

Policy on Revival and Rehabilitation of Micro, Small and Medium Enterprises

(Reviewed by Board on May 30, 2019)

The Revival and Rehabilitation Policy of MSMEs aims at providing simpler and faster mechanism to resolve the stress in the MSME accounts and to facilitate the promotion and development of MSMEs.

1. Eligibility

This policy will be applicable to all accounts classified as MSMEs as per MSMED Act 2006 (*and subsequent amendments in the Act from time to time*), and having loan limits up to Rs.25 crore, including accounts under consortium or multiple banking arrangement (MBA).

2. Identification of incipient stress

2.1 **Identification by Banks/Creditors** – Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), bank/branch should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given 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 (<i>refer Appendix I for illustrative list of stress under SMA-0</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 branch maintaining the account, shall consider the account for CAP as below:

For accounts with aggregate loan limits above Rs.10 lakh: Branch should consider forwarding the stressed accounts to the Committee as referred in para 3.3, within five working days for a suitable corrective action plan (CAP). Forwarding the accounts reported as SMA-2 to the Committee for CAP is mandatory.

For accounts with aggregate loan limits up to Rs.10 lakh: Branch should consider the stressed accounts, within five working days for a suitable corrective action plan (CAP). However, cases reported as SMA-2 should mandatorily be examined for CAP under the authority of the Branch Head. Other terms and conditions, such as time limits, procedures etc., as applicable to the cases referred to the Committee shall have to be followed by the Branch Head for cases under the purview of Branch. However, the cases, where the Branch Head 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.

2.2 Identification by the Borrower Enterprise - An MSME borrower may voluntarily initiate CAP proceedings on any or all of the following grounds:

- (a) if it reasonably apprehends failure of its business;
- (b) its inability or likely inability to pay debts;
- (c) 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.

On receipt of such a request by the bank, the account with aggregate loan limits above Rs.10 lakh should be referred to the Committee and 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 Head for a suitable CAP.

3. Committees for Stressed Micro, Small and Medium Enterprises

- 3.1 To enable faster resolution of stress in MSME accounts, two tiers of Committees, for resolution of stressed MSME accounts shall be formed. One at Zonal Office – **Zonal MSME Standing Committee (ZMSC)** for cases with aggregate exposure above Rs.2 crore and another at Regional Office – **Regional MSME Standing Committee (RMSC)** for cases with aggregate exposure up to Rs.2 crore. These Committees will be the Standing Committee 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. These Committees will also coordinate between the different lenders. Where the aggregate exposure under Consortium / MBA exceeds Rs.2 crore from all the Banks together and IDBI Bank is the leader/largest lender, the case shall be dealt by our ZMSC.
- 3.3 The composition of the Committees would be as under; with quorum of minimum two members for the meeting:

Sr. No.	Regional Level Committee (RMSC)	Zonal Level Committee (ZMSC)
a	Regional Head – Chairperson of the Committee	Zonal Head – Chairperson of the Committee
b	CPC Head – Member and convener of the Committee	General Manager (Business), RBG for cases pertaining to RBG. General Manager (other verticals) for cases pertaining to their

		<p>respective vertical.</p> <p>The said member (General Manager) will also be the convener of the Committee.</p>
c	<p>One Independent external expert with expertise in MSME related matters, namely a retired PSU bank official not below the rank of AGM.</p>	
d	<p>One representative of the State Government, as under:</p> <p>i. For ZMSC, Director Industries or his representative from the State where our Zonal Office is located, for examining all cases falling under the jurisdiction of the Zone.</p> <p>ii. For RMSC, General Manager, District Industries Centre or his representative where our Regional Office is located, for examining all cases falling under the jurisdiction of the Region.</p> <p>In case, the concerned State Government nominates a representative other than referred above, the said representative should be taken in the Committee.</p> <p>However, in case the State Government does not nominate any member, then an independent expert, namely a retired executive of another bank of the rank of AGM and above to be a member of the Committee.</p>	
e	<p>A senior representative of all banks/lenders having exposure to the borrower, for accounts under consortium or MBA.</p>	

The convener of the meeting to provide all secretarial assistance to the Committee.

- 3.4 The decision of the Committee will be by simple majority; however, in case of a tie, the Chairperson of the Committee shall have the casting vote.

- 3.5 For accounts under consortium/MBA, lenders should sign an Inter-Creditor Agreement (ICA) on the lines of Joint Lenders' Forum (JLF) Agreement.
- 3.6 All eligible stressed MSMEs shall have access to the Committee for resolving the stress in the accounts in accordance with the regulations prescribed herein.
- 3.7 If 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 extant internal guidelines on Recovery, 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 Bank on identifying an MSME account as SMA-2 or suitable for consideration under the policy or on receipt of an application from the stressed enterprise, shall forward the cases having aggregate loan limits above Rs.10 lakh to the respective Committee for immediate convening of meeting and deciding on a CAP.
- 4.2 Where an application is filed by a bank and admitted by the Committee, the Committee shall notify the concerned enterprise about such an 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 to 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 policy and permit them to make a representation regarding their claims before the Committee within fifteen working days of receipt of such notice. The information so sought from the Enterprise is required for determining the total

liability of the Enterprise in order to arrive at a suitable CAP and not for payment of the same by the banks/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 CAP 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 (to be read with para 5.1) of the debt of the Enterprise, the Committee shall conduct the detailed Techno-Economic Viability (TEV) study 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.

