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RBI GUIDELINES ON LOAN SYSTEM FOR A BETTER TOMORROW

With the draft guidelines on loan system for delivery of Bank credit, RBI is trying to instil more discipline among the large corporate borrowers with a minimum level of loan component in working capital.

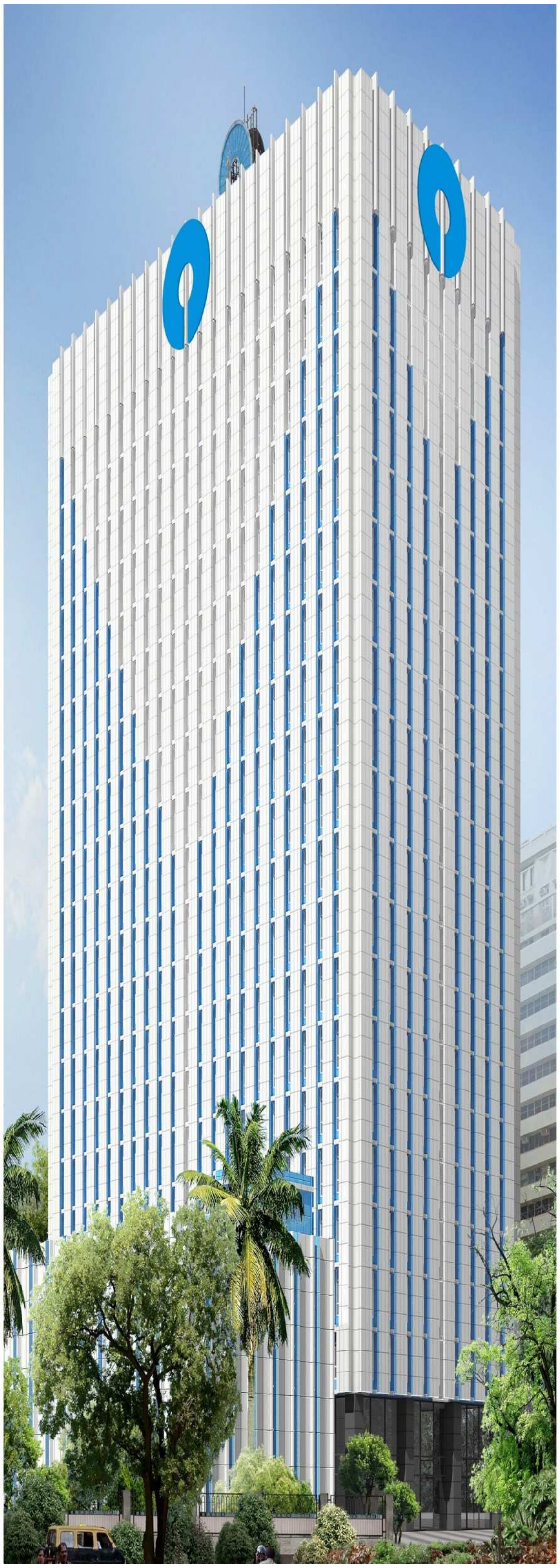
A quick look at the facility wise distribution of credit suggests that around 44% of the credit is for short term working capital limits i.e. Cash Credit, Overdraft, Demand Loan, Packing Credits etc. and 56% is contributed by term loan. Furthermore, if we see the overall percentage of Demand loans in fund based working capital, the amount of Demand loan is Rs 10.5 lakh crore in overall working capital loan of Rs 34 lakh crore and the share works out at around 30%, which RBI wants to be at 40% from October 2018 and 60% from April 2019. Thus, around an additional Rs 10 lakh crore needs to move out of running working capital limits to Demand loans.

