

# What's New

## News Flash



February 2018

### ***Relaxation in NPA provisioning norms on MSME loans given by banks and Non-banking Financial Companies***

Currently, banks and Non-banking Financial Companies (NBFC) are required to classify loan accounts as Non-Performing Assets (NPAs), in case the principal or interest are outstanding for more than the following periods:

- Banks - 90 days
- NBFCs - 120 days (90 days with effect from 31 March, 2018)

Considering the representations received by Reserve Bank of India (RBI) highlighting the impact on cash flow of small entities during the Goods and Services Tax (GST) transition phase, the RBI has issued a notification dated 07 February, 2017. The notification liberalises the NPA recognition criterion for banks and NBFCs *vis-à-vis* borrowers classified as micro, small and medium enterprises (MSME) under the MSME Development Act, 2006.

Loans given to the above borrowers can continue to be classified as standard assets in the books of banks and NBFCs subject to following conditions:

- The borrower is registered under the GST regime as on 31 January, 2018.
- The aggregate exposure, including non-fund based facilities of NBFCs to the borrower does not exceed INR 250 million as on 31 January, 2018.
- The borrower's account was standard as on 31 August, 2017.
- The amount from the borrower overdue as on 01 September, 2017 and payments from the borrower due between 01 September, 2017 and 31 January, 2018 are paid within 180 days from their respective original due dates.

#### ***Provisioning by banks/ NBFCs***

- The Notification states that a provision of 5% shall be made by NBFCs against the exposures not classified as NPA.
- The above provision of 5% can be reversed as and when no amount is overdue beyond the 90/ 120 day norm.
- Further, if the interest from the borrower is overdue for more than 90/ 120 days, the same shall not be recognised on accrual basis.

This is a welcome move from RBI, recognising the business exigencies faced by MSME in the current economic environment.

You may click [here](#) to read the Notification.

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PwC TRS Team

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