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STUDENTS' ECONOMIC FORUM

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To kindle interest in economic affairs...
To empower the student community...

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Theme 321

"PROJECT SASHAKT"

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Theme No: 321: **"Project Sashakt"**

A well informed customer will make the policy makers as well as organizations which produce goods and render services more responsive to the customer needs. This will also result in healthy competition among organizations and improve the quality of its products.

The "SIB Students' Economic forum" is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly meeting of the "Forum". This month the topic for discussion is "Project Sashakt".

The true extent of the NPA problem started once the Asset Quality Review (AQR) was implemented. This forced banks to own up bad loans that they were hiding under the carpet till then, through the time honoured tactics of ever greening of loans. RBI came out with a comprehensive framework for revitalising distressed assets in the economy, followed by various schemes like Corporate Debt Restructuring (CDR), SDR (Strategic Debt Restructuring) and S4A (Scheme for Sustainable Structuring of Stressed Assets). Inspite of all these initiatives, status of the non performing assets (NPA) has been worsening. Despite the proactive actions taken by RBI in resolving the NPAs, the quantum of Non performing assets is increasing quarter on quarter.

Sl. No.	Period	Gross NPA Amount (Rs in Crore)
1	March 2016	5,95,636
2	June 2016	6,54,227
3	September 2016	7,05,812
4	December 2016	7,32,976
5	March 2017	7,11,436
6	June 2017	8,29,553
7	September 2017	8,40,515
8	December 2017	8,86,074
9	March 2018	10,24,856

Italy and India have the worst bad loan ratio among the top ten economies i.e., 14.1% and 11.6% respectively. RBI has come out with a revised framework for resolution of stressed assets and repealed all other schemes like SDR, S4A and CDR which existed. To tackle the NPA menace in the Indian Banking Industry, the regulatory authority has taken stringent steps. RBI has asked all the banks to put in place a Board approved policy to deal with loans where there is even a single day default in repayment. Banks have faced heavy losses under the IBC process, for cleaning up their books. To absorb the losses the banking system needs Rs 2.70 lakh crore capital which is another challenge. To overcome these challenges, Project Sashakt has been proposed as one of the measures. Under this new framework, the banks will deal with resolution of stressed assets in a faster way. The key to the new approach is the Inter-Creditor Agreement where all the banks will be a signatory. The ICA (Inter Creditor Agreement) authorises the lead bank to work out a resolution on behalf of all the lenders. Let us discuss the Project Sashakt in detail.

1. What is Project Sashakt?

Project Sashakt is proposed to resolve the problem of NPA through a five-pronged strategy. Bad loans of up to Rs 50 crore will be managed at the bank level, with a deadline of 90 days. For bad loans of Rs 50 – Rs 500 crore, banks will enter an inter-creditor agreement, authorizing the lead bank to implement a resolution plan in 180 days or refer the asset to NCLT. For loans above Rs 500 crore, an independent Asset Management Company (AMC) supported by institutional funding through the Alternate Investment Funds (AIF) is proposed.

2. Why Project Sashakt and what are the objectives of Project Sashakt?

RBI and Government have taken various steps to address the NPA problem of the banks. In the past, various new approaches were introduced by RBI. As a result of it, the industry has witnessed SARFAESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002), Corporate Debt Restructuring (CDR), Strategic Debt Restructuring (taking management control), S4A (converting the unsustainable debt portion into equity), 5/25 (allowing refinancing of loan after every five years) and Insolvency and Bankruptcy Code. But these measures have not generated sufficient result which led to the birth of a new approach in the name of ‘Project Sashakt’ to consider the feasibility of an ARC (Asset Reconstruction Company) to address the stressed asset issue.

The objectives of the schemes are:

i) Resolving the problem of NPAs through a market – led approach.
ii) No Government intervention.
iii) Focus on asset turnaround to ensure job protection.
iv) Augmenting asset resolution by establishing a professionally managed Asset Management Company (AMC).
v) AMC to be supported by institutional funding in stressed assets through Alternative Investment Funds (AIFs).
vi) Creating a platform for trading of assets.

3. Briefly explain the various approaches under Project Sashakt.

i) **SME Resolution Approach (For exposure up to Rs 50 crores)** – Banks should devise template-based resolution approach based on simple metrics and define SOP for resolution. A SME resolution committee will be created by banks for formulating and validating the schemes, with a provision for additional funds. It should be non-discretionary and non-discriminatory. The resolution of these assets will be done by a single bank having the liberty to customise it. The resolution should be completed in 90 days.

ii) **Bank-led resolution approach (BLRA) -** Bank Led Resolution Approach for loans between Rs 50 to Rs 500 crore. Financial institutions to enter into Inter Creditor Agreement to authorize the lead bank to implement a resolution plan in 180 days. The lead bank will prepare a resolution plan including empanelling turnaround specialists and other industry experts. The resolution plan has to be approved by lenders holding at least 66 per cent of the debt. Lead bank would be responsible to execute the plan. In case the lead bank is unable to complete the resolution process within 180 days the asset would move to NCLT (National Company Law Tribunal).

iii) **AMC/AIF led resolution approach -** An Asset Management Company (AMC) will be created to deal with large loans involving 500 crores and more. Alternate Investment Fund (AIF) will be responsible to raise funds from institutional investors, AIF can also bid for assets in National Company Law Tribunal (NCLT). The lead bank can arrive at the price through the open auction route. Security receipts have to be redeemed within 60 days. Transfer of assets from banks to AMC / AIF will be based on market price and not book value.

iv) **NCLT / IBC process -** For larger assets already with NCLT and any other assets not resolved under Bank-led resolution approach (BLRA) and AMC/AIF led resolution approach.

v) The final step is creation of an asset trading platform.

4. Briefly explain the mechanism of AMC – AIF structure under Project Sashakt.

Under the AMC-AIF structure the transaction will be between a bank and the ARC. The ARC will pay upfront 15 per cent cash and 85 percent in security receipts (SRs) redeemable within 60 days. The ARC will then do the debt restructuring, convert debt into equity and acquire majority control. The restructured company will then issue Non Convertible Debentures to AIFs and the money so raised will be paid to the ARC to redeem the SRs issued to banks. The entire exposure of the ARC will be transferred to AIFs where AMC-AIF will own majority stake in the asset.

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