

K.V. Kamath Committee

January 28, 2021

In News: The Supreme Court recently asked the Centre and the Reserve Bank of India about the steps taken to implement the K.V. Kamath Committee report on recommendations to bail out sectors affected by the COVID-19 pandemic.

Key Points

- **Objective:** The Committee is tasked to recommend parameters for one-time restructuring of corporate loans.
- **Deadline:** It will submit its recommendations to RBI in 30 days.
- **Background:** In the recent Monetary Policy report, RBI has allowed banks to restructure loans to reduce the rising stress on incomes and balance sheets of large corporates, Micro, Small and Medium Enterprises (MSMEs) as well as individuals.
- **Reasons:** A large number of firms that otherwise maintain a good track record are facing the challenge as their debt burden is becoming disproportionate, relative to their cash flow generation abilities.

Recommendations made by the Committee:

- Graded approach to restructuring of stressed accounts based on severity of the impact on the borrowers- Banks can classify the accounts into mild, moderate and severe as recommended by the committee.
- Five financial parameters to gauge the health of sectors facing difficulties- total outside liabilities to adjusted tangible net worth, total debt to earnings before interest, taxes, depreciation, and amortization (Ebitda), debt service coverage ratio (DSCR), current ratio and average debt service coverage ratio (ADSCR).
- 26 sectors have been identified including auto,

aviation, construction, hospitality, power, real estate and tourism.

Applicability of these recommendations:

- The committee was to scrutinise restructuring of loans above ₹1500 crore.
- The resolution under this framework is applicable only to those borrowers who have been impacted on account of Covid.
- Only those borrowers which were classified as standard and with arrears less than 30 days as at March 1, 2020 are eligible under the Framework.

Monetary Policy Committee (MPC)

- The MPC is a statutory and institutionalized framework under the RBI Act, 1934, for maintaining price stability, while keeping in mind the objective of growth.
- The MPC determines the policy interest rate (repo rate) required to achieve the inflation target (4%).
- This inflation range (4% within a band of +/- 2%) was recommended by the committee headed by Urjit Patel in 2014.
- The Governor of RBI is ex-officio Chairman of the MPC.
- The Monetary Policy Report is published by the Monetary Policy Committee (MPC) of RBI.