well structured funding request and a business plan.	– Financial institutions may grant a new loan facility provided the borrower submits a credible business plan.

- **Borrowers are expected to request for the above facilities by 30 April 2020, and the banks and NBFIs shall complete processing of such requests within 45 days. Until the completion of the processing of the requests, recovery of loans shall be suspended.**
- **Import facilities are not permitted, other than for pharmaceutical drugs, medical equipment, food, fertilizer and essential raw materials and machinery and equipment.**
- **Financial institutions shall discontinue charging for cheque returns, stop payments, late payment fee on all credit cards and other credit facilities during the period up to 30 September 2020.**

Source: https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/bsd_circular_no_5_of_2020_e1.pdf

COVID-19 - Key considerations and market observations

In practice, most additional funding (over and above self-help) will need to be pursued through lenders. Both the outcome and speed of any request is likely to be heavily influenced by the nature of requirement, strength of existing relationships and quality of the request

How are businesses reacting?

The market remains very fluid. We would note the following common themes across the market:

- Most businesses are trying to preserve cash for short term essential liquidity requirements such as payment of salaries, in an environment of zero or significantly lower revenues.
- Given all businesses will try to preserve cash by delaying the payments, a severe cash crunch is expected within the directly affected business sectors, which may persist beyond the 6 month moratorium.
- The requirement for WC financing requests are expected to cover mostly the salaries of the core workforce and other essential supplier payments.
- Business are realizing the longer term implications of the COVID-19 crisis and the impact of the same on their business models and capital structures.

How we can help:

KPMG has set up a Response Team with our Deal Advisory, Management Consulting and Risk Advisory practices to provide clients with strategic and independent advice:

- To assist banks and NBFIs to successfully carry out the loan restructuring and new financing arrangements for their customers:
  - Prepare a quick business plan on behalf of your customers for the purposes of new WC and/or investment loans.
  - KPMG can also discuss ways to assist lenders to build short term capacity in their organizations to successfully implement the government backed refinancing package.

What are the medium-term and long-term implications?

1. **There will be significant amount of stress on the banking system:**
   - The overall credit quality of lenders' portfolios are expected to deteriorate.
   - The NPLs are expected to rise, even though it has been proposed to relax certain NPL classification rules.
   - The above measures, coupled with a low interest rate environment and a flat credit growth is expected to pressure the NIMs. This is expected to offset some of the benefits from recent tax reforms.
   - The banks have also been allowed to drawdown from their capital conservation buffers, and the requirement to enhance the minimum capital has been deferred by two years. This will most likely put strain on the lenders' balance sheet quality and capacity, which may weaken the lenders' ability to take similar shocks in the near future.
   - As the COVID-19 pandemic will affect customers in all sectors of the economy coupled with the above issues, banks and NBFIs will need to re-think about their risk management models and procedures in order to take on the challenges post crisis.

2. **There will be significant stress at your customers' end:**
   - Given the uncertainty surrounding eradication of the pandemic, for most businesses the 6 month moratorium and other benefits may not be adequate to turnaround their businesses. It can be reasonably assumed that these implications will continue to affect your customers' business operations for the entire year of 2020.
   - The business models, capital structures, and governance structures of businesses will have to be re-evaluated and re-structured.
   - You will need to play a more engaging role with your customers, as they would require your support to carry out the above re-structuring and re-modelling of their businesses. This shall be also in the best interest of lenders, as they will grow with their clients.

Priyanka Jayatileka
Partner – Head of Advisory
KPMG in Sri Lanka
T: +94 11 5426 401
M:+94 77 731 3390
E: priyankajayatilake@kpmg.com

Ajantha Weerasekara
Director – Deal Advisory, Restructuring
KPMG in Sri Lanka
T: +94 11 5426 235
M: +94 77 003 1732
E: aweerasekara@kpmg.com

kpmg.com/lk