The proposed new norm is a positive for all. Independent estimates suggest that the cash-to-cash cycle for Indian corporates / how long cash is tied up to working capital are comparatively larger as compared to their global counterparts. **There are many benefits of this move.**

First, as the borrowers would be required to manage their working capital cycle and manage short term liquidity, it would lead to better liquidity planning by borrowers. **Second**, it will lead to improved management of intraday and short term liquidity by Banks, enabling the Banks to meet regulatory prescriptions and better ALM planning. **Third**, drawals by borrower under Working Capital Demand Loans facility for specified durations would lead to development of term money market in India.

Coupled with this, there is also substantial progress on IBC front. As per the latest numbers available in IBBI, 701 cases were admitted up to March 2018 out of which 25% of cases have been already closed. Further, as of March 2018, 12 cases with admitted claim of Rs 4405 crore were resolved with a realization rate of around 70%.

Overall, with Regulator pushing credit discipline amongst borrowers and enabling timely resolution mechanism like IBC, we feel borrowers in long term will adapt to the situation and prepare for a better tomorrow.



INSTILLING DISCIPLINE FOR A BETTER TOMORROW

- With the draft guidelines on loan system for delivery of Bank credit, RBI is trying to instill more discipline among the corporate borrowers with a minimum level of loan component in working capital.
- Earlier also, in its circulars on Loans and Advances- Statutory and Other Restrictions, RBI had prescribed that for borrowers enjoying working capital credit limits of Rs 10 crore and above from the banking system, the loan component should normally be 80%. Banks, however, had the freedom to change the composition of working capital by increasing the cash credit component beyond 20% or to increase the 'Loan Component' beyond 80%, as the case may be, if they so desired.
- But in the recent draft guidelines RBI is proposing to modify the system for delivery of bank credit and making the lenders responsible for adherence to these guidelines. According to the guidelines, for large borrowers having aggregate fund based working capital limit of Rs 150 crore and above from the banking system, including ad hoc credit facilities, drawings up to 40% of the total fund based working capital limits ***shall only be allowed*** from the 'loan component'. Drawings in excess of the minimum 'loan component' threshold may be allowed in the form of cash credit facility.
- The 40% loan component will be effective from October 1, 2018 and will be revised to 60%, with effect from April 1, 2019. The amount and tenor of the loan component may be fixed by lenders in consultation will the borrowers, subject to the tenor being not less than seven days.
- In consortium lending also, sharing of loan component and cash credit is to be strictly followed by the consortium so that at aggregate level, the 'loan component' meets the above mentioned requirement, as all lenders in the consortium shall be individually and severally responsible.
- Earlier where banks had rights to cancel the undrawn limits unconditionally they were not required to set aside a portion of capital for the same. However, in the above draft guidelines, RBI proposes, effective from April 1, 2019, risk weights for the undrawn portion of cash credit/ overdraft limits sanctioned to the aforesaid large borrowers, irrespective of whether unconditionally cancellable or not, with a credit conversion factor of 20% being applicable.
- A quick look at the facility wise distribution of credit suggests that around 44% of the credit is for short term working capital i.e. Cash Credit, Overdraft, Demand Loan, packing credits etc. and 56% is in in the form of term loan (9% medium term loan and 47% long term loan).
- If we see the overall percentage of demand loan in working capital from table-1, the amount of demand loan is Rs 10.5 lakh crore in overall fund based working capital loan of Rs 34 lakh crore and the share works out at around 30%, which RBI wants to be 40% from October 2018 and 60% from April 2019.
- As can be seen from the table alongside that the 30% is at aggregate system level. However, RBI has placed limits for borrowers at individual level having aggregate fund based working capital limit of Rs 150 crore and above from the banking system.

