

REHABILITATION POLICY FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

1. Preamble:

Micro, Small and Medium enterprises are growth engine of Indian economy. This sector is gradually acquiring pivotal position in Indian economy since it provides largest employment after Agriculture sector. Further, it provides depth to the Indian economy due to its presence even in remotest corner of India. However, the flip side is that this sector is vulnerable to economic downturn both global as well as domestic and very often requires urgent remedial steps to recover its lost ground. RBI has revised its existing guidelines for Rehabilitation of sick Micro and small Enterprises (MSE) (Ref. No. RPCD CO.MSME & NFS. BC.40/06.02.31-2012-13 dated 1st November 2012). These guidelines, inter alia, envisage the following:

- (i) Early identification of sickness of the unit;
- (ii) Extending handholding after detecting symptoms of sickness;
- (iii) Initiating timely corrective measures through restructuring exercise; and
- (iv) Provision for the borrower to represent his case for restructuring to the higher authority in case the same is considered non-viable by the delegate under whose power it otherwise falls.

We propose to adopt the revised guidelines issued by RBI on restructuring of Micro and Small Enterprise also to Medium Enterprise which is part of the regulatory business.

The objective of the guidelines is to ensure timely and transparent mechanism for restructuring the debts of viable SMEs facing problems, outside the purview of BIFR, DRT, CDR and other legal proceedings. 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 lenders (the Bank) and other stakeholders through an orderly, coordinated and pre-emptive restructuring program or rehabilitation package.

2. Scope & Applicability

The Micro, Small & Medium Enterprises Development (MSMED) Act 2006 which came into effect from 2nd October 2006 classifies enterprises into three categories-Micro Small and Medium based on investment in Plant & Machinery / Equipment as under:

Sr	Description of Enterprises	Manufacturing Sector	Services Sector
		Investment(*) In Plant & Machinery	Investment (*) in Equipment
a.	Micro	Up to and including Rs. 25 Lacs	Up to and including Rs.10 lacs
b.	Small	Above Rs. 25 lacs but upto and inclusive of Rs.5 crores	Above Rs. 10 lacs but upto and inclusive of Rs. 2 crores
c.	Medium	Above Rs. 5 cr. but upto and inclusive of Rs.10 cr.	Above Rs. 2 cr. but upto and inclusive of Rs. 5 crores.

(*) excluding cost of pollution control, research and development, industrial safety devices and such other items as may be specified by notification.

- 2.1 This policy basically intends to cover viable or potentially viable MSME units (both manufacturing and non-manufacturing) those are facing problems which can be overcome with timely remedial/corrective action. These problems may be due to cost/time overrun before commercial production, mismatch in cash flows resulting in temporary liquidity crunch, external factors etc. The guidelines enumerated below may generally be made applicable to accounts which are showing signs of slippage or have slipped to NPA category but have not become “unviable”. In such accounts, timely decision on restructuring would be helpful. These accounts are more likely to be standard and sub Standard but instances of even doubtful accounts having

potential viability cannot be ruled out. Restructuring may or may not involve additional funding. In such accounts, we may be required to permit “Holding on operations” till decision is taken on the restructuring proposal as per the existing guidelines on holding on operations.

