

**BANKING**

06 August 2020

**RBI allows restructuring yet again**

**Restructuring window for Covid-linked stress:** The central bank has provided a resolution framework that allows all banks, NBFCs and HFCs to cope with Covid-related stress, wherein all loans including personal (retail) loans can be restructured. However, credit to entities such as financial institutions, central/state/local government bodies and MSMEs (with borrowing exposure up to Rs 250mn) are not covered under the framework.

**Vikesh Mehta**  
research@bobcaps.in

**Resolution plan guidelines:**

- Loan tenor cannot be extended beyond two years and the account should be standard up to 30 DPD (SMA-0) as of 1 Mar 2020 and remain standard on the date of invocation.
- Resolution plan should be invoked by 31 Dec 2020 and implemented within 180 days (90 days for individual loans).
- Lenders must provide an additional 10% provision on the post-resolution debt, which can rise to 20% if the ICA is not signed within 30 days of invocation. However, provisions as per RBI's prudential framework will apply if the resolution plan is not implemented in 180 days.
- Lenders can reverse 50% of the provision if the borrower pays 20% of the residual debt without turning NPA and the balance 50% upon repayment of an additional 10%.
- Lenders converting any portion of the debt into any other security under restructuring shall have that portion valued at Re 1.

**Expert committee to vet proposals exceeding Rs 15bn:** According to RBI, a committee headed by KV Kamath will make recommendations on the required financial parameters to be factored into each resolution plan and will vet proposals exceeding Rs 15bn, without interfering with the commercial judgments exercised by lenders.

**Our view:** Evidence suggests that a large part of restructured loans have slipped into NPAs in the past and that restructuring increases the opacity of the balance sheet, even as headline NPAs lose relevance as a lead indicator of a bank's health. Prudence exercised by banks in implementing the scheme remains crucial as restructuring will allow NPA recognition to be delayed by 18-24 months.



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**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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