

**REVIVAL & REHABILITATION OF
MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) – REVIEW JUNE-2016**

Micro, Small and Medium enterprises are growth engine of Indian economy. Their contribution to GDP of India is approximately 37.5. This sector is gradually acquiring pivotal position in Indian economy since it provides largest employment opportunities next to Agriculture sector. Further, it provides depth to the Indian economy due to its presence even in remotest corner of India. However, the flip side is that sector is vulnerable to economic downturn both global as well as domestic and very often requires urgent remedial steps to recover its lost ground. Now RBI has revised its existing guidelines for Rehabilitation of sick Micro and small Enterprises (MSMEs) (Ref. No. FIDD.MSME & NFS.BC.21/06.02.31/2015-16 dated 17th March 2016)

Our Bank's policy on Rehabilitation of Micro, Small and Medium Enterprises (MSMEs) was last reviewed on 17th April 2013 based on the RBI guidelines (Ref No RPCD. CO. MSME & NFS.BC.40/06.02.31/2012-2013) dated 01.11.2012.

To approve the revised policy on "Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs)" along with proposals on specified aspects as detailed in the annexure.

While the prudential norms on Income Recognition, Assets Classification and provisioning pertaining to Advances will continue to be as per the instructions consolidated in the master Circular on IRAC Norms dated July 1,2015 and as updated from time to time, the proposed Frame work provides for revival and rehabilitation of MSME borrower accounts up to Rs.25 crore. Loan accounts with exposure of Rs.25 crore and above will continue to be restructured under the extant guidelines on Corporate Debt Restructuring (CDR) / Joint Lenders' Forum (JLF) mechanism as hitherto.

RBI made it clear that revised Framework supersedes their earlier Guidelines on Rehabilitation of Sick Micro and Small Enterprises issued vide circular RPCD.CO.MSME & NFS.BC.40/06.02.31/2012-2013 dated November 1, 2012, except those relating to Reliefs and Concessions for Rehabilitation of Potentially Viable Units and One Time Settlement, mentioned in the said circular.

RBI guidelines reiterated to continue reporting of credit information and SMA status of all accounts above the cut-off exposure of Rs.5 crore and above to the Central Repository for Information on Large Credit (CRILC), as per extant instructions.

(Framework for revival and Rehabilitation of MSMEs)

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Framework for Revival and Rehabilitation of Micro, Small and medium Enterprises

1. Eligibility:

The provisions made in this framework shall be applicable to MSMEs having loan limits up to Rs.25 crores, including accounts under consortium or multiple banking arrangements (MBA).

2. Identification of incipient stress:

2.1 Identification by banks or creditors: Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Table below

SMA Sub-categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress (Please see Annex - I)
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

On the basis of the above early warning signals, the account maintaining branch should consider forwarding the stressed accounts with aggregate loan limits above Rs.10 lakh to the Committee as referred in para 3.3 within five working days for a suitable corrective action plan (CAP). Forwarding the account to the Committee for CAP will be mandatory in cases of accounts reported as SMA-2.

2.2 As regards accounts with aggregate loan limits up to Rs.10 lakh identified as SMA-2, the account should be mandatorily examined for CAP by the branch itself under the authority of the branch manager as decided by the bank. **Other terms and conditions, such as time limits, procedures to be followed, etc., as applicable to the cases referred to the Committee as referred in para 3.3, should be followed by the branch manager.** However, the cases, where the branch manager has decided the option of recovery under CAP instead of rectification or restructuring as mentioned in para 5.3 (a) or (b), should be referred to the Committee for their concurrence. The branch manager should also examine the accounts reported as SMA-0 and SMA-1, if it is deemed necessary

2.3 Identification by the Borrower Enterprise - Any MSME borrower may voluntarily initiate proceedings under this Framework, if,



- i) the enterprise reasonably apprehends failure of its business, OR
- ii) its inability or likely inability to pay debts, OR
- iii) there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year,

For the purpose, the borrower has to make an application to the branch or directly to the Committee as referred in para 3.3, wherever applicable. When such a request is received by lender, the account with aggregate loan limits above Rs.10 lakh should be referred to the Committee. The Committee should convene its meeting at the earliest but not **later than five working days** from the receipt of the application, to examine the account for a suitable CAP. The accounts with aggregate loan limit up to Rs.10 lakh may be dealt with by the branch manager for a suitable CAP.

