



**Saurashtra Gramin Bank**

**MSME Revival and Rehabilitation Policy**

## **MSME Revival and Rehabilitation Policy**

1. In order to provide a simpler and faster mechanism to address the stress in MSME accounts and their revival, the Ministry of Micro, Small and Medium Enterprises, Government of India, vide their Gazette Notification dated May 29, 2015 notified a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises'
2. Further, to make the framework compatible with the existing regulatory guidelines on 'Income Recognition, Asset Classification and provisioning pertaining to Advances', RBI, in consultation with GOI, Ministry of MSME carried out certain changes in the captioned framework which was circulated by RBI vide its circular no. RBI/2015-16/338 FIDD.MSME & NFS.BC.No.21/06.02.31/2015-16 dated 17.03.2016.
3. The revised Framework supersedes RBI's earlier Guidelines on Rehabilitation of Sick Micro and Small Enterprises issued vide their 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.
4. The prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances will continue to be as per the instructions consolidated in RBI Master Circular on IRAC Norms updated from time to time.
5. The revival and rehabilitation of MSMEs having loan limits up to Rs.25 crore will be in terms of operating instructions as per **Annexure** which are consistent with the new framework of RBI. Restructuring of loan accounts with exposure of above Rs.25 crore will continue to be governed by the extant guidelines on Corporate Debt Restructuring (CDR) / Joint Lenders' Forum (JLF) mechanism.

## Operating guidelines for Revival and Rehabilitation of Micro, Small and Medium Enterprises

### 1. Objective

The objective of the Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises' is to provide a simpler, faster and transparent mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and development of MSMEs. In particular, the framework will aim at preserving viable MSMEs that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring mechanism.

### 2. Eligibility of Framework:

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).

### 3. Identification of incipient stress

Before a loan account of a Micro, Small and Medium Enterprise turns into a Non- Performing Asset (NPA), branch should identify incipient stress in the account 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 illustrative list below this table)
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

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

- i. 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.
- ii. 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.

iii. 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.

iv. Devolvement of Deferred Payment Guarantee (DPG) installments or Letters of Credit (LCs) or invocation of Bank Guarantees (BGs) and its non-payment within 30 days.

v. 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.

vi. Increase in frequency of overdrafts in current/CC accounts.

vii. The borrower reporting stress in the business and financials.

viii. Promoter(s) pledging/selling their shares in the borrower company due to financial stress.

#### **For a/cs above Rs. 10 lacs:**

On the basis of the above early warning signals, the branch maintaining the account will forward the stressed accounts with aggregate loan limits above Rs.10 lacs to the respective committee 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. Before sending the account to the committee for CAP, the branch should place on record all the efforts made to regularize the account.

#### **For a/cs upto Rs. 10 lacs:**

As regards accounts with aggregate limits up to Rs.10 lacs identified as SMA-2, the account should be mandatorily examined for CAP by the branch itself under the authority of the branch incumbent. Other terms and conditions as applicable to the cases referred to the Committee should be followed by the branch incumbent. However, the cases, where the branch incumbent has decided the option of recovery under CAP instead of rectification or restructuring, will be referred to the **ROCC** for their concurrence.

**Layer of power of different committee-**

<b>Name of committee</b>	<b>Discretionary power</b>
Branch manager	Up to Rs. 10 lakhs
ROCC	Above Rs. 10 lakhs to Rs. 300 Lakhs
HOCC-II	Above Rs. 300lakhs to Rs. 1500 Lakhs
HOCC-I	Above Rs. 1500 lakhs

MSMEs having loan limits up to Rs.25 crore only will be considered for revival and rehabilitation under this policy.

**4. 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 wherever applicable. When such a request is received by the branch, the account with aggregate loan limits above Rs.10 lacs should be referred to the respective 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 lacs may be dealt with by the branch for a suitable CAP.

**5. Application to the Committee for a Corrective Action Plan:**

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 lacs to the Committee for immediate convening of meeting and deciding on a CAP. Stressed enterprises having aggregate loan limits above Rs.10 lacs 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 application 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 prescribed applications formats for this purpose:-

1. For aggregate loan limits above Rs. 10.00 lacs & upto Rs. 25.00 Cr.
2. For aggregate loan limits upto Rs. 10.00 lacs:

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.

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

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.

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 and notify the enterprise about such a decision, within five working days from the date of such decision.

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 and finalize the terms of such 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.

Upon finalization of the terms of the corrective action plan, the implementation of that plan shall be completed 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.

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.

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.

#### **6. Corrective Action Plan by the Committee:**

The Committee may explore various options to resolve the stress in the account. The Committee shall not endeavor 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 finalizing the CAP.

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.

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 Banks/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 regularized 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 willful 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. 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) / (rectification & restructuring) 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.

## **7. Majority for decision in case of more than one creditor:**

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.



#### **8. Additional Finance:**

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.

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.

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

#### **9. Performance by the borrower:**

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.

#### **10. Restructuring by the Committee:**

##### **Eligible a/cs for restructuring**

(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) Willful defaulters shall not be eligible for restructuring. However, the Committee may review the reasons for classification of the borrower as a willful defaulter and satisfy itself that the borrower is in a position to rectify the willful 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 willful 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, Bank or 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 RBI circular DBR.BP.BC.No.41/21.04.048/2015-16 dated September 24, 2015 and further amendment on “Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)” and Bank’s guidelines in this regard.

(e) Banks cannot reschedule / restructure / renegotiate borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms would continue to apply. The process of re-classification of an asset should not stop merely because restructuring proposal is under consideration.

(f) Normally, restructuring cannot take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by the Bank in deserving cases subject to execution of documents as per Bank’s guidelines.

### **Viability:**

a). The viability should be determined by the committee based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis, depending on merits of each case.

b). The parameters may, inter-alia, include the Debt Equity Ratio, Debt Service Coverage Ratio, Liquidity or Current Ratio, etc. As different sectors of economy have different performance indicators the viability should be determined by the Banks based on the acceptable viability parameters and benchmarks for each parameter determined by them.

### **Conditions relating to Restructuring under the Framework**

(i) 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.

(ii) The Committee shall review the account for achievement / non-

achievement of milestones on monthly basis and shall consider initiating suitable measures including recovery measures as deemed appropriate.

(iii) Any restructuring under this Framework shall be completed within the specified time periods.

(iv) The Committee shall optimally utilize the specified time periods so that the aggregate time limit is not breached under any mode of restructuring.

(v) 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.

(vi) 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.

(vii) 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.

(viii) For restructuring of dues in respect of listed companies, Bank 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.

(ix) 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.

(x) 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.

(xi) The Committee shall, on request by the enterprise or any creditor as

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

**11. Review of committee's decision at the request of the Enterprise:**

(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.

**12. Viability Criteria / Benchmarks:**

Revival and Rehabilitation for MSMEs is available to entities which are viable or potentially viable. Therefore, any reference for restructuring under Revival and Rehabilitation for MSMEs should first be tested for viability.

**13. Prudential Norms on Assets Classification and provisioning for restructured accounts**

RBI has stipulated that the extant asset classification and provisioning norms will be applicable for restructuring of accounts under this Framework.

**Review of Policy:**

Credit Department shall put up the policy for review to the Bank's Board Annually.