

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

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 will identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given below:

<b>SMA sub-categories</b>	<b>Basis for Classification</b>
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress (refer <a href="#">Appendix I</a> for illustrative list of stress under SMA-0)
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 bank shall consider the account for CAP as below:

**For accounts with aggregate loan limits above Rs.10 lakh:** Branch will forward the stressed accounts to the Committee as referred in para 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 will consider the stressed accounts, within five working days for a suitable corrective action plan (CAP). However, cases reported as SMA-2 will mandatorily be examined for CAP. 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 for cases under the purview of Branch. However, the cases, where the Branch has decided the

option of Recovery under CAP instead of Rectification or Restructuring as mentioned in para 5.3 (a) or (b), will 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 will be referred to the Committee and the Committee will 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 will be dealt with by the Branch 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 are 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.

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 comprising of all the lenders, if the account is reported as stressed either by the borrower or any of the lenders.

3.3 The composition of the Committees would be as per the framework of RBI; with quorum of minimum two members for the meeting.

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 All eligible stressed MSMEs will have access to the Committee for resolving the stress in the accounts in accordance with the regulations prescribed herein.

3.6 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, wherever applicable, 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 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.
- 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 for meeting, in exceptional cases, unavoidable increased working capital requirement. Any diversion of funds will render the account as NPA. Further, such additional finance will ordinarily be an ad-hoc facility to be repaid or regularised within a maximum period of six months. Further, repeated rectification with funding, within the space of one year, will be treated as a restructuring.
  - (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 borrower to sign the Debtor-Credit 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.
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. 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 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.

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 by one or more lenders of the Committee. 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.

(c) Cases of Frauds and Malfeasance remain ineligible for restructuring.

**10.2. Viability**

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

**10.3 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 will be decided by the Committee within a period of thirty days from the date of filing.

**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.

**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