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NEW PRUDENTIAL FRAMEWORK FOR RESOLUTION OF STRESSED ASSETS TO ALLOW BREATHING SPACE FOR LENDERS

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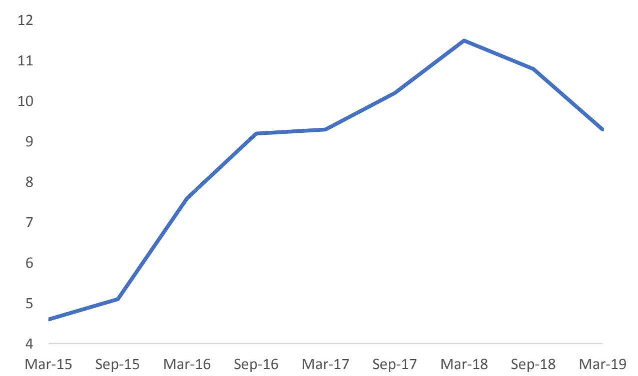
The new prudential framework provides some leeway to lenders and encourages them to refer cases to Insolvency and Bankruptcy Court (IBC). This would entail write back of additional provisions. Under the current and revised dispensation, an additional provisioning of 20% would have to be made in case resolution plan is not implemented within 180 days from the end of the review period, which is after 210 days of default. This would allow some breathing space to lenders in provisioning and succumbing to distress resolution. In case the default period exceeds 365 days, an additional provisioning of 15% (i.e. total additional provisioning of 35%) would have to be made.

A better time frame and transition offered in the revised framework on this would allow the lenders the headroom and flexibility for resolution in large ticket cases. Also, noteworthy is the consensus among lenders in terms of value and also in terms of number. Earlier, there was 100% consensus required, but with new framework in place 75% lenders by value and 60% by numbers would be required for resolution. Further, lenders are to enter into inter-credit agreement. The provision relating to resolution implementation within 180 days from March 1, 2018 (reference day / default day), no longer exists for large accounts with aggregate exposure of more than Rs.2000 cr. Instead, slab-wise reference dates have been set as per table provided herein. For exposures of less than Rs.15 bn, the reference date is yet to be announced. All the above measures, are likely to facilitate better realisation and write back of provisions. Going forward, the asset quality is also seen improving. Overall we believe, various efforts made by RBI in strengthening its regulatory and supervisory framework and the resolution mechanism initiated through IBC are bearing fruit, as also can be seen from the GNPA trend since Sept'18.

ASSET QUALITY IMPROVING

- As per the Report on Trend and Progress of Banking in India 2017-18, the SCBs had GNPA's of more than Rs 10 trillion. With the combined efforts of RBI and Banks, Asset quality showed improvement with SCBs' gross non-performing assets (GNPA) ratio declining from 11.5% in March 2018 to 10.8% in September 2018 and 9.3% in March 2019. In a sign of possible recovery from the impaired asset load, the GNPA ratio of both public and private sector banks showed a half-yearly decline, for the first time since March 2015, the financial year-end prior to the launch of Asset Quality Review (AQR).
- The insolvency resolution process has also helped with close to 40% cases which underwent the insolvency process either through resolution or through liquidation, withdrawal etc. As on March 2019, out of 1143 ongoing cases 548 cases are pending for more than 180 days and 362 cases crossed 270 days.
- RBI issued revised framework for resolution of Stressed Assets on February 12, 2018 popularly known as February 12 circular. However, the Hon'ble Supreme Court, vide its order dated April 2, 2019, had held the February 12 circular as ultra vires. This has prompted RBI to come up with Prudential Framework for Resolution of Stressed Assets
- A part from ASCBs and Small Finance Banks the guidelines are also applicable to Systemically Important Non-Deposit taking Non-Banking Financial Companies (NBFC-ND-SI) and Deposit taking Non-Banking Financial Companies (NBFC-D), the GNPA ratio for which stood at 5.8% 5.1% respectively as on Mar 2018.

