RBI Announces Resolution Framework 2.0 for MSMEs and Individuals

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RBIs Covid related Loan Restructuring Schemes for MSMEs and Individuals to arrest NPA formation

CARE Ratings has been studying the various measures announced by RBI in regards the Covid-19 pandemic and a short take on the earlier measures had been issued earlier at RBI Measures I, RBI Measures II and RBI Measures III. The earlier measures had played a part in mitigating a burden caused by the pandemic, however considering the second wave of infections and the consequent economic disruptions, the RBI Governor, Mr. Shaktikanta Das announced various measures to improve credit flow such as Term Liquidity Facility of Rs 50,000 crores for Emergency Health Services and Liquidity Measures for Small Finance Banks. Considering that small entrepreneurs and individuals have continued to be affected under the second covid wave, the RBI governor announced the **Resolution Framework 2.0**.

Retail borrowers and small businesses will be permitted to recast their loans, without being downgraded to nonperforming category, under the scheme.

- The one-time restructuring scheme would be available to borrowers with exposure up to Rs 25 crore.
- Standard accounts as of March 31, 2021 are eligible.
- Borrowers who have received relief under previous restructuring schemes would be excluded.
- Only GST registered MSMEs eligible under the scheme (any MSME not required to register under GST would also be eligible).
- If a resolution plan is implemented as per this circular, the asset classification of borrowers' accounts classified as Standard may be retained upon implementation, whereas the borrowers' accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on date of resolution plan implementation.
- Lenders would need to keep a provision of 10% of the residual debt of the borrower. 50% of this provision may be written back after the borrower pays at least 20% on time post implementation of the plan, and the remaining half may be written back upon the borrower paying another 10% of the residual debt on time.
- Lenders can extend loan tenor up to two years and offer a moratorium for this period. This two-year moratorium can also be extended to a business restructured last year under the one-time restructuring scheme.
- Loan amount can be converted into equity or other debt instruments such as NCDs.
- Lenders can review working capital limits for small businesses that had restructured their dues in 2020 as a one-time measure.
- Restructuring under these schemes would have to be invoked by Sept. 30 and implemented within 90 days of invocation.

CARE Ratings remarks

- The banking system has an exposure of over Rs 13 lakh crores to the MSME sector.
- These schemes are an extension of the earlier schemes. A distinguishing factor is that last year large corporates too had an option restructure their advances, however, the current schemes are aimed at the smaller borrowers. This is likely to provide relief to the small borrowers who are one of the most vulnerable sections and are facing large-scale implications of the lockdowns on their business.
- A simple loan moratorium would have provided support for a shorter period, while the restructuring exercise would enable borrowers to better plan their cash flows.
- Last year, fewer borrowers availed the restructuring schemes primarily due to the other liquidity support measures. Given the challenging economic conditions, more borrowers may avail the schemes. However, a downside is that MSMEs have had several restructuring schemes earlier, hence the pool may be smaller than expectations.

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