



**MAXIGAIN
CONSULTING**



Current Regulatory Framework For Loan Restructuring

AUGUST 2020



CURRENT REGULATORY FRAMEWORK IS IN 3 PARTS:

- Framework for **MSME**
- Framework for **COVID 19 Related Stress**
- Framework for **All Other Borrowers**



FRAMEWORK FOR MSME

BACKGROUND

- Restructuring Guidelines were initially issued in January 2018 wherein they gave relief to mitigate hardships caused due to GST.
- Guidelines have been extended several times and their scope enhanced.
- Latest extension has been notified on **6 August 2020**.
- Now guidelines permit restructuring to cover all hardships.

KEY FEATURES

- Aggregate exposure including Non Fund based Limits should not exceed **Rs. 25 crore** as on **1 March 2020**.
- Borrower should be a 'Standard Asset' as on **1 March 2020**.
- Restructuring is implemented by 31 March 2021.
- The account remains '**Standard Asset**' on restructuring.
- No condition that '**Change of Management**' needed for account to be classified as '**Standard Asset**'.



FRAMEWORK FOR COVID 19 RELATED STRESS

BACKGROUND AND ELIGIBILITY

- Guidelines issued by RBI on **6 August 2020**.
- Meant to grant relief **only to borrowers** who were doing well but **have suffered due to COVID 19**.
- Borrower accounts should not be overdue for more than 30 days as on **1 March 2020**.
- Covers Both **Personal and Business borrowers**.
- Account should continue to remain standard till the date of invocation.
- Borrower's Account should be Standard as on **1 March 2020**.

KEY FEATURES

- Conversion of accrued interest or future interest into another credit facility.
- Maximum **2 years** moratorium.
- Residual Tenor of loan should not be extended by more than 2 years.
- Conversion of debt into equity or other instruments.
- Escrow Mechanism has to be **set up compulsorily**.
- Exposure of more than 100 Crore requires one credit rating of RP4 or better.



FRAMEWORK FOR COVID 19 RELATED STRESS

RELAXATIONS

- Guidelines allow restructuring **without** a **change in ownership** and the borrower continued to be classified as Standard Asset.
- This is a huge relaxation from RBI and gives incentive to banks to do restructuring.

EXCLUSIONS

- MSME borrowers with aggregate exposure up to Rs. 25 Crores to all LI's as on **March 1, 2020**.
- Farm credit and exposure to financial service provider.
- Loans to PACS, FSS and LAMPS for on-lending to agriculture.

OTHER EXCLUSIONS

- **Central and State Governments**; Local Government bodies; and body corporates established by an act of parliament or legislature are **excluded** under this plan.
- **Housing finance companies** where account is rescheduled after **March 1, 2020**, unless a Resolution Plan under this framework has been invoked by other LI's (Lending Institution) , are **excluded** under this plan.



FRAMEWORK FOR COVID 19 RELATED STRESS

TIMELINE

- Invocation Date should not be later than **December 31, 2020**.
- Implementation Period within 90 days from Date of Invocation.

REQUIREMENT OF ICA

- Required to be signed by all LI within 30 days from date of invocation.
- Invocation to lapse in case LI's representing **75%** by value & **60%** by number do not sign ICA within 30 days from invocation.
- Process can't be invoked again.
- Lenders other than the LI's as per this circular may also sign ICA.
- ICA to contain dispute redressal mechanism and suitable mechanism for information sharing amongst LI's.

EXPERT COMMITTEE

- RBI shall constitute an Expert Committee which shall recommend the following :
 - List of financial parameters to be considered for each resolution plan.
 - Sector specific benchmark ranges for such parameters.



FRAMEWORK FOR COVID 19 RELATED STRESS

EXPERT COMMITTEE

- Parameters shall cover aspects related to leverage , liquidity and debt serviceability.
- For accounts with aggregate exposure exceeding Rs. 1500 Crore Expert Committee shall do vetting of resolution plans with only purpose to verify that all the processes have been followed.

PROCESS IN SUMMARY

- Borrower should invoke the process before **31 December 2020**.
- Account should not slip into NPA before the Invocation date.
- Account can slip into NPA after Invocation date.
- Reduced number of LI's are required to sign the ICA.
- Financial Plan should fall within the sector specific parameters to be advised by the Expert committee.



FRAMEWORK FOR COVID 19 RELATED STRESS

CONCLUSIONS

- RBI has provided significant relaxations to help corporates navigate COVID 19 related stress by :
 - Relaxing the ICA requirements.
 - Relaxing the requirements regarding credit rating.
 - Allowing Restructured Accounts to be classified as Standard Asset.
- Corporates who are under stress due to COVID 19 will find the guidelines quite flexible and friendly.



FRAMEWORK FOR ALL OTHER BORROWERS

ELIGIBILITY

All borrowers who are not eligible under the previous two framework.

BACKGROUND

- Guidelines are contained in **7 June 2019** , RBI circular.
- No relaxation has been given in the above circular.

CREDIT RATING

- Accounts above 100 crore exposure will require a credit rating of RP4 or better.
- Exposure above 500 crore will require such rating from 2 rating agencies.

KEY FEATURES

- All relaxations needed for the accounts revival can be given by a bank, in accordance with their board approved policies.
- Debt can be converted into share capital, other debt instruments.
- Moratorium can be granted.
- Interest rates can be reduced.



FRAMEWORK FOR ALL OTHER BORROWINGS

ICA

- ICA is needed to be signed by 100% of lenders.
- Resolution Plan needs approval of lenders having 75% by value and 60% by number , that approval becomes binding on all other lenders.

CHANGE
IN
MANAGEMENT

- Encourages change of management wherein the new promoter :
 - Acquires **at least 26% equity shares** and equity rights.
 - Becomes the largest shareholder.
 - Shall be considered to be in “ **Control** “ of the borrower as per Companies Act / SEBI regulation.
 - In that case the account shall be upgraded to Standard Asset on the implementation of the resolution plan.

IF CHANGE IN
MANAGEMENT DOES
NOT TAKE PLACE

Accounts will remain Substandard for **at least 1 year** or till payment of 10% of principal and all capitalized interest dues, whichever is later.



CONCLUSION

- The restructuring guidelines provide by RBI for MSME are flexible.
- The restructuring guidelines provide by RBI for COVID 19 stress are also flexible.
- There is no relaxation from RBI for NON-MSME who were in stress prior to COVID 19.
- However the government is not keen to invoke IBC for borrowers in default .
- Therefore it is appropriate time for borrowers to consider and initiate restructuring and make debt sustainable.



ABOUT US

Maxigain is a boutique Financial Advisory firm. We provide services such as corporate finance, debt restructuring & settlement, distressed asset funding, private equity placement, virtual CFO support and support services for cases under IBC.

The services we provide are :

- Corporate Finance
- Financial Restructuring
- IBC services
- Virtual CFO

Contact us for a free First session on how to do restructuring of your loans.

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