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A Call to preserve the value of

MSME at any cost:

updated on July 05, 2021

A 12 point agenda that could form the basis for a genuine and whole-hearted approach to support such units —

Swaminathan Gurumurthy, member of the Board of the Reserve Bank of India, is an original thinker who follows the 'Third way' propounded by the likes of Deendayal Upadhyaya and the labour movement leader Dattopant Thengdi when it comes to question of finance and economics.

Recently, he wrote about how lenders should prevent illiquidity from leading to insolvency for enterprises, particularly in the MSME sector.

From a banker's perspective, there is no better way to encapsulate what lenders should do under the current conditions for borrowers.

The primary focus —

Even though fresh investments and new units ought to be supported, the primary focus now should be on protecting the units already working because the negative demonstrative effect of MSMEs collapsing will be disastrous.

Gurumurthy's construct assumes relevance to if bankers can internalise this spirit and implement the government's and RBI's schemes for MSMEs — tailoring/customising the

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appropriately - MSMEs can weather the Covid impact. As one of the world's few full service regulators, RBI Governor Shakti Kanta has been admirably proactive right from January 2019 in supporting all MSME units facing financial stress through a restructuring scheme (without it resulting in downgradation of the asset as is the ^{norm} case). After board level discussions on November 18, 2018 the first of these instructions were issued on January 1, 2019 valid up to March 2020.

Restructuring - A special provision encouraging banks to offer restructuring to all eligible units was included soon after the Covid - induced lockdown in April 2020, and now in the wake of the second wave impact, again up to September 30, 2021, under the Modi government Emergency

3 Lakh Crore to 4.5 Lakh Crore last week, the Emergency Guarantee Scheme, increased the credit line. It is to ensure that money is available to eligible units.

RBI has also been supporting the liquidity requirements of banks by giving three (3) years under its long Term Repo operations. Presently, the average daily liquidity in the repo is 4 Lakh crore.

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Enough cheap money to go around, the government stepping in to guarantee loans, the regulatory permitting a liberal restructure — using of debt — banks cannot ask for more to support MSMEs and negotiate their cash flow problems.

What needs to be done?

So what are the practical steps to be taken up by banks? The following could be a 12 point template for this process.

- 1) Considering that the only condition stipulated by RBI is that the maximum moratorium as part of the restructuring should not exceed 2 years, a liberal restructuring scheme should be implemented forthwith.
- 2) The primary skill needed will be the ability to take a call on the intrinsic viability of the business and whether with support, the business will survive.
- 3) While all efforts are worth taking to keep the business afloat, in the very rare cases where the borrower is seen as unable to carry on activities even with additional support, it is better to take a decision early not to support. One of the fundamental principles of credit is that a 'no' today is often better than a 'yes' five / six months later.
- 4) The RBI has advised that the process of restructuring should be implemented and completed within 90 days of application by

the borrower.

5) The usual tool kit of restructuring like conversion of erosion of working capital loan into working capital term loan, conversion of unpaid interest into a funded interest term loan, rephrasing of unpaid term loan instalment, additional need based working capital loans, a term loan for meeting further cash losses for one year, and reduction in interest rates, along with moratorium on all repayments, should be extended - all requiring this assistance.

There may be need to conduct crash courses for loan officers as the average ticket size of the loans requiring restructuring will be low and there will be knowledge/skills gaps at these levels. Terms like WCTL/FITL communication in Fair Value (a key factor in restructuring and the Right of Recompense may be alien to many officials.

There is need to advertise and publicise this restructuring facility. Many borrowers and sometimes branch officials, may not be aware of the scheme, its import and intent.

There will be requirement for hand holding by chartered accountants in preparing reasonable projections so that these units do not end up in another cycle of loss again.

Most often banks do not receive the detailed working required to put up restructuring proposals.

- 9) often, it is found that date keeping of the process is not proper. Borrowers need to be aware of their rights too as per RBI directions.
- 10) The RBI has instructed that "a register/ electronic record should be maintained by the bank where in the date of receipt. Sanction / rejection / disbursement with reasons thereof etc should be recorded. Banks should provide acknowledgement for loan application received under priority sector loans."

This will apply to all restructuring requests too.

- (11) It may be a good idea to build in the provisions for sanction of a 'stand by cash flow Mismatch credit facility (with suitable margin stipulations) as part of all fresh loans both for working capital and term loans initially itself akin to a proxy debt Serv Reserve as most often, after a loan account has started exhibiting signs of stress, no officer wants to recommend / sanction additional finance for fear of being put up as accountability studies later on.

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(12) Declining of any credit facility whether fresh or for rephasing, should be only with the approval of the next higher authority in banks.

These 12 points could form the basis for a genuine and whole-hearted approach to support MSMEs.

MSMEs represent entrepreneurship at its best and are our swadeshi start-ups.

Indeed, the Union government has done well in now including retail and whole sale trade as part of MSMEs for priority sector lending. An executive order of the government issued in 2017 had excluded trade from MSMEs.

Clearly, a liquidity problem is bugging MSME units now. We owe it to our generation to tune our collective approach to the preservation and not value-negation of these enterprising entrepreneurs. It is worth remembering that today's MRF started as a toy-ballon manufacturing unit in That is the promise and prospect MSMEs.