

20/09/2003

SMI debt revamp panel will boost sector, improve banks' asset quality

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THE proposed Small and medium-scale industry (SMI) Debt Restructuring Committee (SDRC) is expected to strengthen the SMI sector and improve banks' asset quality.

Analysts said the SDRC would be a useful mechanism to achieve speedier resolution to bad debts between creditors and SMI debtors.

By rescheduling the non-performing loans (NPLs) of the small and medium enterprises (SMEs), the SDRC will allow the SMEs to concentrate on their businesses and thrive.

Bumiputra-Commerce Bank Bhd (BCB) sees the move as part of the Government's overall strategy to develop SMEs in the country.

"This mechanism would be particularly useful for financially-distressed SMEs which have loans from several lenders and may have difficulty in trying to work out separate debt restructuring or rescheduling exercises with individual lenders," BCB senior vice-president (business banking) P.

Manoharan said when contacted in Kuala Lumpur.

Prime Minister Datuk Seri Dr Mahathir Mohamad, when tabling Budget 2004 in Parliament last Friday, said Bank Negara Malaysia will establish SDRC - ala Corporate Debt Restructuring Committee (CDRC) - to assist SMIs to settle NPLs with financial institutions.

"It is the Government's hope that this mechanism will help resolve their debts," Dr Mahathir said.

The CDRC was a non-statutory body set up at the height of the Asian financial crisis in 1998 to restructure corporate debts amounting to RM50 million and above.

When the CDRC wrapped its operations on July 31 last year, the agency had resolved RM45 billion of bad debts involving 57 companies, leaving only four cases outstanding.

RAM Consultancy Sdn Bhd chief operating officer Dr Yeah Kim Leng said the SDRC, which can be modelled after the CDRC, would coordinate and facilitate faster acceptance of solutions for SME bad debts.

"For instance, if 70 per cent of creditors accept the proposed resolution, the rest have to accept it," he said, adding that the SDRC would have to set up a procedure to ensure fair and equitable outcome for both parties.

Banks and financial institutions, which go through the process, need to take a hair-cut but as the process is efficient, they will eventually benefit from it.

"Rather than taking litigating action, they (the banks) will generally have better recovery rate (through SDRC)," he said.

TA Securities research head Ngu Chie Keng concurred, saying that the banks would experience better recovery rate from the SMI loan rescheduling, especially those which involve multiple creditors.

Manoharan stressed that only SMEs which are financially-distressed due to genuine economic or business reasons are allowed to use such a mechanism.

He said a significant portion of BCB's business banking loan portfolio are offered to SMEs, especially those in the manufacturing, construction, wholesale and retail trade sectors.

"The NPL rate of BCB's SME portfolio is manageable," he added.

Analysts said the NPL rate in the banking industry is on the downward trend. It currently stood at 6.7 per cent of the total loan in the banking industry.

Statistics from Bank Negara show that the net NPL rate dropped from 8.2

per cent, or RM33.9 billion, in the second quarter of 2002 to 6.8 per cent, or RM29.6 billion, in the same period this year.

Yeah said although the rate is not a major concern at the moment, there

may be some high potential SMEs which are in financial distress.

Another analyst with a local securities company said although the NPL rate is not worrying, the Government's decision to set up SDRC for SMIs could indicate a more serious bad debt situation than it is generally perceived.

"Perhaps the Government is not satisfied with the performance of SMIs," he said.

Statistics from Bank Negara do not provide a breakdown of loans given out to large corporations and SMIs, but the loans are categorised according to sector.

According to analysts, most of the SMEs are from the manufacturing, construction, wholesale and retail sectors.

In terms of value, it is believed that loans given out to them are less

than those extended to large corporations.

According to Economic Report 2003/2004, SMEs constitute about 92 per cent of the total 689,160 companies registered in Malaysia.

They are concentrated in the trading (33 per cent), banking and finance (25 per cent), and manufacturing (7 per cent) sectors. An SME is defined as a company with an annual turnover of not more than RM25 million and

150 full-time employees.