

SINHA-LED PANEL PROPOSES RS. 5,000 CRORE STRESSED ASSET FUND FOR MSMEs

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

A committee formed by the Reserve Bank of India (RBI), headed by former SEBI Chairman U.K. Sinha, has recommended a Rs. 5,000 crore distressed asset fund for micro, small and medium enterprises (MSMEs).

The fund will assist units in a cluster where there is a change in the external environment such as plastic ban, which had resulted in large number of such entities becoming non-performing. "This would be of significant size which makes equity investments that help unlock debt or help revive sick units. It is a variation of venture capital fund, meant for equity investment of Rs. 1 lakh to Rs. 10 lakh in proprietary or partnership MSMEs, which will not or cannot list on the stock exchanges," the committee, which submitted its report to the RBI few days back, said.

"The structure would recognise that exits will not be big bang but through a percentage of revenues or profits over a period of 3-5 years. The onus of creating this fund would lie with the government," it said.

The panel also suggested that the RBI should increase the limit for non-collateralised loans to Rs. 20 lakh, and this would address a significant proportion of the sector needs. In addition, it also suggested revision in loan limit sanctioned under MUDRA by the Finance Ministry to Rs. 20 lakh from Rs. 10 lakh.

The committee has also recommended banks that wish to specialise in MSME lending, their sub-targets for farm loans under the priority sector lender could be waived off, and instead can be given a target for loans to the SME sector. The targets, committee said, could be of 50% of the net bank credit for universal banks and 80% for small finance banks.

At present, the overall priority sector lending target for a universal bank is 40% of their net bank credit and 75% for small finance bank.

Commercial banks have been suggested that they should develop customised products to assess the financing requirements based on expected cash flows moving away from traditional forms of assessment.

"Banks need to build their ability to capture cash flows of MSME borrowers on a regular basis, for which tie-ups with industry majors / aggregators / online platforms will have to be done by the banks," the report said. In order to provide loan portability in a seamless manner to MSMEs, the committee recommended that the RBI should come out with measures on portability of MSME loans with a lock-in-period of one year.

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