

## One-time loan recast for India Inc may come up at Friday's RBI board meet

The virtual meeting of the central board will be its first since the outbreak of Covid-19

Raghu Mohan | Mumbai June 26, 2020 Last Updated at 02:05 IST

A



*Finance Minister Nirmala Sitharaman said on Thursday that a one-time loan restructuring facility for non-MSMEs was under active consideration* one-time restructuring of loans for India Inc may figure in discussions at the Reserve Bank of India's (RBI's) central board meeting on Friday — the first since the outbreak of the Covid-19 pandemic.

While the central bank has not decided its position on the merit of such a scheme in the current situation, the affidavits to be filed in the Supreme Court by the Centre, the RBI, and the Indian Banks' Association with regard to the loan moratorium scheme may have a bearing.

A relaxation in the delinquency period for classification of non-performing assets (NPAs) to 180 days from the current 90 days had found mention in internal meetings of the finance ministry as well, a source said.

Finance Minister Nirmala Sitharaman said on Thursday that a one-time loan restructuring facility for non-MSMEs (medium, small and micro enterprises) was under active consideration. "An intense engagement is on with the RBI to come up with such a scheme. There is a lot of stress now," she said at a webinar

organised by the Chennai International Centre.

**ALSO READ: [Govt, RBI measures have slowed down contraction in economy: NCAER](#)**

The need for such a loan restructuring has gained urgency after the central bank last month said the country's gross domestic product (GDP) growth would be in negative territory in FY21. The International Monetary Fund expects India's GDP to contract by 4.5 per cent this financial year.



- **Affidavits to be filed in Supreme Court by the Centre, RBI, and IBA** along with details of the loan moratorium scheme awaited
- **Precedent in the August 27, 2008, one-time restructuring loan scheme** after the financial crisis
- **The scheme likely to account for present ground realities** as no business can go to pre-Covid levels anytime soon
- **Resolution plans under the bankruptcy code** may also need to be reworked

The RBI had allowed a one-time loan restructuring scheme for India Inc in the aftermath of the 2008 financial crisis. The banking regulator's August 27, 2008 circular allowed for the restoration of standard asset classification to accounts that had turned NPAs during the restructuring approval process, provided that the restructuring package was implemented within 90 days from the date of receipt of application by the bank taking it up. The two conditions imposed were that the restructuring could not be repeated and that the dues to the bank were fully secured.

What is now being speculated is that a new scheme may have to be suitably tweaked as the ground realities are completely different as no business can go to the pre-Covid levels anytime soon. Therefore, the 2008 circular's stance that no account is to be taken up for restructuring by banks unless financial viability is established, and there is a reasonable certainty of repayment from the borrower, may not be practical in the current context.

**ALSO READ: [MSMEs may need massive restructuring post moratorium, says industry](#)**

It had further held that accounts not considered viable should not be restructured and banks should accelerate the recovery measures in respect of such accounts. Any restructuring done without looking into cash flows of the borrower and assessing the viability

of the projects or activity financed by banks would be treated as an attempt at evergreening a weak credit

facility and would invite supervisory concern and action.

In 2008, there was no Insolvency and Bankruptcy Code. As of today, there are several cases where a resolution plan is in place. Some of them were crafted just a few months ago, and a one-time restructuring may include reworking these plans as well.