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RBI RESOLUTION FRAMEWORK FOR COVID-19 RELATED STRESS

In view of the global pandemic adversely affecting the borrowers and lenders, the RBI has allowed for one – time restructuring scheme of loans without classifying them as NPAs. This move is expected to bring relief to companies and individuals under financial stress. Unlike the guidelines issued on 7th June 2019, the new guidelines provide for a specified timeline within which the scheme needs to be invoked and implemented.

Key Features:

Scheme is applicable to accounts which are in stress due to COVID-19 and has not been in default for more than 30 days as on 1st March 2020.

A. Resolution for Corporates

1. The lending institutions are required to cater to the resolution request of the borrowers through Board approved policy of the institution which is within the contours of the framework.
2. In case of multiple lenders to a borrower, the resolution process will be treated as invoked if lending institutions representing 75% of total outstanding credit facilities by value and not less than 60% lending institutions in number agree to invoke the same.
3. The resolution process to be invoked by 31st December 2020 and to be implemented within 180 days of such invocation.
4. The Expert Committee will vet the resolution plans.
5. The resolution plan may include:
   - ✓ Sanctioning of additional credit facilities to address the financial stress of the borrower even if there has been no renegotiation of existing debt
   - ✓ Extension of the residual tenor of the loan, with or without payment moratorium, by a period not more than 2 years
   - ✓ Conversion of portion of debt into equity or other marketable, non-convertible debt securities issued by the borrower (subject to certain conditions)
6. Banks which fail to sign the Inter Creditor Agreement (ICA) within 30 days will be required to make a 20% provision on these loans compared to 10% for banks which have signed the ICA

B. Resolution for Personal Loans

1. The Banks are required to identify accounts eligible for this restructuring scheme and invoke the framework by 31st December 2020. The scheme must be implemented within 90 days of it being invoked.
2. The reconstruction of loans may include:
   - ✓ Rescheduling of payments
   - ✓ Conversion of interest accrued/ to be accrued to another credit facility
   - ✓ Granting of moratorium
   - ✓ Modification of overall tenor of the loan

Based on repaying capacity of borrower, repayments will be for a maximum period of 2 years.

C. Other Features

1. Loans above ₹100 crore will require validation from one credit rating agency.
2. Large loans above ₹1,500 crore will also be required to be vetted by five member Kamath Committee.
3. Lending institutions will be allowed to reverse 50% provisions on repayment of 20% loans and the other 50% on further repayment of 10%.
4. The lending institutions are required to make disclosures in the financial statements and should reflect the “restructured” status of account(s) if the resolution plan has been implemented.

Acquisory’s View

The COVID-19 pandemic has brought about unprecedented crisis across all business segments in the economy, which adversely impacts the banking system and its assets.

- ✓ Cash flows of businesses have suffered debilitatingly in the past 7 months, thereby making it difficult for businesses to service their debt.
- ✓ Safety measures and protocol against COVID-19 have further added to cost of doing business.
- ✓ So far, the earlier moratorium provided by the RBI has provided some respite to the stressed finances of borrowers, however, it does not provide for a long – term sustainable solution.

Any disruption in the banking system has ripple effects across the economy.

In our view, restructuring of loans announced by the RBI is possibly the most viable solution to ensure longevity of businesses. The approach, however, needs to be cautious as the implementation of restructuring schemes should be undertaken after carrying out a detailed analysis and diligence of various parameters viz., company profile, promoters' commitments, business opportunities, operating cycle of business activities, and financials with a focus on serviceability of restructured loans. Lenders must conduct credit and risk assessment in all viable businesses within the financial parameters. It will be necessary to monitor the restructured accounts and ensure that these remain “good” and there are no slippages into further NPAs. Businesses which can survive and come out of such financial stress would strengthen the economy to grow further.

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