3. Committees for Stressed Micro, Small and Medium Enterprises:

In order to enable faster resolution of stress in an MSME account, bank has to form Committees for Stressed Micro, Small and Medium Enterprises as per the following arrangements:

3.1 Committee at zonal office level: - These Committees will be Standing Committees and will resolve the reported stress of MSME accounts of the branches falling under their jurisdiction.

3.2 For MSME borrowers having credit facilities under a consortium of banks or multiple banking arrangement (MBA), the consortium leader, or the bank having the largest exposure to the borrower under MBA, as the case may be, shall refer the case to its Committee, if the account is reported as stressed either by the borrower or any of the lenders under this Framework. This Committee will also coordinate between the different lenders.

3.3 The Composition of the Committee shall be as under:

- a. The zonal manager shall be the Chairperson of the Committee;
- b. Officer-In-charge of Credit at Zonal Office, who is also looking after MSME Credit, , in case there is no exclusive Credit In charge for MSME credit, shall be the member and convener of the Committee;
- c. one independent external expert with expertise in MSME related matters, say the Director of local RUDSETI or a retired Bank officer of **other Bank** of the rank of AGM and above with expertise in MSME lending , to be nominated by the Zonal Managers. (These have to execute a stamped undertaking confirming that they do not participate in the proceedings where the accounts in which they are having interest in any manner). The Zones may call for advertisement and /or interview to enlist such executives for empanelment. The selection should be



done by a committee consisting of the Zonal Manager, Dy Zonal Manager and , and the senior most branch head of the local branch at the centre.

- d. One representative from the concerned State Government. i.e., G.M., D.I.C or his representative at the district level or any other representative nominated by the State Government. As per the minutes of meeting dated 18.4.2016 convened by Secretary, MSME, the General Manager of DIC of the district or his representative or any other official nominated by State Govt may be considered as State Govt. Representative in the Committee for Stressed MSME at State Level. In case of non-availability of any such representative, the guidelines of RBI to consider an independent expert by way of retired executives of the rank of AGM and above may be considered by Zonal Head. Zone may call for advertisement / other means to enlist such executives for empanelment as enumerated in c above.
- e. When handling accounts under consortium or MBA, senior representatives of all banks / lenders having exposure to the borrower,

While decisions of the Committee will be by simple majority, the Chairperson shall have the casting vote, in case of a tie. In case of accounts under consortium / MBA, lenders should sign an Inter-Creditor Agreement (ICA) on the lines of Joint Lenders' Forum (JLF) Agreement. Banks may put in place suitable arrangements, including dedicated manpower, to ensure smooth functioning of the Committee and adherence to the stipulated timelines.

3.4 In terms of RBI guidelines on the composition of the Committee, the terms of appointment of its members, the manner of filling vacancies, and the procedure to be followed in the discharge of the Committee's functions. It is proposed to frame the following policy guidelines,

- **Composition of the Committee-** as proposed in point no.3.3 as above
- **Terms of Appointment-** appointment of independent external expert as specified in para 3.3 would be for a period of 12 months initially, with a provision for reappointment once again.ie. for maximum period of 24 months.
- **Manner of filling vacancies-** vacancies are to be filled up by calling for applications from eligible persons and interviewing by a panel headed by the Zonal Manager, the Dy ZM and another branch head of a PSB at the centre, not below the rank of AGM,
- **Sitting Fees for the Independent Expert-** a per day sitting fee of Rs.5000/- per sitting irrespective of the cases attended is payable to only independent experts.
- **Frequency Committee Meetings-** The Zonal Manager is to decide about the frequency of the meetings depending on the number of cases to dealt with.



