

# Banks will restructure SME loans, if needed

SMEs welcome move; RBI sets up a system whereby banks can monitor the unhedged foreign exposure of SMEs on a regular basis

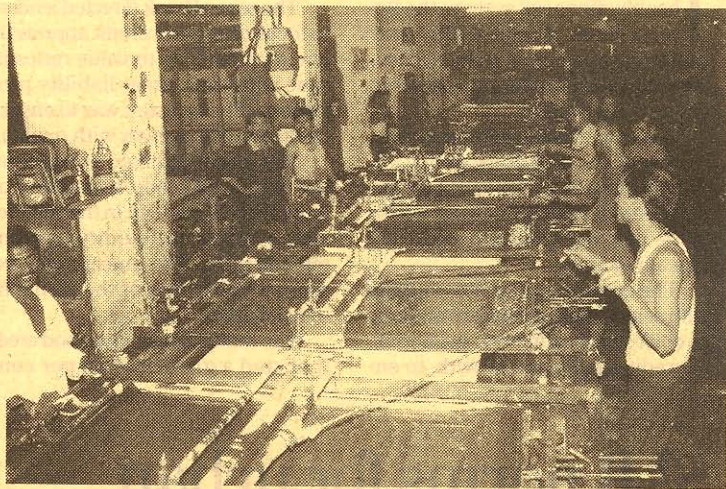
Promoters of small and medium enterprises (SMEs), who are typically the first to feel the strain in a downturn, can breathe easy. The Reserve Bank of India (RBI) has asked banks to consider restructuring the dues of SMEs on merit.

What this means is that banks won't rush to send SMEs a notice in case they default on one or two instalments of repayment of a loan. They are likely to take a more lenient view, including rescheduling the loan repayments and interest.

SMEs have welcomed the move. "Many companies are in stress due to the recession and will make losses. When demand falls and our money gets stuck in stocks, finances go for a toss. How can we repay?" said Anil Gupta, senior vice-president, Indian Industries Association, a Lucknow-based association of SMEs.

Gupta said there are no large-scale defaults by SMEs yet, a point echoed by a senior officer in State Bank of India. "There's no delay in payments as of now. But perhaps anticipating defaults in the next six months to a year, RBI has asked banks to consider restructuring these loans," said the SBI official.

Bankers say the SMEs have been



feeling the pressure of rising input costs and higher interest rates, which they have not been able to fully pass on, like in the auto sector due to sluggish demand. "Till now, we have not received any request for restructuring of loans but SMEs have asked for enhancement of working capital," said T R Basalia, executive director for SMEs, IDBI Bank.

RBI is also setting up a system whereby banks can monitor the unhedged foreign exposures of SMEs on a regular basis. "The ability of

SMEs to absorb shocks is very limited. So there was a need to put in place a system of monitoring their unhedged exposures," said S P Agarwal, general manager, Bank of Baroda.

Vijay Chandok, general manager, ICICI Bank, said, "SMEs are an important engine for economic growth and the RBI measures on monitoring their exposures are in line with prudent banking, given the volatility in the foreign exchange market."