

MSME Credit and Rehabilitation Policy

[as amended up to March – 2018]



Central Office
Karur

1. Introduction

Government of India and the Reserve Bank of India are giving thrust for MSME lending. Government of India has enacted Micro, Small and Medium Enterprises Development Act in the year 2006 to have a focused and balanced growth of Micro, Small and Medium Enterprises. Hence, a specialized focus on lending to MSME acquires importance.

1.1 Our Bank has entered into MoU with CGTMSE to provide guarantee cover in respect of the credit facility upto Rs.200 lakhs to Micro and Small Enterprises [MSEs] without collateral security and / or third party guarantee. Recently CGTMSE has introduced a new “Hybrid Security” product allowing guarantee cover for credit facilities covered by partial security w.e.f 01.04.2018.

1.2 Bank has also entered into MoU with National Credit Guarantee Trust Company (NCGTC) to provide Credit Guarantee Scheme for Stand Up India (CGSSI), in respect of stand – up India scheme for bank loans between Rs.10.00 lakhs and Rs.100.00 lakhs without collateral security and /or third party guarantee and with NSIC for securing new proposals from MSME sector.

1.3 We have issued guidelines to branches for sanctioning loans under Pradhan Mantri MUDRA Yojana (PMMY) Scheme vide Cir.No:473/2015 Dt.03.12.2015, Cir.No:64/2016 Dt.10.02.2016 & Cir.No:413/2016 Dt.17.09.2016.

Though Chapter 1 to 12 of Credit Policy 2017 covers, inter alia, MSME lending aspects also, this MSME Lending Policy is now formulated to give focus to MSME lending. Except for the provisions mentioned hereunder, all other credit policy norms are, *mutatis mutandis*, applicable for MSME lending.

2. Definition of Micro, Small and Medium Enterprises

The MSMED Act, 2006 defines the Micro, Small and Medium Enterprises based (i) on the investment in plant and machinery for those engaged in manufacturing or production, processing or preservation of goods and (ii) on the investment in equipment for enterprises engaged in providing or rendering of services or changes from time to time.

The guidelines with regard to investment in plant and machinery or equipment as defined in the MSMED Act, 2006 are:

Nature of activity of the enterprise	Manufacturing sector	Service sector
Micro	Not exceeding Rs.25.00 lakhs	Not exceeding Rs.10.00 lakhs
Small	More than Rs.25.00 lakhs but does not exceed Rs.500.00 lakhs	More than Rs.10.00 lakhs but does not exceed Rs.200.00 lakhs
Medium	More than Rs.500.00 lakhs but does not exceed Rs.1000.00 lakhs	More than Rs.200.00 lakhs but does not exceed Rs.500.00 lakhs

The investment in plant and machinery is the original cost excluding land and building and other items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722 (E) dated 05.10.2006.

Exclusions in arriving at the original cost of plant and machinery for Manufacturing Enterprises:

As referred in the MSMED Act, the Central Government specifies the following items, the cost of which shall be excluded while calculating the investment in plant and machinery in the case of the Manufacturing Enterprises, namely:

- (i) Equipment such as tools, jigs, dyes, moulds and spare parts for maintenance and the cost of consumable stores;
- (ii) Installation of plant and machinery;
- (iii) Research and development equipment and pollution control equipment;
- (iv) Power generation set and extra transformer installed by the enterprise as per regulations of the State Electricity Board;
- (v) Bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation;
- (vi) Procurement or installation of cables, wiring, bus bars, electrical control panels (not mounded on individual machines), oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the plant and machinery or for safety measures;
- (vii) Gas producers plants;
- (viii) Transportation charges (excluding sales tax or value added tax and excise duty) for indigenous industry from the place of the manufacture to the site of the enterprise;
- (ix) Charges paid for technical know-how for erection of plant and machinery;
- (x) Such storage tanks which store raw material and finished produces and are not linked with the manufacturing process and

