Kamath Committee - II

Why in news?

An expert committee headed by KV Kamath was set up by the Reserve Bank of India (RBI).

Why was the committee set up?

- The committee was set up to look into the **restructuring needs** of large borrowers directly hit by Covid.
- It came out with recommendations on the financial parameters required for a one-time loan restructuring window.
- It was set up to deal with accounts where the aggregate exposure of the lending institutions is ₹1,500 crore and above at the time of invocation of the resolution process.
- The process and conditions are being announced to ensure there is no ever greening of bad loans.
- The programme is being implemented as a six-month moratorium on repayments ended on August 31.

How serious is the debt problem?

- The committee noted that corporate sector debt worth,
    a. Rs 15.52 lakh crore has come under stress after Covid-19 hit India,
    b. Rs 22.20 lakh crore was already under stress before the pandemic.
- This effectively means that 72% of the banking sector debt to industry remains under stress.

Which are the sectors affected by the pandemic?

- The committee has identified 26 vulnerable sectors and, the specific financial frailties of each.
- **Least impacted** - Pharma, telecom, IT, FMCG, brokerage services, agri and food processing, sugar and fertiliser.
- **Most impacted** - Tourism, hotels, restaurants, construction, real estate, aviation, shipping, media and entertainment.

- **Small borrowers:** Banks are working out individual plans for retail borrowers and small units.
- The conditions for big borrowers do not apply to them.
- At least 1.9% of banking credit of the non-corporate loans is likely to undergo restructuring, which would have otherwise slipped into NPAs.

What are the key proposals?

- The RBI has broadly accepted the committee's recommendation to take into account five financial ratios.
- It accepted sector-specific thresholds for each ratio in respect of 26 sectors while finalising the resolution plans.
- The RBI has now finalised sector-specific ceilings for each of these ratios that should be considered by lending institutions.
- The parameters have been specified depending on severity of the impact of the pandemic.

How will these proposals be implemented?

- Banks will present their board-approved **resolution policies** taking into account the RBI final guidelines.
- Broad guidelines will also be put in place for restructuring of retail loans.
- The RBI has allowed banks to recast loans which were classified as standard as on March 1, 2020.
- For implementing resolution plans, signing of inter-creditor agreement (ICA) is mandatory in all cases involving multiple lending institutions.
- The resolution framework will be invoked before December 31, 2020.
- It will be implemented before 180 days from the date of invocation.
- The process has to be approved by lenders with 75% in value and 60% in numbers.
- Lenders signing ICA will have to make a 10% provision and non-signing lenders at 20%.
- Any default by the borrower with any of the lenders that signed an ICA during the monitoring period would trigger a review period of 30 days.
- If the borrower remains in default at the end of the period, all lenders would downgrade the account as a non-performing asset (NPA).

Will the loan recast lift the economy?

- The RBI has put into place several guardrails in the form of defined timelines and external vetting.
- But, the success of the plan will largely depend upon a significant revival in the economy.

- The GDP is likely to continue contracting in the ongoing quarter.
- Based on an account level analysis, nearly 53% of this pool is at a high probability of restructuring/slippages.
- The balance 47% is at moderate risk of restructuring, and progress on these accounts will depend on the progress of Covid-19 situation.
- The biggest impact will be that banks will be able to check the rise in NPAs to a great extent.
- However, it's not going to bring down the NPAs from present levels as legacy bad loans of close to Rs 9 lakh crore will remain the same.

How were earlier schemes misused by banks and corporates?

- The RBI discontinued the corporate debt restructuring (CDR) scheme from April 1, 2015.
- For years, promoters of many big corporates were siphoning off bank funds while their units suffered.
- They approached CDR cells of banks to get their loans recast, some of them managing this more than once.
- Some of those who misused CDR are now in the bankruptcy court.
- The RBI later introduced three more loan recast schemes which either remained largely on paper or were abused by borrowers.
- The Insolvency and Bankruptcy Code finally kicked off and the RBI announced a stringent loan resolution process.

Source: The Indian Express