ASCBs Gross NPA (%) Trend



Source: RBI, SBI Research

Status of CIRPs - Mar'2019

Status of CIRPs	Number of Cases	
Admitted	**1858**	
Closed on Appeal/ Review / Settled	152	
Closed on Withdrawl	91	
Closed by Resolution	94	
Closed by Liquidation	378	
Ongoing CIRP	**1143**	
> 270 days	362	32%
> 180 days ≤ 270 days	186	16%
> 90 days ≤ 180 days	247	22%
≤ 90 days	348	30%

Source: IBBI, SBI Research

GUIDELINES ON STRESSED ASSET RESOLUTION AND THEIR IMPACT

- With the revised guidelines RBI has made it clear that there is no scope for old restructuring schemes such as CDR, SDS, S4A etc. even without the February 12 circular. Further, though RBI has not mandated to refer default cases to IBC, but incentivizing the lenders by way of reversal of additional provision on referral to IBC will definitely influence the resolution decision.
- Overall we believe, various efforts made by RBI in strengthening its regulatory and supervisory framework and the resolution mechanism initiated through IBC are bearing fruit, as also can be seen from the GNPA trend since Sept'18.
- Up to Mar'19, through IBC, Financial creditors have recovered around 43% i.e. Rs.75,300 Crore from admitted claims of Rs. 1.75 lakh Crore. We believe, lenders may further recover to the tune of Rs.80, 000 crore to Rs 1 lakh Crore in FY20.

RBI Framework for Resolution of Stressed Assets

Description	RBI Feb 12, 2018 Circular	RBI's Revised Circular June 7, 2019	Views/Impact
Applicability	All Scheduled Commercial Banks (ASCBs) and All-India Financial Institutions (AIFI)	ASCBs, AIFI, Small Finance Banks (SFBs) and NBFC-ND-SI and NBFC-D	Increased scope of the applicability now includes SFBs and NBFC - positive for the financial system
Early identification	Immediately on default classification by classifying stressed assets as SMA-0 (1-30 days), SMA-1 (31-60 days) and SMA-2 (61-90 days)	Immediately on default classification by classifying stressed assets as SMA-0 (1-30 days), SMA-1 (31-60 days) and SMA-2 (61-90 days) For revolving credit CC SMA-1 (31-60 days) SMA-2 (61-90 days)	For revolving account, i.e. CC there is no SMA-0 classification its directly classified as SMA-1 when o/s balance remain excess of DP for more than 31 days
Implementation of Resolution Plan (RP)	Shall initiate **steps to cure immediately** on default	Lenders shall undertake a *prima facie* review of the borrower account **within 30 days** from such default	Though the wording has been changed, within review period lenders may decide on the resolution strategy including legal action
Aggregate exposure and timelines	March 2018 for aggregate exposures of the borrower to the lenders at Rs.20 billion and above Above Rs.1 billion and below Rs.20 billion – to be announced	Rs.20 billion and above – June 07, 2019 Rs.15 billion and above but less than Rs.20 billion – Jan 01, 2020 Less than Rs.15 billion – yet to be announced	Aggregate exposure above Rs.15 billion bucket introduced from Jan 01, 2020
Consensus among lenders	100%	75% of lenders by Value and 60% by numbers. Lenders are required to form inter-creditor agreements (ICAs)	Positive as 100% consensus is difficult and time consuming.
Timelines to referred to IBC	Mandatory referral to IBC within 15 days if no resolution plan Implemented within 180 days of default	Additional provisioning of 20%, if RP is not implemented within 180 days from the end of review period (after 210 days of default) and 35% (after 365 days of default)	Lenders have the option to initiate IBC proceedings from mandate, as earlier. However, reversal of additional provisions is still an incentive to IBC referrals
Withdrawal of extant framework	Revitalizing distressed Assets, CDR, SDR, S4A withdrawn. Accordingly, JLF stands discontinued	Revitalizing distressed Assets, CDR, SDR, S4A withdrawn. Accordingly, JLF stands discontinued	-

Source: RBI, SBI Research

Contact Details:
Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
M C Road, Nariman Point
Mumbai - 400021
Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in
Phone:022-22742440