Mehta Panel Report on NPAs

Why in news?

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The Sunil Mehta Committee submitted a five-point plan on bad loan resolution.

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What are the key recommendations?

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- The Committee was set up for restructuring stressed assets and creating more value for public sector banks (PSBs).
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- It has proposed **Project Sashakt** to recover banks and stressed companies.
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- The five-pronged resolution route outlines five features for bank resolution:
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i. an SME resolution approach
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ii. bank-led resolution approach
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iii. AMC/AIF led resolution approach
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iv. NCLT/IBC approach
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v. asset-trading platform
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- This route will be applicable to the following, which have a potential for turnaround -

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i. smaller assets with exposure up to Rs.50 crore
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ii. mid-size assets between Rs.50 crore and Rs.500 crore
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iii. large assets with exposure of Rs.500 crore and more
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- **Large assets** - For large assets, an independent asset management company (AMC) will be set up.
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- The resolution route is also applicable to larger assets already before the National Company Law Tribunal (NCLT).
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- It would also cover any other asset whose resolution is still pending.
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- The process will cover both performing and non-performing assets.
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- **Mid-size assets** - The committee called for a bank-led resolution approach for these.
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- The resolution plan has to be approved by lenders holding at least 66% of the debt.
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- The independent steering committee appointed by the Indian Banks Association (IBA) has to validate the process within 30 days.
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- The resolution for this category would be achieved in 180 days.
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- In this category, the key challenge would be to arrive at a consensus.
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- This is because the exposure is held by multiple banks/lenders.
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- **SMEs** - The committee suggested setting up of a steering committee by banks for SMEs resolution.
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- This will formulate and validate the schemes, with a provision for additional funds.
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- The resolution should be complete within 90 days.

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- It also suggested that the resolution be under a single bank’s control.
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- The bank will have the liberty to customise the resolution process.
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- **AIF** - Alternative investment fund (AIF) would raise funds from institutional investors.
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- Banks would be given an option to invest in this fund if they wish.
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- AIFs can also bid for assets in National Company Law Tribunal (NCLT).
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- The lead bank can discover price discovery through the open auction route.
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What is the significance?

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- The recommendations offer a transparent market-based solution and are fully compliant with RBI regulations.
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- It focusses on asset turnaround to ensure job protection and creation.
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- The resolution process would help bring in credible long-term external capital.
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- This could limit the burden on the domestic banking sector.
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- It could also ensure robust governance and credit architecture and prevent any build-up of NPAs in the future.
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Source: BusinessLine

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