- (xi) Fire fighting equipment

However, while calculating the investment in plant and machinery, the original price thereof, irrespective of whether the plant and machinery are new or second -hand, shall be taken in to account provided that in the case of imported machinery, the following shall be included in calculating the value, namely;

- (i) Import duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port);
- (ii) Shipping charges
- (iii) Customs clearance charges and
- (iv) Sales tax or value added tax

List of Enterprises engaged in providing or rendering Services under MSME:

The illustrative lists of enterprises that are engaged in providing or rendering services are:

- Small road and water transport operators.
- Small business
- Professional and Self Employed Persons
- Consultancy Services including Management Services
- Composite Broker Service in Risk and Insurance Management
- Seed Grading Service
- Training-cum-Incubator Centre
- Educational Institutions
- Training Institutes
- Retail Trade
- Trading in Medical Instruments (Brand New)
- Practice of Law (i.e.,) Legal Services
- Advertising Agency and Training Centres

Priority Sector Lending Classification:

Bank loans to MSMEs, engaged in manufacturing or providing or rendering of services as defined in terms of investment in plant and machinery or equipment under MSMED Act, 2006, shall qualify under priority sector without any credit cap.

3. Credit Acquisition:

The Bank shall continue to give additional thrust to financing MSME sector. Bank shall follow the strategy of increasing its business in the MSME space by offering excellent service at reasonable rates but with a strong focus on the right selection of borrowers.

Bank has introduced specific loan schemes for MSME sector viz.,

(1) For Manufacturing sector: KVB MSME pack consisting of KVB MSME Cash, KVB MSME Term Loan, KVB MSME Vendor Bill Discounting, KVB MSME Expo, KVB MSME standby Term Loan and KVB MSME Easy Loan.

(2) For service sector and traders: KVB Professional Loan, KVB Varthagamitra, KVB Steel Plus, KVB Textile Plus, KVB Pharma Plus, KVB Timber Plus, KVB Commodity Plus, KVB Construction Plus, KVB Transport Plus, KVB Easy Tradein loan, KVB Rice Plus, KVB Food & Agro Process Plus.

These products with specified parameters are designed for easy understanding by the customers and to serve as marketing platform for the Bank officials. Features / parameter details of the above products / schemes are also available in Bank's website.

4. Concessions to MSMEs

4.1 Concession in ROI for Rating from accredited agencies shall be pegged up to 0.50% depending on the rating scales as under:

SME 1 & SME 2 ratings – 0.50%

SME 3 & SME 4 ratings – 0.25%

4.2 Processing fee for loans upto Rs.5 lakhs is waived.

4.3 Loans to MSME up to Rs.10 lakhs shall be extended without insisting for / taking any collateral security or third party guarantee by covering credit guarantee with CGTMSE or MUDRA SCHEMES, as applicable.

4.4 Bank shall encourage financing viable micro and small enterprises for fund based and non-fund based limits up to Rs.200 lakhs without collateral security and / or third party guarantees by covering credit guarantee with CGTMSE or MUDRA SCHEMES, as applicable.

4.5 CGTMSE has now introduced a new “Hybrid Security” product w.e.f 01.04.2018 allowing guarantee cover for the portion of credit facility not covered by collateral security. In the partial collateral security model, the MLIs will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, up to a maximum of ₹200 lakhs, can be covered under Credit Guarantee Scheme of CGTMSE. CGTMSE will, however, have pari-passu charge on the primary security as well as on the collateral security provided by the borrower for the credit facility.

5. Timely & adequate Credit:

5.1. Time Norms:

Time norms for disposal of loan applications

Sl.No	Facility	Time frame
1	i)Sanction of fresh /enhanced Credit limits a)Loans upto Rs.5 lakhs b)Loans over Rs.5 lakhs to Rs.25 lakhs c) Loans over Rs.25 lakhs ii)Renewal of existing credit limits iii)Sanction of adhoc credit limits	Within 2 weeks Within 3 weeks Within 6 weeks Within 2 weeks Within 7 days

The time limit shall be reckoned from the date on which all documents as per check list, clarifications / information required for processing the loan proposals are received by respective sanctioning authorities. To bring down turnaround time (TAT) `Loans Check List' to be referred to, by the branches and collect all the basic papers / documents from the borrowers.

