

Extension of Restructuring of MSME Advances – 6 August 2020

Highlights of the scheme

- A one-time restructuring of existing loans as on **1 March 2020** of Micro, Small and Medium Enterprises (MSMEs) without a downgrade in the asset classification.
- The accounts which may have slipped into Non-Performing Asset (NPA) category between 2 March 2020 and the date of implementation of the restructuring plan will be upgraded as standard asset.
- Following two conditions need to be met for the accounts to be restructured:
 - ✓ all related documentation, including execution of necessary agreements between lenders and borrower, creation of security charge, perfection of securities are completed by all lenders, and
 - ✓ the new capital structure and / or changes in the terms and conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.
- The loan restructuring scheme for MSMEs was first announced on 1 January 2019 and consequently the accounts which have already been restructured in terms of the January 2019 circular are ineligible for restructuring under this circular.
- The existing classification of accounts and provision requirements are as follows:

Type	Definition	Provision required
Standard Assets	Overdue for ≤ 90 days	<ul style="list-style-type: none"> • SME and Agricultural Advances – 0.25% • Commercial Real Estate – 1% • Commercial Real Estate (Residential) – 0.75% • Other Advances – 0.4%
Non-Performing Assets (Overdue for > 90 days)		
Sub-Standard Assets	NPA for ≤ 12 months	<ul style="list-style-type: none"> • Secured Portion – 15% • Unsecured Portion – 25%
Doubtful Assets	NPA for > 12 months	<ul style="list-style-type: none"> • Secured Portion (≤ 1 year) – 25% • Secured Portion (More than 1 year but ≤ 3 years) – 40% • Secured Portion (> 3 years) – 100% • Unsecured Portion – 100%
Loss Assets	Non - recoverable	<ul style="list-style-type: none"> • To be written off or 100% shall be provided for, if permitted to remain in books.

- Under this new guidelines, banks are required to maintain additional provision of 5% over and above the provision already held for accounts restructured.

Conditions

- The aggregate exposure including non-fund based facilities of Banks and Non-Banking Financial Companies (NBFCs) to the borrower does not exceed **INR 25 crore as on 1 March 2020**.
- The borrower's account was in default but was a standard asset as on **1 March 2020** and continues to be classified as a standard asset till the date of implementation of restructuring plan.
- The restructuring of the borrower account must be implemented by **31 March 2021**.
- The borrowing entity is GST registered on the date of implementation of the restructuring, unless otherwise exempt from registration based on exemption limit as on 1 March 2020.

Key Takeaways

- The move to extend the deadline for restructuring of MSME advances would give MSMEs the opportunity to strengthen their balance sheet and continue operations.
- Earlier this year in May 2020, a Emergency Credit Line Guarantee Scheme (ECLGS) of INR 3 lakh crore was introduced for MSME borrowers with loan outstanding upto INR 25 crore (updated to INR 50 crore on 4 August 2020) as on 29 February 2020. 100% guarantee coverage with a pre-approved sanction limit of upto 20% of loan outstanding as on 29 February 2020 was provided under the scheme. The status of ECLGS as at 3 August 2020 is shown below:

Banks	Number of Accounts		Amount (Crores)	
	Sanctioned	Disbursement	Sanctioned	Disbursement
Public Sector	3,342,134	1,909,298	72,820	52,013
Private Sector	624,654	268,979	64,766	40,076
Total	3,966,788	2,178,277	137,586	92,090

- Given the lag in the sanction / disbursement of ECLGS, there is a balance headroom for additional support to eligible MSMEs post completion of moratorium and lockdown, which is currently available till 31 October 2020. There are soft indications that the end date shall be extended by RBI.
- Further, MSME who were not able to avail the ECLGS, now have an opportunity (if eligible) to restructure their borrowings to facilitate their liquidity requirements.

Key Takeaways (Continued)

- Non-Performing Assets (MSME and non-MSME borrowers) as on 31 March 2020

Particulars	Gross NPA	Net NPA
Public Sector Banks	11.3%	4.1%
Private Sector Banks	4.2%	1.4%
Foreign Banks	2.3%	0.5%
Scheduled Commercial Banks	8.5%	3.0%

- The restructuring would provide some relief to Banks and NBFCs towards their exposure to stressed MSMEs by reducing the quantum of NPAs and also saving on higher provisioning which would have been otherwise required.
- The Resolution Framework for COVID-19 Stress will not be applicable to the borrowers eligible under this scheme.
- The RBI has not announced any extension of loan moratorium which will be ending on 31 August 2020. As on 30 April 2020, about 45.8% of total MSME borrowers availed loan moratorium facility constituting 65% of total loans outstanding.
- The essence of the RBI policy initiatives is to facilitate economic growth given the constraints of inflation, supply and demand side shock, uncertainty of opening up of Covid restrictions, historical bad loans and NPA baggage and additional stress induced by Covid situation on MSME and other corporate.
- What will need to be watched shall be how RBI is able to maintain the balance between the economic requirements of the country vs. its role as regulator of the financial system and markets of India. Further, the respective stakeholders are looking forward to the actual implementation of the announced policies and schemes.

Source: www.rbi.org.in and Clearview Research

Circular DOR.No.BP.BC/4/21.04.048/2020-21 dated 6 August 2020 read with circulars

DOR.No.BP.BC.34/21.04.048/2019-20 dated 11 February 2020 and

DBR.No.BP.BC.18/21.04.048/2018-19 dated 1 January 2019