

Stressed lenders get some relief from RBI

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New restructuring scheme aims to give large projects a chance for sustained revival

Mumbai, June 13:

In a bid to enable lenders to carry out adequate financial restructuring to give projects a chance for a sustained revival, the Reserve Bank of India on Monday unveiled a Scheme for Sustainable Structuring of Stressed Assets (S4A).

The scheme is specifically aimed at projects where lenders' aggregate exposure to an individual account is more than Rs. 500 crore.

The central bank's scheme comes in the wake of banks wanting more time to write down debt and make the required provisions in cases of resolution of large borrowal accounts, which are facing severe financial difficulties.

To be eligible under the S4A, the RBI said the project should have commenced commercial operations; the aggregate exposure (including accrued interest) of all lenders in the account should be more than Rs. 500 crore (including rupee loans, foreign currency loans/external commercial borrowings).

Further, the debt should meet the test of sustainability — that is, debt of that principal value owed to lenders can be serviced over the same tenor as that of the existing facilities even if the future cash flows remain at their current level. For this scheme to apply, sustainable debt should not be less than 50 per cent of current funded liabilities.

The debt-resolution plan for large accounts should be agreed upon by a minimum of 75 per cent of lenders by value and 50 per cent of lenders by number in the JLF (Joint Lenders' Forum)/consortium/bank.

Three options

The debt-resolution plan for large accounts, according to the RBI, may involve one of three options with regard to the post-resolution ownership of the borrowing entity, the RBI said. Option one entails the current promoter continuing to hold the majority of the shares or shares required to have control. In the second option, the current promoter is replaced with a new promoter (via conversion of a part of the debt into equity under the strategic debt restructuring — SDR — mechanism, which is thereafter sold to a new promoter or outside of the SDR scheme).

In the third option, the lenders acquire majority shareholding in the entity through conversion of debt into equity either under SDR or otherwise and allow the current management to continue or hand over management to another agency/professionals under an operate and manage contract.

After an independent Techno Economic Viability study, lenders are required to bifurcate the current dues of the borrower into Part A (sustainable debt) and Part B (the difference between the aggregate current outstanding debt, from all sources, and Part A).

Snapshot

S4A is an optional framework for the resolution of large stressed accounts with banks

It bifurcates outstanding debt into sustainable debt and equity/quasi-equity instruments

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