3.5 All eligible stressed MSMEs shall have access to the Committee for resolving the stress in these accounts in accordance with regulations prescribed in this Framework.

3.6 Provided that where the Committee decides that recovery is to be made as part of the CAP, the manner and method of recovery shall be in accordance with the existing policies approved by the board of directors of the bank which has extended credit facilities to the enterprise, subject to any regulations prescribed by the Reserve Bank of India and extant statutory requirements.

4. Application to the Committee for a Corrective Action Plan

4.1 Any lender on identifying an MSME account as SMA-2 or suitable for consideration under the Framework or on receipt of an application from the stressed enterprise, shall forward the cases having aggregate loan limits above Rs.10 lakh to the Committee for immediate convening of meeting and deciding on a CAP. Stressed enterprises having aggregate loan limits above Rs.10 lakh can also directly file an application for CAP to the Committee or to the largest lender for onward submission under advice to all its lenders. The Indian Banks' Association (IBA) has prescribed draft application formats (enclosed) for aggregate loan limits above Rs.10 lakh, for this purpose, which, inter-alia, should include, the following:

- (a) Latest audited accounts of the Enterprise including its Net worth;
- (b) Details of all liabilities of the enterprise, including the liabilities owed to the State or Central Government and unsecured creditors, if any;
- (c) Nature of stress faced by the Enterprise; and
- (d) Suggested remedial actions

(The Indian Banks' Association (IBA) has also prescribed draft application formats (enclosed) for aggregate loan limits up to Rs.10 lakh)

4.2 Where an application is filed by a bank / lender and admitted by the Committee, the Committee shall notify the concerned enterprise about such application **within five working days** and require the enterprise to:

- (a) respond to the application or make a representation before the Committee; and
- (b) disclose the details of all its liabilities, including the liabilities owed to the State or Central Government and unsecured creditors, if any, within fifteen working days of receipt of such notice;



Provided that if the enterprise does not respond within the above period, the Committee may proceed ex-parte.

4.3 On receipt of information relating to the liabilities of the enterprise, the Committee may send notice to such statutory creditors as disclosed by the enterprise as it may deem fit, informing them about the application under the Framework and permit them to make a representation regarding their claims before the Committee within **fifteen working days** of receipt of such notice. It is mentioned here that these information are required for determining the total liability of the Enterprise in order to arrive at a suitable CAP and not for payments of the same by the lenders.

4.4 Within **30 days** of convening its first meeting for a specific enterprise, the Committee shall take a decision on the option to be adopted under the corrective action plan as given in subsequent paragraphs and notify the enterprise about such a decision, within **five working days** from the date of such decision.

4.5 If the corrective action plan decided by the Committee envisages restructuring of the debt of the enterprise, the Committee shall conduct the detailed Techno-Economic Viability (TEV) study (also refer para 5.1) and finalise the terms of such a restructuring in accordance with the extant prudential norms for restructuring, within **20 working days** (for accounts having aggregate exposure up to Rs.10 crore) and within **30 working days** (for accounts having aggregate exposure above Rs.10 crore and up to Rs.25 crore) and notify the enterprise about such terms, within **five working days**.

4.6 Upon finalisation of the terms of the corrective action plan, the implementation of that plan shall be completed by the concerned bank within 30 days (if the CAP is rectification) and within 90 days (if the CAP is restructuring). In case recovery is considered as CAP, the recovery measures should be initiated at the earliest.

4.7 Where an application has been admitted by the Committee in respect of an MSME, the enterprise shall continue to perform contracts essential to its survival but the Committee may impose such restrictions, as it may deem fit, for future revival of the enterprise.

4.8 The Committee shall make suitable provisions for payment of tax or any other statutory dues in the corrective action plan and the enterprise shall take necessary steps to submit such plan to the concerned taxation or statutory authority and obtain approval of such payment plan.

