

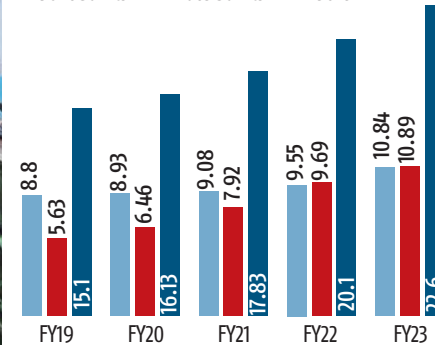
# Banks wary of lending to stressed MSMEs



## CREDIT FLOW TO MSMEs

Outstanding amount in ₹ trillion

Govt banks Private banks All SCBs



Source: Reserve Bank of India

## Seek measures like leeway in 90-day NPA classification

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Mumbai, 24 July

Even if the Union Budget prompted banks to lend to the stressed micro, small, and medium enterprises (MSMEs), banks are worried that such loans could turn into non-performing assets (NPAs) if the bad loan classification rules are not relaxed.

On Tuesday, Finance Minister Nirmala Sitharaman announced a new mechanism for facilitating the continuation of bank credit to MSMEs during their stress period. “While being in the special mention account (SMA) stage for reasons beyond their control, MSMEs need credit to con-

tinue their business and to avoid getting into the NPA stage,” she said, adding that credit availability would be supported through a guarantee from a government-promoted fund.

According to a senior bank official from a large public-sector bank, if a firm has defaulted on repayment, then the risk profile of the borrower has worsened. “In such a scenario, extending further loans will not help but banks run the risk of default by the borrower.”

Banks categorise a loan in SMA if there is a default. There are three categories: SMA 0 — when principal or interest payment is not overdue for more than 30 days but the account shows signs of incipient stress;

SMA 1 — when principal or interest payment is overdue between 31-60 days; and SMA 2 — overdue between 61-90 days. If repayment is due for more than 90 days, the loan is treated as sub-standard — the first category of non-performing asset.

Bankers said stressed borrowers need more time to overcome hardship and measures like leeway in the 90-day NPA classification should be considered.

They cite the example of the one-time restructuring facility provided during Covid-19 where banks were allowed to recast the debt without any extra provisioning. According to norms, any debt restructuring requires additional provisioning.

Commenting on the Budget impact on banking and financial services, CRISIL said: “MSMEs typically lack sufficient col-

lateral, and their financial records often do not meet banking standards.” It added that credit guarantees towards MSMEs are steps in the right direction but their implementation and subsequent impact will be key monitorable factors.

CRISIL estimates the funding gap for MSMEs to be between ₹20 trillion to ₹25 trillion. Bank loans to micro and small enterprises had accelerated during 2020-21 and 2021-22, reflecting benefits under the Emergency Credit Line Guarantee Scheme (ECLGS) launched in May 2020. Subsequently, the growth rates have fallen.

According to the latest RBI data, bank credit to micro and small industries grew at a slower pace — 9.9 per cent year-on-year till June 2, 2024, compared to overall bank loan growth of 15.4 per cent.