The viability of all the accounts needs to be ascertained by the Branch/Committee. Though general business viability should be ensured in all cases by the Branch/Committee, keeping in view the nature and size of exposure, Committee/Branch may consider the TEV study from a professional/empanelled agency as under:

- a) ***For aggregate exposure up to Rs.10 lakh – Not required.***
 - b) ***For aggregate exposure above Rs.10 lakh and up to Rs.1 crore – Committee may take a view on case to case basis.***
 - c) ***For aggregate exposure above Rs.1 crore and up to Rs.10 crore – Mandatory for manufacturing units and project loans. However, Committee may take a view for other cases, if required.***
 - d) ***For aggregate exposure above Rs.10 crore – Mandatory for all cases.***
- 4.6 Upon finalisation of the terms of the CAP, the implementation of the plan shall be completed by the 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 as per Bank's internal guidelines.

- 4.7 Any Enterprise whose application for CAP has been admitted by the Committee shall continue to perform contracts essential to its survival. However, the Committee may impose certain 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 CAP 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 (CAP) 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. 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.
- (c) **Recovery** – Once the options of Rectification/Restructuring 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.

5.4 The decision of the Committee will be communicated to the concerned Branch, who will then take up for necessary sanction as per Bank's internal guidelines and extant DoP.

6. The decisions agreed upon by a majority of the lenders (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.

7. **Time-lines**

Time-lines for carrying out various activities under the Policy are provided at respective clauses. 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.

8. **Additional Finance**

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, instalments of the additional funding which fall due for repayment will have priority over the repayment obligations of the existing debt.

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

10. Restructuring by the Committee

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. In case of Consortium or MBA, the case may be considered if one or more lenders of the Committee have classified the account as Sub-standard. 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).
- (b) 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 the concerned bank within the Committee who has classified the borrower as wilful defaulter.
- (c) 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 as per circular IDBI Bank/2015-16/433/CBG/SS-CB/59 dated December 2, 2015 on “Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)”.

10.2. Viability

The viability of the account shall be determined by the Committee based on acceptable viability benchmarks determined by them. The indicative viability criteria are as under:

Parameter	Criteria
Promoter’s Contribution	<p>Minimum of 20 per cent of bank’s sacrifice or 2 per cent of the restructured debt, whichever is higher. The promoters’ contribution should invariably be brought upfront while extending the restructuring benefits to the borrowers. The term 'bank's sacrifice' means the amount of "erosion in the fair value of the advance" or “total sacrifice”.</p> <p>Promoter’s contribution need not necessarily be brought in cash and can be brought in the form of de-rating of equity, conversion of unsecured loan brought by the promoter into equity and interest free loans. If unsecured loans are already considered as quasi equity for calculation of Net-Worth, the same should not be taken into account for this purpose.</p>

DSCR	Average 1.25 for the entire repayment period and minimum 1 in each year
Debt Equity Ratio	Maximum 3.5
Liquidity/Current Ratio	1.10
Extent of Sacrifice by Bank (Amount of erosion in the fair value of the advance to be calculated as per extant guidelines)	Should not be more than 15% of the restructured dues.
Maximum Period within which the unit should become viable from the date of implementation of Package.	5 years
Maximum Repayment period of the restructured debt	10 years including moratorium period (excluding repayment period already completed).

10.3. **Conditions relating to Restructuring under this Policy**

- (a) 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.
- (b) The Committee to periodically review the account for achievement/non-achievement of milestones and shall consider initiating suitable measures including recovery measures as deemed appropriate.
- (b) Any restructuring under this policy shall be completed within the specified time periods.
- (d) The Committee shall optimally utilize the specified time periods so that the aggregate time limit is not breached under any mode of restructuring.
- (e) 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:

- (i) Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices;
 - (ii) Promoters infusing more equity into their companies;
 - (iii) 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.
- (f) In case a borrower has undertaken diversification or expansion of the activities which has resulted in the stress on the core-business of the enterprise/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.
- (g) 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.
- (h) The right of recompense clause may be incorporated to the extent of shortfall/bank's sacrifice.
- (i) 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:
- (i) prior agreement in the Inter-Creditor Agreement among the above classes of lenders regarding repayments;
 - (ii) a structured agreement stipulating priority of secured creditors;
 - (iii) appropriation of repayment proceeds among secured, partially secured and unsecured lenders in certain pre-agreed proportion.

- (j) The Committee shall, on request by the Enterprise/Borrower 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 policy.

11. Review

- (a) In case the Committee decides that recovery action is to be initiated against an Enterprise/Borrower, such Enterprise/Borrower 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.
- (b) The request for review shall be on the following grounds:
 - (i) a mistake or error apparent on the face of the record; or
 - (ii) 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.
- (c) 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. Reliefs and Concessions

The reliefs and concessions that may be extended under the revival/rehabilitation package will depend upon the viability of the individual account and might vary from case to case. The indicative reliefs and concessions that could be considered are as follows:

Interest on Working Capital / Working Capital Term Loan (WCTL)	1.50% below the prevailing ROI
Interest on Term Loan	2.00% below the prevailing ROI

Repayment of Working Capital Term Loan	Maximum 5 years
Funded Interest Term Loan (FITL)	ROI - Bank's MCLR Repayment - Maximum 3 years
Contingency Loan Assistance	ROI - As applicable to Working Capital

13. One-Time Settlement (OTS)

As per extant OTS guidelines.

Appendix - I

SMA-0 Signs of Stress

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