5.2. Method of assessment:

Credit requirement of MSME borrowers shall be assessed, as per Credit Policy document, as below.

Term Loans:

The following critical factors shall be looked into in-depth.

- (i) Managerial competence of the promoters
- (ii) Technical feasibility of the Unit
- (iii) Financial viability of the Unit
- (iv) Socio – economic importance of the project
- (v) Availability of approvals from competent statutory authorities

Working capital funded limits

Bank normally provides working capital finance by way of advance against stocks and receivables. The borrower should have his own stake / contribution in the business by way of margin for working capital requirements. The working capital requirements shall be assessed by adopting following methods, depending on the type of the business activity / categories of borrowers:

Limit amount	Method of assessment
For manufacturing & service sector upto Rs.500 lakhs and for traders upto Rs.200 lakhs	Turnover method (Nayak Committee)
For traders above Rs.200 lakhs to Rs.500 lakhs	MPBF 1 st Method of lending
For manufacturing & traders above Rs.500 lakhs	MPBF 2 nd Method of lending
Seasonal industries, Service industries, construction activities, etc.	Cash Budget system

Margin, pricing, repayment period, etc. are fixed as per the product specifications and or Bank's Credit Policy from time to time.

6. Rejection of Applications

Rejection of applications for fresh limits shall be done by the next higher authority. Rejections in respect of proposals falling under the powers of GM / COCC shall be placed to MD & CEO. Branch should communicate the reasons for rejection in writing to the applicant.

7. Disbursement:

The Branch shall disburse loans to MSMEs within maximum 2 working days after complying with all sanction terms and creation of charge over the securities.

8. Copy of the documents executed:

Branch shall provide copies of all the loan documents executed along with enclosures to the borrowers at the Bank's cost.

9. Exceeding / Adhoc :

For operational convenience, the branch heads are empowered to exceed the sanctioned limits to the extent of 20% of sanctioned limit in case of MSME units, for a maximum period of ten days for maximum of 6 times in a year. Irrespective of sanctioning authority, the exceedings may be considered upto 50% of the sanctioned limit for a period of 3 months by various other sanctioning authorities as per the Bank's Credit Policy / internal guidelines from time to time.

Adhoc facility shall be normally considered for a period of 3 months, for meeting genuine short term credit requirements. Adhoc facility may be considered, in selective cases, for longer periods, not exceeding 6 months if there are specific requirements.

10. Standby Credit:

Bank shall offer a pre-approved line of credit namely Standby Credit in addition to the regular working capital limits, depending upon the need of MSME units for capex purposes like capacity expansion, technology up-gradation, etc. This shall be restricted to 25% of sanctioned working capital limits – fund based and non-fund based limits put together. The threshold limit of the loan shall be Rs. 100 lakhs (maximum). The sanction shall be valid for one year.

11. Review of working capital:

The broad guidelines as per Credit Policy document, may be adhered to, but in case of emergency and where branch is convinced that changes in the demand pattern of MSME borrowers requires a short review cum renewal, they may do so. Such short review cum renewal may be based on an assessment of sales performance of the unit since last review without waiting for audited financial statement. The same shall be revalidated during the subsequent regular renewals based on the provisional / audited financial statements by the concerned sanctioning authorities.

12 Tracking system:

Simple application form as uploaded in our Bank's web site along with documents as per check list shall be obtained from MSME borrowers. All applications received from borrowers shall be acknowledged and affixed with running serial number on the application form as well as in the acknowledgement slip. Acknowledgement also should contain expected time within which the loan application will be disposed. Bank shall implement CPTS (credit proposal tracking system) to enable the applicant to track the status of his / her application online. The status of the proposal shall be tracked at various levels (D.O. / C.O.) till the formal sanctioned is received.

13. Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises

13.1. Eligibility:

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

13.2. Identification of incipient stress

13.2.1 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 refer para 13.12)
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 branch maintaining the account should consider forwarding the stressed accounts with aggregate loan limits above Rs.10 lakhs to the Committee as referred in para 13.3.3 **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.

13.2.2 As regards accounts with aggregate loan limits up to Rs.10 lakhs identified as SMA-2, the account should be mandatorily examined for CAP by the branch itself under the authority of the branch manager / such other official (hereinafter referred to as 'designated official') as decided by the bank in terms of their Board approved policy. **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 13.3.3, should be followed by the branch manager / designated official.** However, the cases, where the branch manager / designated official has decided the option of recovery under CAP instead of rectification or restructuring as mentioned in para 13.5.3 (a) or (b), should be referred to the Committee for their concurrence. Banks, with the approval of their Boards should frame a suitable policy in this regard as given in para 13.3.4. The branch manager / designated official should also examine the accounts reported as SMA-0 and SMA-1, if it is deemed necessary.

13.2.3 Identification by the Borrower Enterprise - Any MSME borrower may voluntarily initiate proceedings under this Framework, if the enterprise reasonably apprehends failure of its business or its inability or likely inability to pay debts or 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, by making an application to the branch or directly to the Committee as referred in para 13.3.3, wherever applicable.. When such a request

is received by lender, the account with aggregate loan limits above Rs.10 lakhs 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 lakhs may be dealt with by the branch manager / designated official for a suitable CAP.

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

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

13.3.1 All banks having exposure towards MSME sector shall constitute a Committee at each District where they are present or at Division level or Regional Office level, depending upon the number of MSME units financed in the region. These Committees will be Standing Committees and will resolve the reported stress of MSME accounts of the branches falling under their jurisdiction.

13.3.2 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.

13.3.3 The Composition of the Committee shall be as under:

(a) The regional or zonal head of the convener bank, shall be the Chairperson of the Committee;

(b) Officer-in-charge of the Micro, Small and Medium Enterprises Credit Department of the convener bank at the regional or zonal office level, shall be the member and convener of the Committee;

(c) One independent external expert with expertise in Micro, Small and Medium Enterprises related matters to be nominated by bank.

(d) One representative from the concerned State Government. Endeavour should be made to bring representative from the respective State Government in the Committee. In case State Government does not nominate any member, then the convening bank should proceed to include an independent expert in the Committee, namely a retired executive of another bank of the rank of AGM and above.

(e) When handling accounts under consortium or MBA, senior representatives of all banks / lenders having exposure to the borrower.

13.3.4 Banks, with the approval of their Boards, should frame a policy, based on these instructions, 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. 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.

13.3.5 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.

13.3.6 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.

13.4. Application to the Committee for a Corrective Action Plan

13.4.1 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 lakhs to the Committee for immediate convening of meeting and deciding on a CAP. Stressed enterprises having aggregate loan limits above Rs.10 lakhs 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) may prescribe suitable application formats for aggregate loan limits above Rs.10 lakhs, 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) may also prescribe suitable formats for aggregate loan limits up to Rs.10 lakhs.

13.4.2 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.

13.4.3 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.

13.4.4 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.

13.4.5 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 13.5.1) 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**.

13.4.6 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.

13.4.7 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.

13.4.8 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.

13.5. Corrective Action Plan by the Committee

13.5.1 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.

13.5.2 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.

13.5.3 The options under CAP by the Committee may include:

(a) Rectification:— Obtaining a commitment, specifying actions and timelines, from the borrower to regularize 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. The Inter-Creditor Agreement may also stipulate that both secured and unsecured creditors need to agree to the final resolution.

(c) Recovery:– Once the first two options at (a) and (b) above are seen as not feasible, due recovery process may be resorted to. The Committee may decide the best recovery process to be followed, among the various legal and other recovery options available, with a view to optimizing the efforts and results.