5. Corrective Action Plan by the Committee

5.1 The Committee may explore various options to resolve the stress in the account. The Committee shall not endeavour to encourage a particular resolution option and may decide the CAP as per the specific requirements and position of each case. While Techno-Economic viability of each account is to be decided by the concerned lender/s before considering restructuring as CAPs, for accounts with aggregate exposure of



Rs.10 crore and above, the Committee should conduct a detailed Techno-Economic Viability study before finalising the CAP.

5.2 During the period of operation of CAP, the enterprise shall be allowed to avail both secured and unsecured credit for its business operations as envisaged under the terms of CAP.

5.3 The options under CAP by the Committee may include :

(a) Rectification:- Obtaining a commitment, specifying actions and timelines, from the borrower to regularise the account so that the account comes out of Special Mention Account status or does not slip into the Non-Performing Asset category and the commitment should be supported with identifiable cash flows within the required time period and without involving any loss or sacrifice on the part of the existing lenders. The rectification process should primarily be borrower driven. However, the Committee may also consider providing need based additional finance to the borrower, if considered necessary, as part of the rectification process. It should however be ensured that this need based additional finance is intended only for meeting, in exceptional cases, unavoidable increased working capital requirement. In all cases of additional finance for working capital, any diversion of funds will render the account as NPA. Further, such additional finance should ordinarily be an ad-hoc facility to be repaid or regularised within a maximum period of six months. Additional finance for any other purpose, as also any roll-over of existing facilities, or funding not in compliance with the above conditions, will tantamount to restructuring. Further, repeated rectification with funding, within the space of one year, will be treated as a restructuring and no additional finance should be sanctioned under CAP, in cases where the account has been reported as fraud by any lender.

(b) Restructuring:- Consider the possibility of restructuring the account, if it is prima facie viable and the borrower is not a wilful defaulter, i.e., there is no diversion of funds, fraud or malfeasance, etc. Commitment from promoters for extending their personal guarantee along with their net worth statement supported by copies of legal titles to assets may be obtained along with a declaration that they would not undertake any transaction that would alienate assets without the permission of the Committee. Any deviation from the commitment by the borrowers affecting the security or recoverability of the loan may be treated as a valid factor for initiating recovery process. The lenders in the Committee may sign an Inter-Creditor Agreement and also require the borrower to sign the Debtor-Creditor Agreement which would provide the legal basis for any restructuring process. The IBA may prepare formats for this purpose on the lines of formats used by the Corporate Debt Restructuring mechanism for Inter-Creditor Agreement and Debtor-Creditor Agreement. Further, a stand-still clause (as defined in extant guidelines on Restructuring of Advances) may be stipulated in the Debtor-Creditor Agreement to enable a smooth process of restructuring. The stand-still clause does not mean that the borrower is precluded from making payments to the lenders.



- d) The debt service coverage ratio should be greater than 1.25 within the 5 years period in which the unit should become viable and on year to year basis the ratio should be above 1. The normal debt service coverage ratio for 10 years repayment should be around 1.33.
- e) The benchmark gap between internal rate of return and cost of capital should be at least 1 per cent.
- f) Operating and cash break even points should be worked out and they should be comparable with the industry norms.
- g) Trends of the company based on historical data and future projections should be comparable with the industry. Thus behavior of past and future EBITDA should be studied and compared with industry average.
- h) Loan life ratio (LRR), as defined below should be 1.4, which would give a cushion of 40 to the amount of loan to be serviced.

Present value of total available cash flow (ACF) during the loan life
Period (including interest and principal)

$$\text{LLR} = \frac{\text{Present value of total available cash flow (ACF) during the loan life Period (including interest and principal)}}{\text{Maximum amount of loan}}$$

10.3. Conditions relating to Restructuring under the Framework

- (1) Under this Framework, the restructuring package shall stipulate the timeline during which certain viability milestones such as improvement in certain financial ratios after a period of **6 months** may be achieved.
- (2) The Committee shall periodically review the account for achievement / non-achievement of milestones and shall consider initiating suitable measures including recovery measures as deemed appropriate.
- (3) Any restructuring under this Framework shall be completed within the specified time periods.
- (4) The Committee shall optimally utilize the specified time periods so that the aggregate time limit is not breached under any mode of restructuring.
- (5) If the Committee takes a shorter time for an activity as against the prescribed limit, then it can have the discretion to utilize the saved time for other activities provided the aggregate time limit is not breached



