

Kamath Panel Recommendations

October 6, 2020

In News

The Reserve Bank had announced the constitution of a panel under the chairmanship of veteran banker K V Kamath to make recommendations on the required financial parameters to be factored in under the **'Resolution Framework for Covid19-related Stress'** along with sector specific benchmark ranges. The circular issued by the Reserve Bank for resolution of the stressed assets was based on the recommendations of the committee.

Recommendations of the Committee

- The enders consider at least **five financial parameters before taking a decision on restructuring:**
 - . Total outside liabilities/ adjusted tangible net worth
 - . Total debt/ earnings before interest, taxes, depreciation, and amortization (Ebitda)
 - . Current ratio
 - . Debt service coverage ratio
 - . Average debt service coverage ratio
- The panel suggested **thresholds for each of these benchmarks depending on the sector**, so decision-making can be easier.
- The **26 sectors specified by the RBI** include automobiles, power, tourism, cement, chemicals, gems and jewellery, logistic, mining, manufacturing, real estate, and shipping among others.
- The lending institutions may, at their discretion, **adopt a graded approach** depending on the severity of the

impact on the borrowers, while preparing or implementing the resolution plan. The committee has allowed banks to classify the accounts into **mild, moderate and severe**.

- 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.

Advantages of the Recommendations

- **Thresholds have been set reasonably**, so most companies facing stress should be able to see restructuring.
- Overall, **large banks have strengthened their provision coverage** on existing non-performing loans and built higher Covid-19 related provisions.
- It would **enable transparency in restructuring across lenders** when focusing on the efficacy of the resolution plan.