Restructuring of MSME loans a ‘step backwards’, risks to manifest in 6-9 months: Fitch

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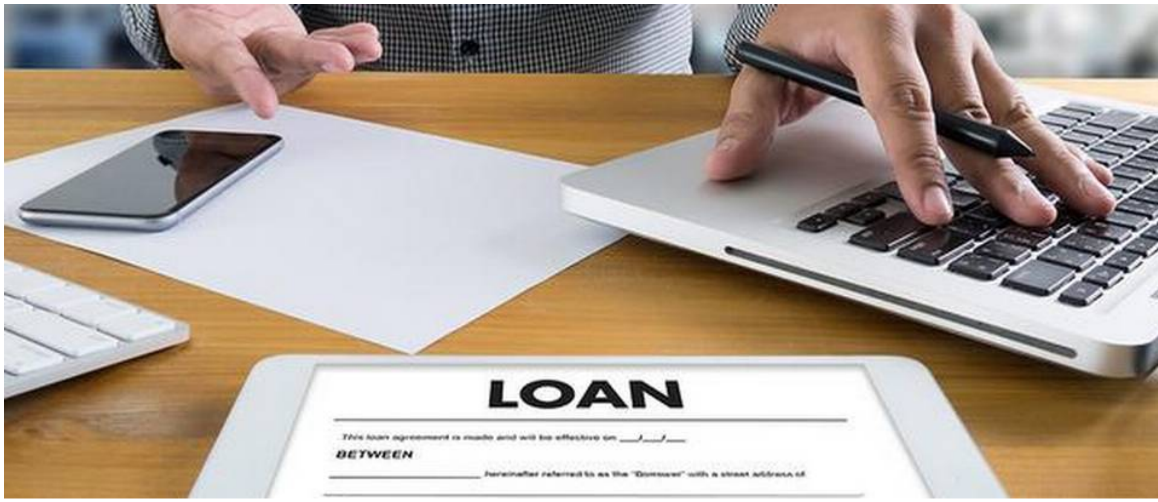

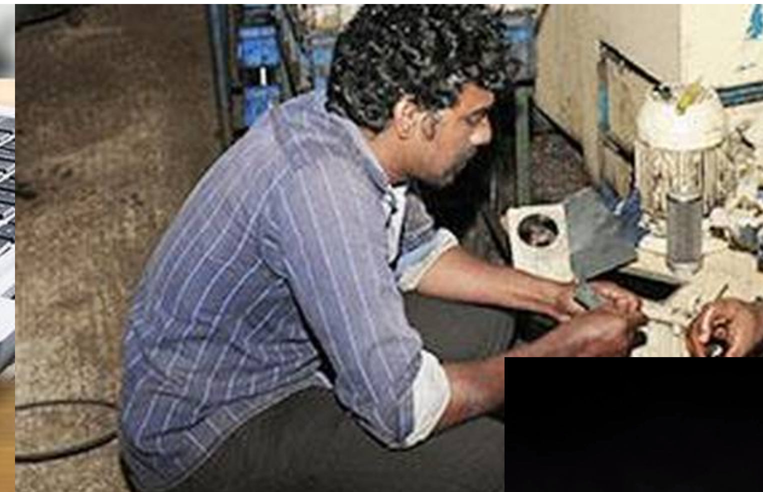

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The decision to restructure loans of up to Rs 25 crore for the **MSME sector** is a “step backwards” and the risks to the banking sector will manifest in the next 6-9 months, Fitch Ratings sai

In an interview to PTI, Fitch Ratings Director (Financial Institutions) Saswata Guha said, given the past record, it is unlikely that banks would exercise prudence while restructuring loans enterprises (MSME).

The RBI board last week advised the central bank that it should consider a scheme for restructuring of stressed assets of MSME borrowers with aggregate credit facilities of up to ₹25 crore, subject to conditions necessary for ensuring financial stability.

“In one way, it is a step backwards given RBI’s previous stance to do away with all restructuring. It clearly reflects stress in the MSME sector although we expect risk to manifest in the next 6-9 months,” Guha said.

