RBI Schemes for Restructuring Advances

- RBI has permitted the extension of date of commencement of commercial operations (DCCO) of project loans for commercial real estate, delayed for reasons beyond the control of promoters, by another one year without downgrading the asset classification.
- RBI had permitted a one-time restructuring of loans to MSMEs that were in default but ‘standard’ as on January 01, 2019, without an asset classification downgrade. The restructuring of the borrower account was to be implemented by March 31, 2020. In the recent Union budget, the Government had asked RBI to consider extending window of debt structuring by one year to March 2021. The RBI has extended the scheme and extended the date eligibility criteria to January 01, 2020 to January 01, 2019, however, restructuring under the scheme has to be implemented by December 31, 2020.

CARE View

- According to the RBI Trends and Progress in Banking, 2019, the outstanding banking sector credit to Commercial Real Estate was Rs 2.43 lakh crore (share in bank credit stood at 2.6% in FY19), which had grown robustly at 18.9%. This growth is significantly higher than the growth in overall bank credit.
- This announcement should ease stress in Commercial Real Estate exposures of banks as well as benefit the borrowers. Further, the dispensation for Commercial real estate is in line with treatment accorded to other project loans for non-infrastructure sector. The sector faces issues such as subdued demand due to economic headwinds and liquidity concerns, and measures such as regulatory forbearance and last mile funding for stalled projects especially for nearly complete projects could provide relief to the sector.
- The MSME sector accounts for a major share of India’s economy. According to the MSME Ministry’s Annual Report for FY19, the MSME sector accounts for over 28% of the GDP, more than 40% of exports while employing approximately 11 crore people. As per RBI Trends and Progress in Banking, 2019, the outstanding banking sector credit to MSMEs was Rs.15.11 lakh crore. Gross NPAs were Rs.0.87 lakh crore (5.8%).
- According to the government, over 5 lakh MSME benefited from debt restructuring last year, but the restructuring of several MSMEs is yet to be completed. Hence this extension would benefit the eligible MSME entities which could not be restructured under the earlier provisions along with the MSME entities which have become stressed after January 01, 2019. The dispensation would provide an additional window to MSME for restructuring their debt and protect the current profitability of the banks by extending their provisioning requirements.
- Further, this is a one-time dispensation undertaken due to the adverse liquidity situation faced by the MSMEs and the slack conditions prevalent in the economy. However, care would need to be taken while restructuring such assets so as to avoid extended provisioning requirements later on in the banking sector.