KV Kamath Committee

Why in news?

The KV Kamath committee was set up by the Reserve Bank of India (RBI).

What is the purpose of the committee?

- The committee was set up to look into the **restructuring needs** of large borrowers hit by Covid.
- The panel was set up to deal with accounts where the aggregate exposure of the lending institutions at the time of invocation of the resolution process is ₹1,500 crore and above.

What are the findings?

- The committee has identified 26 vulnerable sectors and, the specific financial frailties of each.
- The sectors identified cover much of the manufacturing and infrastructure universe, besides retail outlets, hotels and tourism.

What did the panel say?

- The panel spelt out sector-wise thresholds with respect to EBITDA, debt service coverage, current assets and liabilities, total outside liability vis-a-vis adjusted tangible net worth.
- It has spelt out clear **restructuring guidelines** for banks to ensure that errors with respect to corporate debt restructuring don't recur.
- Restructuring has seen many avatars over the last decade, be it 5/25 (scheme for infrastructure assets) and S4A, which did not succeed.
- The specific crisis arising out of Covid necessitated a response for large players.
- This supplements the earlier efforts to boost the MSME sector as well as units where the aggregate exposure exceeded ₹100 crore.

What are the reliefs?

- MSMEs have received liquidity and solvency packages since September 2019.
- The June 2019 RBI circular addresses the 'resolution plan' modalities for

units whose aggregate exposure is above ₹100 crore.
- Relief to the large units will ensure flow of working capital across the supply chain, spurring industrial recovery.
- A relaxed timetable on loan repayments will aid this process.

What could have been done differently?

- Instead of a cast-iron framework for banks, the panel could have allowed for some flexibility in interpretation, both within a sector and over time, especially in a situation of exceptional uncertainty.
- By limiting the restructuring exercise at present to two years, the panel may have taken a rather sanguine view of the economic recovery process.
- Some of these assumptions must be reviewed periodically, if the situation so demands.
- The panel leaves little room for banks to deploy their traditional, sector-based expertise.

What could be done?

- The RBI should focus on higher provisioning, and in a graded manner, for restructured loans.
- This should allow banks to take some initiative on the lending side.
- An ongoing committee that can provide expertise to banks from time to time on loan restructuring can also be considered.
- Over time, a centrally conceived template for lending and restructuring will enhance credit appraisal skills along the rank and file of the banking system.
- That said, the need for such a framework cannot be overstated in these times of crisis.
- It seeks to reconcile prudence with higher lending.
- It is for the banking sector to pick up the tab.

Source: Business Line