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Relaxation of lending norms to spur growth is “never a good strategy”, he said, adding the legacy problem loans will continue to be a bigger drag on the MSME sector’s asset quality until March 2019.

“There is adequate evidence in the form of $140 billion of NPL (non-performing loan) stock that the sector is currently grappling with, which, in my opinion, is a direct result of the unbridled lending of the past,” Guha said.

On the RBI board’s decision to defer the timeline for implementing capital adequacy norms (Basel III) by the banks, Guha said the move is “certainly credit negative” as it reflects the sector’s poor capitalisation, particularly that of state-owned banks, and their inability to meet minimum regulatory requirements.

There was a stand-off between the RBI and the Finance Ministry over several issues, including easier funding norms for the MSME sector, implementation of the capital adequacy norms and economic capital framework of the central bank.

On November 19, the RBI Board directed the Reserve Bank to restructure loans for the MSME sector, extend the timeline for implementation of Basel III norms and also set up an expert committee to deliberate on economic capital framework.

RBI board, which is headed by Governor Urjit Patel, has 18 members, which include 4 RBI Deputy Governors and two Government nominees.

In the said meet, the RBI Board, while deciding to retain the capital adequacy requirement for banks at 9 per cent, agreed to extend the transition period by one year — up to March 31, 2020.

Guha further said that **non-banking finance companies** (NBFCs) continue to remain a risk as a result of their aggressive lending, especially to real estate and MSME, in the past.

“We may see slippages from the latter sectors (real estate, SMEs) in the near-term if challenges in terms of liquidity continue. However, better rated non-banks with good track record and market reputation face much lower rollover risk as compared to ones where risks are elevated although funding costs have risen across the board,” Guha added.

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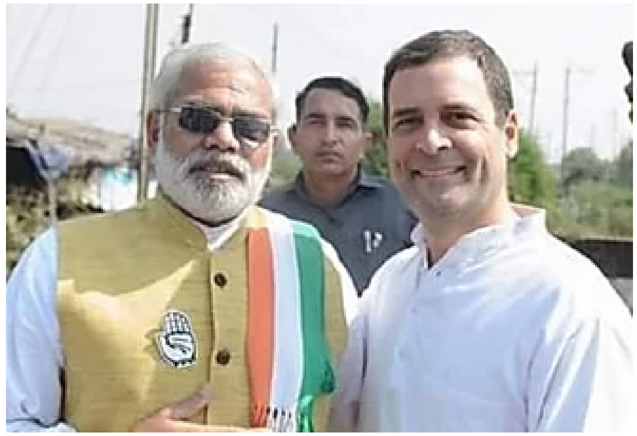

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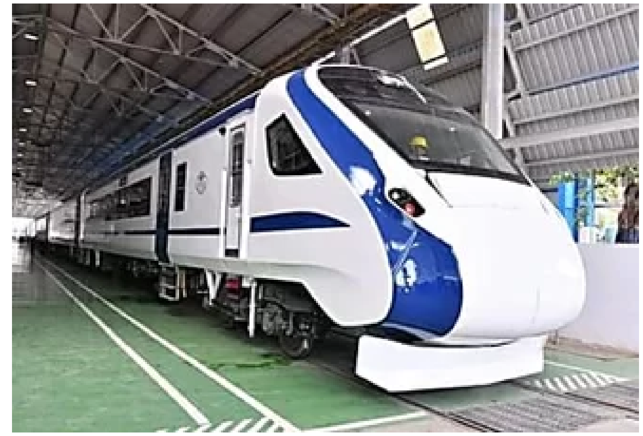

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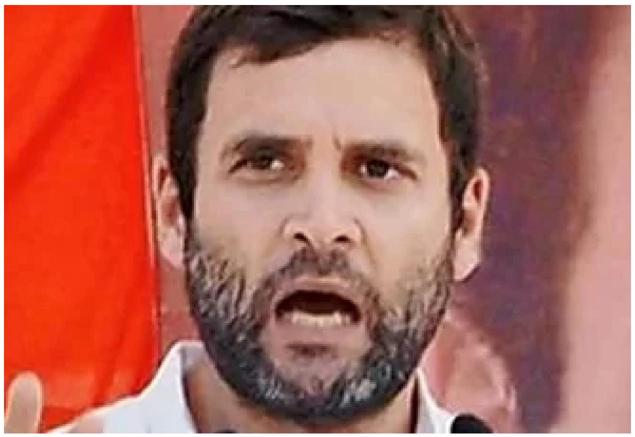

