Our View

Kamath Committee based thoughtful approach to restructuring –SEBI could bridge a potential gap

To tackle the stress arising because of the unfortunate Covid situation, the Reserve Bank of India (RBI) had set up a committee under the chairmanship of Mr. K V Kamath to provide an analytical guidance to the financing institutions for restructuring. The committee did a very detailed work across multiple sectors and finally recommended financial parameters such as liquidity, leverage, and debt serviceability for 26 sectors as guidance for the lenders. Most of the recommendations, including some sector specific nuances for such financial parameters, are very practical and useful.

Incorporating these recommendations, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, RBI has provided a window under the current Resolution Framework for COVID-19-related Stress. This will enable the lenders to implement a resolution plan for eligible corporate exposures without change in ownership, while classifying such exposures as Standard, subject to specified conditions.

While the resolution framework is a welcome step for businesses which are reeling under the covid led economic crisis, there could be a gap for listed companies which still needs to be addressed. Businesses facing financial stress often require immediate infusion of capital to save themselves. So far, one of the main challenges in capital infusion into a stressed listed company had been the SEBI guidelines imposing pricing restrictions on preferential allotment and the requirement of open offer. Typically, a stressed listed company experiences progressive fall in their share price. Attracting capital at higher than the prevailing market price for such a company becomes an issue. Also, the requirement of making an open offer in certain circumstances diverts funds to existing shareholders than to the company which requires immediate financial support.

To address this, SEBI had recently provided certain relaxations in preferential allotment norms and open offer obligations for stressed companies under the Reserve Bank of India's guidelines for Resolution of Stressed Assets published in 2019. These RBI guidelines of 2019 provide a principle-based resolution framework for addressing borrower defaults in a normal scenario. If the resolution plan implemented under these guidelines is accompanied by a change in ownership, the asset classification can be retained as or upgraded to Standard, subject to the prescribed conditions. The above-mentioned SEBI exemption helps such stressed companies raise capital from financial/strategic investors and possibly clear the path for resolution before it goes under IBC.

However, these relaxations from SEBI are not applicable to resolution plans under Covid-19 related stressed assets because the selection criterion for covid related restructuring is different. While the RBI framework for Covid-19 related stressed assets entails resolution plan without change in ownership, there can be a need for further equity infusion without receding ownership control. Therefore, in my opinion, SEBI should consider extending the relaxation in preferential allotment norms and open offer obligations in certain situations for such cases as well. Extension of such a relaxation by SEBI could bridge an important gap in the possibility of a resolution plan for listed companies restructured due to Covid-19 related stress.

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