

## Framework for Revival and Rehabilitation of Micro Small and Medium Enterprises

### 1. Eligibility

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

### 2. Identification of incipient stress

Identification by banks or creditors – Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), bank or creditors shall 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(as per Annex-I).
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or Interest payment overdue between 61-90 days

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

**2.2** As regards accounts with aggregate loan limits up to Rs.10 lakh identified as SMA-2, the account should be mandatorily examined for CAP by the branch itself under the authority of the Business Unit Head (hereinafter referred to as 'designated official'). The BU Head shall examine the account referred as SMA-2 within the maximum period of 15 working days from date of reporting of account as SMA-2

However, the cases, where the Business unit Head / designated official has decided the option of recovery under CAP instead of rectification or restructuring as mentioned in para 5.3 (a) or (b), should be referred to the Committee for their concurrence. The Business Unit head shall also examine the accounts reported as SMA-0 and SMA-1, if deemed necessary.

**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 3.3, wherever applicable. When such a request is received by lender, the account with aggregate loan limits above Rs.10 lakh should be referred to the Committee. The Committee should

convene its meeting at the earliest but not later than five working days from the receipt of the application, to examine the account for a suitable CAP. The accounts with aggregate loan limit up to Rs.10 lakh may be dealt with by the Business Unit Head/ designated official for a suitable CAP.

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

In order to enable faster resolution of stress in an MSME account committees will be formed at each zonal level as per following arrangements:

**3.1** Committees designated as Zonal MSME Rehabilitation Committee (ZMRC) will be constituted at each zonal level. These committees will be standing committee and will resolve the reported stress of MSME accounts of the business units falling under their jurisdiction.

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

**3.3** The composition of Zonal MSME Rehabilitation Committee (ZMRC) shall be as under :-

- (a) Zonal Head of the concerned Zone shall be the Chairperson of the Committee.
- (b) The In-charge of the advances department of the concerned Zone shall be the member and convener of the committee.
- (c) Concerned Cluster Head in case for business units falling under cluster. In case the business unit is directly under the Zone, Business unit Head shall be the member of the committee
- (d) One independent external expert in Micro, small and Medium Enterprises related matters to be nominated by the bank. The independent external shall preferably be any MSME unit holder banking with our bank having satisfactory track record with the bank and having operated his/her unit satisfactory for last five years. The member shall be appointed/nominated by the chairperson of the committee of respective ZMRC.
- (e) General Managers of concerned District Industries center (DIC) of Industries and Commerce Department of Govt. of Jammu and Kashmir in case of the ZMRC of zones within J&K State. For Zones outside J&K ,Chairperson of the committee(Zonal Head) shall nominate/ appoint a member who shall be expert in MSME ( retired executive of any other bank of the rank of AGM and above)
- (f) In case of the accounts under consortium or MBA, senior representative of all banks/ lenders having exposure to the borrower.

The quorum for meeting of the ZMRC shall be any four members of the committee including the Chairperson of the committee.

**3.4** 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 shall sign an Inter-Creditor Agreement (ICA) on the lines of Joint Lenders' Forum (JLF) Agreement.

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

**3.6** 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 Recovery policy of the Bank, subject to any regulations prescribed by Reserve Bank of India and extant statutory requirements.

#### **4. Application to the Committee for a Corrective Action Plan**

**4.1** Business Unit on identifying an MSME account as SMA-2 or suitable for consideration under the Framework or on receipt of an application from the stressed enterprise, shall forward the cases having aggregate loan limits above Rs.10 lakh to the concerned ZMRC for immediate convening of meeting and deciding on a CAP. Stressed enterprises having aggregate loan limits above Rs.10 lakh can also directly file an application for CAP to the ZMRC or to the largest lender for onward submission under advice to all its lenders. The Indian Banks' Association (IBA) will prescribe suitable application formats for aggregate loan limits above Rs.10 lakh, for this purpose which shall be circulated separately, 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

Till the application format is devised by the IBA operative levels will obtain the application on plain paper from the stressed unit holder and borrower shall be required to provide the above information alongwith the application.