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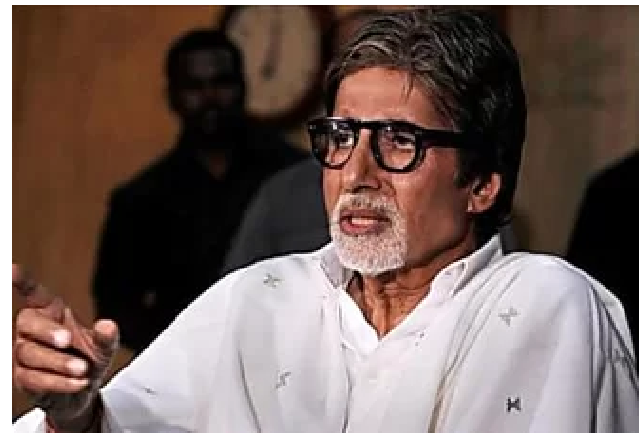

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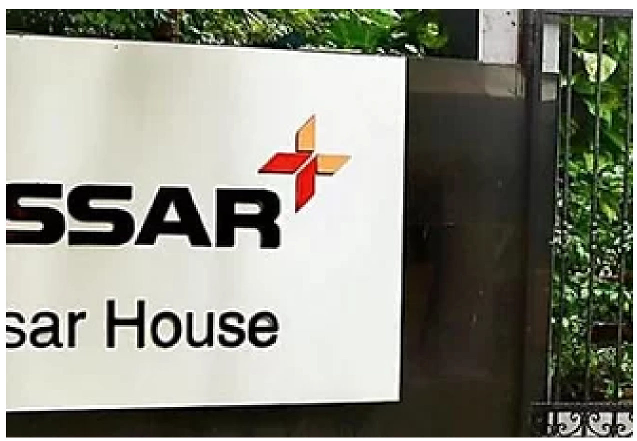

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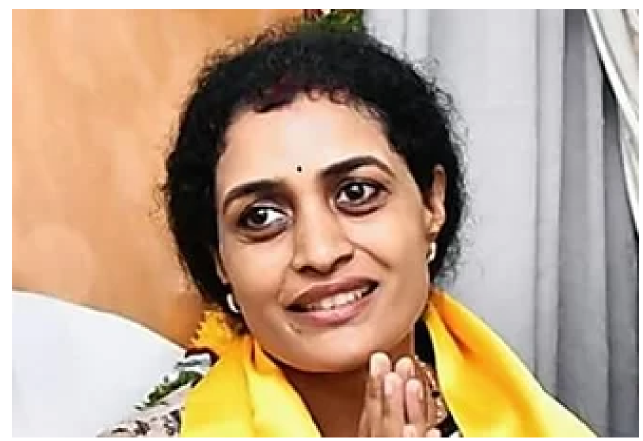

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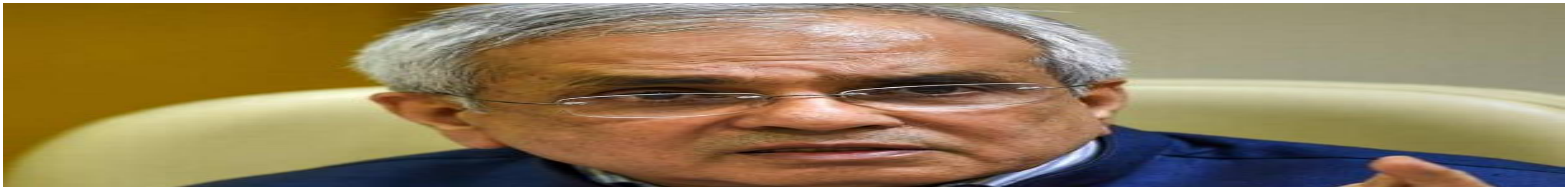

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