

Presentation on

New Guidelines for Stressed Assets by RBI

(DBR.No.BP.BC.101/21.04.048/2017-18)

by



Objective

- The revised framework is aimed at strengthening the structure for prompt reporting of defaults
- Providing a resolution plan for defaulting accounts, supported by independent credit evaluation further vetted by credit rating agencies
- Time bound referral to the National Company Law Tribunal (NCLT) for initiating bankruptcy proceedings under the Insolvency and Bankruptcy Code, 2016 (IBC) in case the resolution plan does not yield results within the specified timeline
- Harmonised and simplified generic framework for resolution of stressed assets
- Discontinuation of schemes like Revitalizing of Stressed Assets, CDR, Flexible Structuring of Existing Long Term Project Loans (5/25), SDR, Change in Ownership outside SDR and S4A.

Applicability

- To all the stressed assets of All Scheduled Banks & All-India Financial Institutions
- Exemptions:
 - Revival and rehabilitation of MSMEs.
 - Restructuring in the event of natural calamity.
 - Cases of fraud/wilful defaulters, if no change in management.
 - Cases where DCCO is deferred, it will be governed by existing circular BP.BC.2/21.04.048/2015-16.
 - Cases specifically referred by RBI to be dealt under IBC.
- Specifically included:
 - Foreign currency loan obtained for repaying rupee term loan or vice versa if borrower is under financial difficulty (Annex 1).
 - Sale and Lease back transactions if,
 - Seller is under financial difficulty and,
 - More than 50% revenue comes from seller and,
 - More than 25% loan availed from lender.

Reporting Framework

Requirement:

- Lenders shall report credit information, including classification of an account as SMA to Central Repository of Information on Large Credits (CRILC) of all borrowers having aggregate exposure of Rs. 5 Crore and above on monthly basis

Effective 1st April, 2018.

- For defaulting borrower, is to be reported on weekly basis on every Friday
- Effective 23rd February, 2018.

Benefits:

- This will put the onus on banks to report any default in a timely manner which will make banks track the repayment from its large exposure in a more proactive manner and prevent banks from any ever greening of stressed accounts in its books.

Time bound Resolution Plan for Stressed Assets

Requirement:

- Board-approved policy to have a timely resolution plan for defaulting companies.
- Initiate steps to cure default as soon as it occurs.
 - Payment
 - Sale of Exposure
 - Restructuring
 - Change in Ownership etc.

Benefits:

- This provides to operate in sync with banks policy/guidelines in a defined time frame and recognizing importance for resolution.

Resolution Plan (RP) & Evaluation & Implementation

Requirement*:

- RP by an ICE to be vetted by an authorized CRA
 - Rs.100 Cr to Rs. 500 Cr by One agency
 - Above Rs. 500 Cr by Two agencies
- RP have to receive a credit opinion of RP4 (moderate risk) and above from each agency
- Appointment and Payment to CRA by lenders

Benefits:

- Will help banks to ascertain the credit risk associated with the residual debt post restructuring.
- The separate ICE scale provides another indicator for defaulting borrowers on timely payment of the restructured debt.
- Appointment & payment by lenders will ensure independency of CRA.

Timelines for implementing RP

Requirement:

- Time frame for implementation of RP:
 - > Rs.2000 Cr within 180 days from reference date or March 1st, whichever is later.
 - Rs.100 Cr to Rs.2000 Cr, within 2 years*
- If RP, not implemented within the said timeline lender shall file insolvency application within 15 days under IBC.

Benefits:

- This provides a set time line for resolution of accounts which are under respective schemes currently. However, in cases where the resolution is not completed in these schemes, the same has to be converged with resolution under the IBC

Classification of Restructured Asset

Requirement:

- Upon restructuring, asset will be classified as NPA
- Up-gradation subject to satisfactory performance during specified period* and additionally for large cases# to be rated as investment grade.
- Additional finance, classified as Standard till satisfactory performance of restructured facility.
- Default during specified period, lender shall file insolvency application within 15 days under IBC.
- In case of change in ownership&, can be classified as standard subject to no disqualification and has controlling holding

Benefits:

- This is more stringent criteria as compared to earlier norm of one year default free track record from the commencement of the first payment of interest or principal for restructured accounts.

*(till 20% of principal and interest capitalisation paid under RP, subject to 1 year from the end of first instalment for interest or principal (later) on credit facility with longest moratorium period)

>Rs 100cr-1 and >Rs.500 cr-2.

& Provision for this can be reversed only on satisfactorily performance during specified period

Provisioning & Income recognition of Restructured Asset

Requirement:

- Provisioning as per existing circular
- Interest income recognition: For standard assets on accrual basis, for NPA on cash basis.
- FITL/Debt/Equity instrument created on restructuring will be valued at mark to market value.
- Unrealised income represented by FITL/Debt/Equity instrument to be acknowledged only on sale/redemption if classified as NPA, otherwise at market value not exceeding the unrealised income converted to such equity.

