

## **Change in accounting principles may hit companies' ability to borrow**

Indian companies, grappling with slowing business environment and deferment of projects, will now have to contend with another challenge from a recent change in accounting principles that will increase their current liabilities and limit ability to borrow.

The changes approved by the ministry of corporate affairs have, however, been cushioned with a qualification from Institute of Chartered Accountants of India, the nodal body to recommend accounting changes, by putting the onus on lenders to companies.

The ministry issued the revised Schedule VI to Companies Act, through a notification (No. S.O. 447 (E)) by laying down a new format for presentation of financial statements.

The earlier Schedule VI has been followed for more than 50 years. The new requirement to classify all assets and liabilities into current and non-current categories, says liabilities expected to be realised or settled within 12 months from the balance sheet should be classified as current. This will now show long-term loans - repayable within 12 months from the balance sheet - as a current liability.

Such a move will impact key financial ratios such as working capital, current asset and debt equity ratios, which in turn will have an implication on other terms of the loan, including interest rate or repayment terms.

Indian companies have been unable to service their debts due to slowdown in economic environment and high interest rates.

For the March quarter, of companies in the BSE 500 index, the interest coverage ratio - the ability to pay interests on loans - is at 4.9 times, which is the lowest since the liquidity crisis of 2008.

But this classification of long-term loans as a current liability has been provided relief through a guidance note issued by the ICAI that asks lenders to first recall these loans in the event of a breach in terms.

Typically, loan agreements in India include a variety of covenants, which if breached will give the lender the right to recall the loan. ICAI's guidance note has clarified that the loan becomes current only if the lender recalls the debt.

*(Economic Times)*