

RBI overhauls debt restructuring schemes

It has given lenders additional time up to 180 days for hammering out a restructuring package under the scheme

BS Reporters | Mumbai November 11, 2016 Last Updated at 02:15 IST



In a step to address corporate stress, Reserve Bank of India (RBI) on Thursday made sweeping changes to existing loan recast schemes like S4A, 5/25 and SDR.

It has given lenders additional time up to 180 days for

Photo: Kamlesh Pednekar

hammering out a restructuring package under the scheme for sustainable structuring of stressed asset (S4A). Previously, the time limit was 90 days.

There was a need to provide reasonable time to the overseeing committee to review the processes involved in the resolution plan, RBI said in a late night notification.

This is step also intended to harmonise rules across various recast schemes, as time given in other schemes such as joint lenders' forum (JLF) is 180 days.

One of the significant changes made to the strategic debt restructuring (SDR) scheme is that the new promoter should have acquired at least 26 per cent of the paid-up equity capital of the borrower company.

The regulations state the new promoter of the company will also be in 'control' of the borrower company, according to the definition of 'control' provided in the Companies Act, 2013.

It also adds the new promoter should be the single-largest shareholder of the borrower company, which will allow the promoter to make sweeping changes vis-à-vis board and operations, say experts.

RBI has also made changes to schemes that allow banks to extend repayment schedule of loans to 25 years, with the option to refinance at the end of five years.

Now, it has allowed lenders to extend the 5/25 scheme to new project loans. The scheme can also be extended to existing project loans with an aggregate exposure of Rs 250 crore to banks, compared to the earlier mandate of Rs 500 crore.

Bankers explain this will allow several mid-sized infrastructure companies to get included. The 5/25 scheme can also be extended to construction companies. However, this will only be applicable to certain specific projects.

In another circular, RBI has also diluted the provisioning of the S4A scheme, a move welcomed by the bankers. The revisions give banks relief from incremental provisions and allow lenders to dig into the provisions already made.

A portion of the loan, which could not have been serviced with the existing cash flow, can now be treated as 'standard' loan for provisioning, even as the project technically continues to remain a bad debt in the bank's book.

Bankers welcomed the revisions made to the S4A norms; in its current form, it is a more viable restructuring tool, they say. N S Venkatesh, executive director, Lakshmi Vilas Bank, said as a result of the changes, both banks and companies stand to gain. "This will lead to reduced provisioning for banks. It says the provisions already held in the account can be reckoned and, therefore, ageing provisions do not need to be made. As a result, it will have a positive impact on the bank's profit and loss position."

According to the revised scheme, RBI said banks can now upgrade the unsustainable part of the debt to standard category (or normal loans that require minimum provisioning) and "reverse the associated enhanced provisions after one year of satisfactory performance" of the sustainable part of the loans.

However, banks will have to show the provisioning requirement as a nominal entry in their books. The lenders have to carry mark-to-market provisions on the unsustainable portion of the debt "at all times". Mark-to-market translates into real losses only when a transaction (in this case, writing off a project loan) is realised.