Relaxation and Contractions to Banks

Relaxations:

- Relaxation for investment ceiling of non-SLR securities and Capital market investment as prescribed by RBI
- Exemptions under certain conditions (ICDR & SAST) from SEBI regulations

Contractions:

- Banks will have to make disclosures related to resolution plans implemented in their financial statements.
- RBI may take stringent actions including but not restricted to higher provisioning and monetary penalties on lenders who fail to meet the prescribed timelines or any actions intended to conceal the actual status of accounts or ever greening of stressed accounts.

Summary

Provide early warning signals

Enable lenders to take timely action for resolution

Discourage banks from concealing information

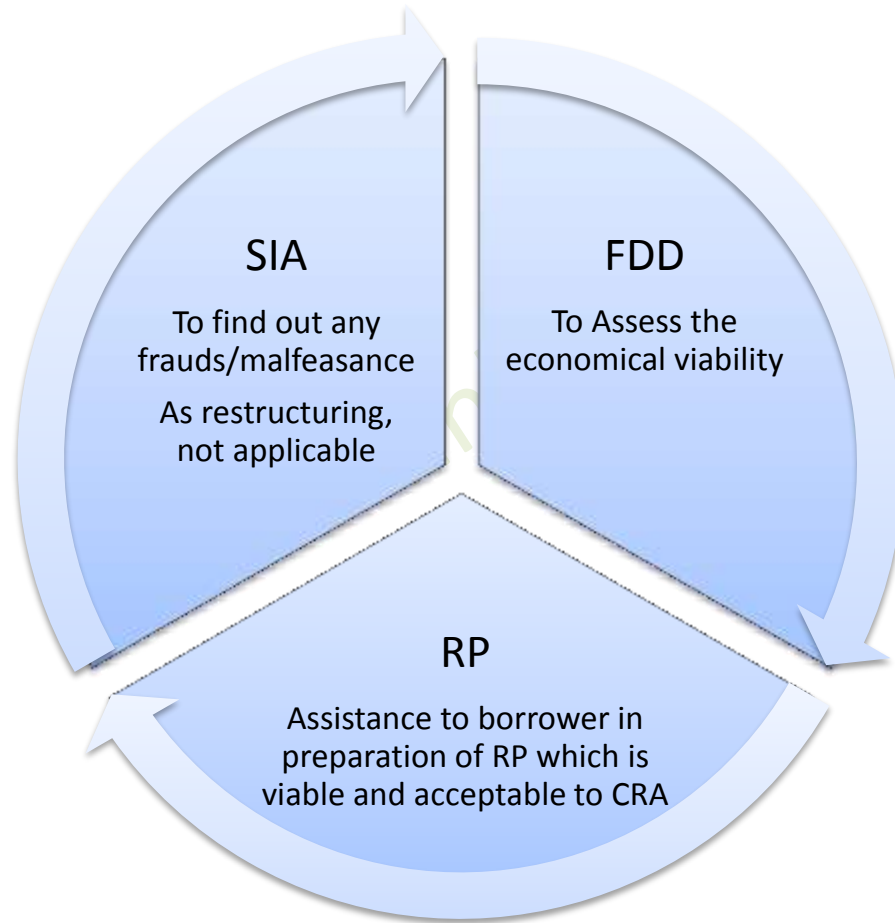
In Short term, banks will see a spike in NPAs

Incremental provisioning requirement

Role of Nhbs

Category	Reporting to CRILC	Timelines to RP	ICE Approval	Role of Nhbs
< 5 Cr	----	Not Defined	Not Defined	Preparation of RP
> 5 Cr < 100 Cr	Monthly (Weekly reporting for Default account)	2 years (not notified but intended)	1 CRA	Forensic Audit Viability Study Resolution Plan
100 Cr to 500 Cr		180 days	2 CRA	
> 500 Cr to 2000 Cr				
> 2000 Cr				

Our Offerings





Thank You

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Annexure 1: Non – Exhaustive Indicative List of Signs of Financial Difficulty

- Irregularities in cash credit/overdraft accounts such as inability to maintain stipulated margin basis or drawings exceeding sanctioned limits, periodic interest debited remaining unrealised
- Failure/anticipated failure to make timely payment of instalments of principal and interest on term loans
- Delay in meeting commitments towards payments of instalments due, crystallized liabilities under LC/BGs, etc,
- Excessive leverage
- Inability to adhere to financial loan covenants
- Failure to pay statutory liabilities, non- payment of bills to operational creditors, etc,
- Non-submission or undue delay in submission or submission of incorrect stock statements and other control statements, delay in publication of financial statements and adversely qualified financial statements
- Steep decline in production figures, downward trends in sales and fall in profits, margin erosion etc,
- Elongation of working capital cycle, excessive inventory build-up
- Significant delay in project implementation
- Downward migration of internal/external ratings/rating outlook