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RBI officials meet senior bankers to formulate new debt rejig plan

By [Sugata Ghosh](#) & [Sangita Mehta](#), ET Bureau | Updated: Jun 10, 2016, 12.19 AM IST

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MUMBAI: A large debt rejig plan is underway. Corporates which pass the forensic audit test, produce certificate endorsing the commercial operations date (COD) of projects and have acceptable levels of 'sustainable debt' and some cash flow will be given another chance by banks which are haunted by the spectre of sticky loans.

According to a proposal discussed between officials of Reserve Bank of India and senior bankers, the promoters of such companies which receive lifeline from lenders would have to accept dilution of their equity stakes similar to haircut that banks take on their asset book.

The quantum of unsustainable debt — the portion of loan that a borrower is unable to service — would be converted partly into instruments like cumulative redeemable preference shares carrying a nominal rate of interest while the balance would be converted into equity. The slice of debt that changes to pure equity would bring down shareholding of promoters and would be in proportion to the haircut banks take.



Three persons in the banking circle told ET that the basic features of the restructuring plan are being finalised with companies taking longer than expected to recover.

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Softening the Blow

- New debt rejig plan discussed by RBI and senior bankers
- Finmin uncomfortable with NIIF investing in funds to bail out cos
- Promoters have to accept dilution similar to haircut taken by banks
- This would primarily apply to cos whose loans have turned 'sub-standard'
- Cos fulfilling certain conditions will be given lifeline

For instance, if banks take a 40% haircut (which is the unsustainable debt), a promoter holding 80% equity will have to undergo a stake dilution of 32%. The proposal would be largely addressed to loans which in the books of banks are categorised as 'sub-standard' as well as 'standard'.

A loan is categorised as sub-standard where the borrower has missed payment of interest of principal once. (It is classified as non-performing asset, or **NPA**, if there is non-payment of interest or principal in one quarter; it is considered as 'sub-standard' if there is no loan servicing for another quarter. Banks have to progressively provide extra amount from their earnings if borrower fails to pay for a longer period and are subsequently categorised as 'doubtful' or 'loss' assets).

The banking regulator and lenders are simultaneously exploring the formation of two funds - one that would infuse equity and the other

that would give working capital - to revive stressed companies. However, the proposal to use National Investment & Infrastructure Fund (NIIF) for investing in these special situation funds has not gone down well with the finance ministry which feels that NIIF should specialise in providing growth capital to infrastructure projects - the purpose for which it has been formed.

Three persons in the banking circle told ET that the basic features of the restructuring plan are being finalised with companies taking longer than expected to recover. "A restructuring programme has become imperative. Promoters are not bringing in funds, banks are unable to lend more with NPAs increasing and strategic investors who can infuse equity and help the company lower bank debt are not forthcoming," said a senior banker.

Gross non-performing assets (NPAs) of listed companies have touched Rs 5.91lakh crore as of March 2016 and as many as 14 banks have suffered huge losses. "The cash-flow position of many companies, particularly the large borrowers, is either dismal or not improving at the desired rate. There is a growing feeling that certain measures that are realistic and implementable should be agreed upon...In fact, this could have been done 18 months ago," said a person who is familiar with the discussions that happened this month.

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