

PRE-PACK SCHEME MAY NOT DRAW MUCH INTEREST: BANKERS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

Pre-pack will be one tool to handle stress. It will be selectively used and may not bring many cases, says a banker

MUMBAI : A day after the government introduced the ordinance for pre-packaged insolvency resolution for micro, small and medium enterprises (MSMEs), lenders said that they do not expect a flurry of MSMEs approaching banks for resolution under this arrangement.

Only a few MSMEs had requested for this covid restructuring scheme as additional liquidity was available under different government schemes, lenders said.

"Lenders have got used to handling stress in multiple ways. Use of mechanisms such as restructuring for MSMEs, covid-19 restructuring, liberalized working capital assessment, and guaranteed emergency line of credit (GECL), have been more pronounced in the last one year. So, prepack will be one of the tools and is not going to be the only tool. Hence the use will be selective and it is unlikely to generate a flurry of cases," said J. Swaminathan, managing director, State Bank of India.

Pre-packs are a form of restructuring that allow creditors and debtors to work on an informal plan and then submit it for approval. The incumbent management typically retains control until the final deal.

The minimum amount of default for initiation of corporate insolvency resolution process is 1 crore and applications for initiation of corporate insolvency resolution process will remain suspended in case of defaults arising from 25 March 2020.

Bankers say that the success of the pre-pack scheme will depend on the fresh equity infusion by promoters.

Earlier restructuring cases done through the Board for Industrial and Financial Reconstruction (BIFR) or corporate debt restructuring (CDR) failed on account of promoters failing to infuse fresh equity.

In the wake of covid-19, both the government and the Reserve Bank of India (RBI) had introduced several schemes to help the MSME sector.

RBI had extended an existing scheme for a one-time restructuring of loans given to stressed small firms. Under this, borrowers who were in default but classified as standard as on 1 March could opt for this loan restructuring by 31 March 2021.

RBI had also allowed the extension of an interest subvention scheme, which provides an interest relief of 2% per annum to eligible MSMEs on their outstanding fresh/ incremental term loan/working capital during the period of its validity.

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