(6) The general principle of restructuring shall be that the stakeholders bear the first loss of the enterprise rather than the lenders. In the case of a company, the Committee may consider the following options, when a loan is restructured:

- (a) Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices;
- (b) Promoters infusing more equity into their companies;
- (c) Transfer of the promoters' holdings to a security trustee or an escrow arrangement till turnaround of enterprise to enable a change in management control, if lenders favour it.

(7) In case a borrower has undertaken diversification or expansion of the activities which has resulted in the stress on the core-business of the group, a clause for sale of non-core assets or other assets may be stipulated as a condition for restructuring the account, if under the Techno-Economic Viability study, the account is likely to become viable on hiving off of non-core activities and other assets.

(8) For restructuring of dues in respect of listed companies, lenders may be, ab-initio, compensated for their loss or sacrifice (diminution in fair value of account in net present value terms) by way of issuance of equities of the company upfront, subject to the extant regulations and statutory requirements.

(9) If the lenders' sacrifice is not fully compensated by way of issuance of equities, the right of recompense clause may be incorporated to the extent of shortfall.

(10) In order to distinguish the differential security interest available to secured lenders, partially secured lenders and unsecured lenders, the Committee may consider various options, such as:

- (a) prior agreement in the Inter-Creditor Agreement among the above classes of lenders regarding repayments;
- (b) a structured agreement stipulating priority of secured creditors;
- (c) appropriation of repayment proceeds among secured, partially secured and unsecured lenders in certain pre-agreed proportion.

(11) The Committee shall, on request by the enterprise or any creditor recognised under paragraph 4.3, provide information relating to the proceeding as requested by the enterprise or such creditor.

10.4 Prudential Norms on Asset Classification and Provisioning

The extant asset classification and provisioning norms will be applicable for restructuring of accounts under this Framework



11. Review

- (1) In case the Committee decides that recovery action is to be initiated against an enterprise, such enterprise may request for a review of the decision by the Committee within a period of **ten working days** from the date of receipt of the decision of the Committee.
- (2) The request for review shall be on the following grounds:
 - (a) a mistake or error apparent on the face of the record; or
 - (b) discovery of new and relevant fact or information which could not be produced before the Committee earlier despite the exercise of due diligence by the enterprise.
- (3) A review application shall be decided by the Committee within a period of **thirty days** from the date of filing and if as a consequence of such review, the Committee decides to pursue a fresh corrective action plan, it may do so



SMA-0 Signs of Stress

Annex

Illustrative list of signs of stress for categorising an account as SMA-0:

1. Delay of 90 days or more in (a) submission of stock statement / other stipulated operating control statements or (b) credit monitoring or financial statements or (c) non-renewal of facilities based on audited financials.
2. Actual sales / operating profits falling short of projections accepted for loan sanction by 40% or more; or a single event of non-cooperation / prevention from conduct of stock audits by banks; or reduction of Drawing Power (DP) by 20% or more after a stock audit; or evidence of diversion of funds for unapproved purpose; or drop in internal risk rating by 2 or more notches in a single review.
3. Return of 3 or more cheques (or electronic debit instructions) issued by borrowers in 30 days on grounds of non-availability of balance/DP in the account or return of 3 or more bills / cheques discounted or sent under collection by the borrower.
4. Devolvement of Deferred Payment Guarantee (DPG) instalments or Letters of Credit (LCs) or invocation of Bank Guarantees (BGs) and its non-payment within 30 days.
5. Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other terms and conditions of sanction.
6. Increase in frequency of overdrafts in current accounts.
7. The borrower reporting stress in the business and financials.
8. Promoter(s) pledging/selling their shares in the borrower company due to financial stress