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

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

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

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

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

**4.5** If the corrective action plan decided by the Committee envisages restructuring of the debt of the enterprise, the Committee shall conduct the detailed Techno-Economic Viability (TEV) study (also refer para 5.1) and finalize 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**. In case approval of CAP falls beyond the delegated powers of Committee (ZMRC), the proposal along with the recommendations of the committee shall be forwarded to A&AP, CHQ for final approval of the CAP decided by the committee at an earliest so that final approval is accorded by the competent Authority at CHQ and the plan is implemented within the timeframe as stipulated under para 4.6 below.

**4.6** Upon finalization of the terms of the corrective action plan, the implementation of that 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.

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

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

## 5. Corrective Action Plan by the Committee

**5.1** The Committee (ZMRC) 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 Bank 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.

**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 (ZMRC):-

**(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 (SMA) 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 Bank. 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 the Bank or any other 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 (in case borrower is availing credit facilities under consortium/MBA) shall 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 and will be circulated in due course of time separately. 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.

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.

## 7. Time-lines

Detailed time-lines as specified herein above under the Framework shall be strictly adhered to. 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 (ZMRC) 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 under option 5.3(c).

## **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.

(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. In case of sole banking arrangement where borrower classified as willful defaulter by our Bank, the powers to approve restructuring package for such borrowers shall require approval of Board of Directors of Bank.

**(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 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 RBI 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)" and bank's circular No 61-425 dated 15.10.2015.

### **10.2 Viability parameters for Restructuring**

No account will be taken up for restructuring by the bank unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. Conclusion on financial viability shall be drawn on the basis of examination of the unit's past performance and projected financials, including cash flow statements, for the proposed repayment period and after ascertaining that the projected financials are realistic and achievable and that the outstanding debt can be serviced during the proposed repayment period. The units eligible for restructuring shall comply to following norms:-

a. The unit should become viable in 5 years and the repayment period of restructured advance including moratorium if any, shall not exceed 10 years.

- b. The dues of the bank are fully secured. Fully secured means, when the amounts due to a bank (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues, the bank's dues are considered to be fully secured. While assessing the realisable value of security, primary as well as collateral securities would be reckoned, provided such securities are tangible securities and are not in intangible form like guarantee etc., of the promoter / others. However, for this purpose the bank guarantees, State Government Guarantees and Central Government Guarantees will be treated on par with tangible security.
- c. Promoters' sacrifice and additional funds brought by them should be a minimum of 20 per cent of banks' sacrifice or 2 per cent of the restructured debt, whichever is higher. The promoters' sacrifice 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".
- d. As stipulating personal guarantee will ensure promoters' "skin and commitment" to the restructuring package, promoters' personal guarantee should be obtained in all cases of restructuring and corporate guarantee cannot be accepted as a substitute for personal guarantee. However, corporate guarantee can be accepted in those cases where the promoters of a company are not individuals but other corporate bodies or where the individual promoters cannot be clearly identified.
- e. The debt service coverage ratio should be greater than 1.25 within the 5 years period in which the unit become viable and on year to year basis the ratio should be minimum 1.10. The average debt service coverage ratio for 10 years repayment period should be at minimum level of 1.30.
- f. The current ratio of the concern shall be at minimum of 1.25:1 for all limit of loans.
- g. The Debt Equity ratio (Long Term debt/ equity) including existing as well as fresh loan shall be accepted at 4:1.

### **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 recognized under paragraph 4.3, provide information relating to the proceeding as requested by the enterprise or such creditor.

**10.4 Prudential Norms on Asset Classification and Provisioning**

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

**11. Review**

(1) In case the Committee decides that recovery action is to be initiated against an enterprise, such enterprise may request for a review of the decision by the Committee within a period of **ten working days** from the date of receipt of the decision of the Committee.

(2) The request for review shall be on the following grounds:

- (a) A mistake or error apparent on the face of the record; or
- (b) Discovery of new and relevant fact or information which could not be produced before the Committee earlier despite the exercise of due diligence by the enterprise.

(3) A review application shall be decided by the Committee within a period of **thirty days** from the date of filing and if as a consequence of such review, the Committee decides to pursue a fresh corrective action plan, it may do so.

**12. One Time Settlement (OTS):**

Bank will also provide opportunity to the borrowers to settle their NPA accounts through one time settlement policy of the bank for MSME.

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