Table- 1 Outstanding credit of SCBs Sep-2017

Type of Account	Amount Outstanding (Rs Crore)	Share in Total Credit (%)
Short term loans	**3405488**	**44**
Cash Credit	1383634	18
Overdraft	557482	7
Demand Loans	1049306	13
Packing Credit, Bill discounting etc.	415066	5
Medium Term Loans	**697389**	**9**
Long Term Loans	**3692721**	**47**
Total Credit	7795599	100

Source: RBI; SBI Research

IBC SCORECARD—CIRP YIELDING RESOLUTION

- As per the latest numbers available in IBBI, 701 cases were admitted up to March 2018 out of which 25% of cases i.e. 176 cases have been already closed either by way of resolution plan, liquidation or appeal/ review.
- As on March 2018, 525 cases are under process for resolution (see table –2).

Table-2	Corporate Insolvency Resolution Processs					
Quarter	No. of CIRPs at the beginning of the Quarter	Admitted	Closure by			No. of Corporates udergoing Resolution at the end of the Quarter
			Appeal / Review	Approval of Resolution Plan	Commencement of Liquidation	
Jan-Mar, 2017	-	37	1	-	-	36
Apr-Jun, 2017	36	128	8	-	-	156
July-Sept, 2017	156	228	13	2	8	361
Oct-Dec, 2017	361	141	33	8	24	437
Jan-Mar, 2018	437	167	12	12	55	525
Total	**NA**	**701**	**67**	**22**	**87**	**525**
Source: IBBI, Data compiled from details available on NCLT Website						

- Further, as of March 2018, 12 cases with admitted claim of FCs worth Rs 4405 crore were resolved within the average resolution days of 267 with a realization rate of around 70%. One of the big accounts from the RBI 1st list was also resolved post March with realization rate near the above average.

Table - 3	CIRPs Yielding Resolutions						
SI No	Name of CD	Date of Commencement of CIRP	Date of Approval of Resolution Plan	Days	Total Admitted Claims of FCs	Realisation by FCs	Realisation FCs as % of their Claims Admitted
1	Trinity Auto Components Ltd	25-May-17	22-Jan-18	242	17	17	99.98
2	Kalyanpur Cements Ltd	1-May-17	31-Jan-18	275	131	99	75.24
3	Precision Engineers & Fabricators Pvt Ltd	4-Apr-17	1-Feb-18	303	79	35	44.23
4	Palogix Infrastructure Pvt Ltd	16-May-17	12-Feb-18	272	154	57	36.81
5	Shree radha raman Packaging Pvt Ltd	28-Apr-17	15-Feb-18	293	1	1	107
6	Kohinoor CTNL Infrastructure Co Pvt Ltd	16-Jun-17	21-Feb-18	250	2,528	2,246	88.83
7	Sharon Bio-Medicine Ltd	11-Apr-17	28-Feb-18	323	891	294	32.99
8	Burn Standard Co Ltd	31-May-17	6-Mar-18	279	59	65	111.4
9	Divya Jyoti Sponge Iron Pvt Ltd	23-Aug-17	13-Mar-18	202	77	34	44.37
10	Propel valves Pvt Ltd	11-Aug-17	19-Mar-18	220	2	2	100
11	Forward Shoes (India) Ltd	19-Jun-17	27-Mar-18	281	121	121	100
12	Haldia Coke and Chemcials Pvt Ltd	11-Jul-17	27-Mar-18	259	344	99	28.91
Total				**267**	**4,405**	**3,070**	**69.70**
Source: IBBI; Rs in crore;							

CONCLUSION

- The proposed new norm is a positive for all. Independent estimates suggest that the cash-to-cash cycle for Indian corporates / how long cash is tied up to working capital are comparatively larger as compared to their global counterparts. There are many benefits of this move.
- **First**, as the borrowers would be required to manage their working capital cycle and manage short term liquidity, it would lead to better liquidity planning by borrowers. **Second**, it will lead to improved management of intraday and short term liquidity by Banks, enabling the Banks to meet regulatory prescriptions and better ALM planning. **Third**, drawals by customers under Working Capital Demand Loans / WCDL facility for specified durations would lead to development of term money market in India.

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ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of "tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis".

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management, corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

DISCLAIMER

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