13.6. The decisions agreed upon by a majority of the creditors (75% by value and 50% by number) in the Committee would be considered as the basis for proceeding with the restructuring of the account, and will be binding on all lenders under the terms of the Inter-Creditor Agreement. If the Committee decides to proceed with recovery, the minimum criteria for binding decision, if any, under any relevant laws or Acts shall be applicable.

13.7. Time-lines

Detailed time-lines are given for carrying out various activities under the Framework. If the Committee is not able to decide on CAP and restructuring package due to non-availability of information on statutory dues of the borrower, the Committee may take additional time not exceeding 30 days for deciding CAP and preparing the restructuring package. However, they should not wait beyond this period and proceed with CAP.

13.8. Additional Finance

13.8.1 If the Committee decides that the enterprise requires financial resources to restructure or revive, it may draw up a plan for provision of such finance. Any additional finance should be matched by contribution by the promoters in appropriate proportion, and this should not be less than the proportion at the time of original sanction of loans. Additional funding provided under restructuring / rectification as part of the CAP will have priority in repayment over repayment of existing debts. Therefore, installments of the additional funding which fall due for repayment will have priority over the repayment obligations of the existing debt.

13.8.2 If the existing promoters are not in a position to bring in additional funds the Committee may allow the enterprise to raise secured or unsecured loans.

13.8.3 Provided further, that the Committee may, with the consent of all creditors recognized, provide such loans higher priority than any existing debt.

13.9. If the Committee decides on options of either 'Rectification' or 'Restructuring', but the account fails to perform as per the agreed terms under these options, the Committee shall initiate recovery under option 13.5.3(c).

13.10. Restructuring by the Committee

13.10.1 Eligibility

(a) Restructuring cases shall be taken up by the Committee only in respect of assets reported as Standard, Special Mention Account or Sub-Standard by one or more lenders of the Committee.

(b) However, the Committee may consider restructuring of the debt, where the account is doubtful with one or two lender/s but it is Standard or Sub-Standard in the books of majority of other lenders (by value).

(c) Wilful defaulters shall not be eligible for restructuring. However, the Committee may review the reasons for classification of the borrower as a wilful defaulter and satisfy itself that the borrower is in a position to rectify the wilful default. The decision to restructure such cases shall have the approval of the Board of concerned bank within the Committee who has classified the borrower as wilful defaulter.

(d) Cases of Frauds and Malfeasance remain ineligible for restructuring. However, in cases of fraud / malfeasance where the existing promoters are replaced by new promoters and the borrower company is totally delinked from such erstwhile promoters / management, banks and the Committee may take a view on restructuring of such

accounts based on their viability, without prejudice to the continuance of criminal action against the erstwhile promoters / management. Further, such accounts may also be eligible for asset classification benefits available on refinancing after change in ownership, if such change in ownership is carried out under guidelines contained in [circular DBR.BP.BC.No.41/21.04.048/2015-16 dated September 24, 2015](#) on “Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)”. Each bank may formulate its policy and requirements as approved by the Board, on restructuring of such assets.

13.10.2. Viability

(a) The viability of the account shall be determined by the Committee based on acceptable viability benchmarks determined by them.

(b) The parameters may, inter-alia, include the Debt Equity Ratio, Debt Service Coverage Ratio, Liquidity or Current Ratio, etc.

13.10.3. 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 13.4.3, provide information relating to the proceeding as requested by the enterprise or such creditor.

13.10.4 Prudential Norms on Asset Classification and Provisioning

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

13.11. 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.

13.12 SMA-0 Signs of Stress

Illustrative list of signs of stress for categorizing 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

14. Code of bank's commitment to Micro and Small Enterprises

With a view to promote good and fair banking practices, Bank has already adopted the code of Bank's commitment to MSEs issued by Banking Codes and Standards Board of India. Our dealings with MSEs will be in line with the code of commitment adopted from time to time.

15. Conclusion

The loan policy for MSE sector will operate as part of Credit Policy of the bank and subject to guidelines / instructions of regulatory authorities / RBI / Government of India from time to time.

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