- 2.2 For units covered under CGTMSE and becoming sick due to factors beyond the control of borrower, assistance for rehabilitation extended by the lender could also be covered under the scheme provided the overall assistance is within the credit cap of Rs. 100 lakh and with the concurrence of CGTMSE. (Note: At present Bank is not the member of CGTMSE)
- 2.3 For eligible MSMEs under consortium/Multiple Banking Arrangement, the Bank with the maximum outstanding may work out the restructuring package along with the Bank having the second largest share.
- 2.4 In case of multiple banking/syndicated/consortium accounts where restructuring can be considered under corporate Debt Restructuring Scheme (CDRS), we may make effective use of CDR mechanism.
- 2.5 BIFR cases are not eligible for restructuring without their express approval. Such proposals of restructuring may be considered after ensuring that all the formalities in seeking approval from BIFR are completed before implementing the package.
- 2.6 Suit filed cases are eligible if a minimum of 75% of the lenders (by value) in case of multiple banking/syndicate/consortium accounts consent for such restructuring.
- 2.7 Borrowers, who have been identified as willful defaulters in terms of RBI directives (Annexure II), may generally not be considered for restructuring where the default is due to diversion of funds. Restructuring may however be considered when the funds diverted have been brought back and/or there is a change in management and/or where the diversion is intra company. However, restructuring need not be withheld where even inter-company diversion had taken place. In such instances the restructuring would be subject to such diversion being brought back within a reasonable time and the same will be decided on a case to case basis. It shall also be our endeavor to address this issue by stipulating additional margin/contribution, security etc. and placing suitable covenants to prevent recurrence of such diversion of funds in future keeping in mind safety of Bank’s funds. Viability and the ability to service debt obligation after restructuring shall be the important criteria for determining eligible cases.

3. Eligibility Criteria :

The following entities would be eligible for restructuring:

- i. All non-corporate MSMEs irrespective of the level of dues to the Bank.
- ii. All corporate MSMEs enjoying banking facilities **solely from our Bank**, irrespective of the level of dues to the Bank.
- iii. All corporate MSMEs, which have funded and non-funded outstanding less than Rs. 10 crores under multiple/consortium banking arrangement with our Bank and other banks. As per extant RBI guidelines on CDR mechanism, corporates with aggregate outstanding exposure of Rs. 10 crore and above are eligible for restructuring under CDR System.
- iv. Accounts classified as sub-standard or Doubtful would also be eligible but accounts classified as “Loss Assets” will not be eligible for restructuring.
- v. In respect of units where a mandatory reference had been made to BIFR, after completion of all the formalities in seeking approval of the BIFR but before implementing the package.
- vi. Cases where Operating Agency has been appointed, restructuring may be considered on the basis of the Rehabilitation scheme worked out by the operating Agency.
- vii. Accounts involving willful defaults, fraud, and malfeasance will not be eligible for restructuring under these guidelines. In respect of cases of default where a reporting has to be made to the RBI, classifying the default as “willful” shall be done at Head Office level as per extant procedure. In respect of other cases the authority who had sanctioned the existing

facilities to the defaulting unit shall classify the default as “willful” (Definition of “willful default” as stated by the RBI/as adopted by our Bank is given in Annexure II)

- viii. Where funds diverted earlier have been brought back into the business and/or there is change in management and/or where the diversion is intra company, restructuring may be undertaken on a case to case basis. However, restructuring/rehabilitation need not be withheld where intra company or even inter- company diversions have taken place, provided the amount diverted is brought back within a reasonable time. Such restructuring would be decided on a case basis, at the sole discretion of the Bank. But additional margin/contribution, security etc, and suitable covenants may be considered to ensure both safety of bank’s funds and non-recurrence in future.

4. Need For Restructuring/Rehabilitation

A need for restructuring/rehabilitating of an asset could arise due to any one of the following internal/external problems faced by the unit resulting in the incipient sickness and borrower’s inability to meet his financial commitments to the Bank.:-

4.1 Internal/External Problems:

- Technical Problems in production/temporary break down of plant.
- Commercial compulsions caused by demand and supply position, pricing and market.
- Managerial inadequacies such as delay in appointing technical/professional staff.
- Economic factors-external in nature caused by changes in Government policies.
- Financial factors such as cost-overrun in project implementation resulting in liquidity crunch, unexpected payments, delay in release of Bank finance etc.
- Delay in commencement of commercial production.

4.2 Temporary cash flow aberration:

Temporary cash flow aberration may also arise due to any of the following aspects:

- Non-release of subsidies/grants by Government;
- Inadequacy of own funds/long term funds;
- Increase in credit on receivables;
- Decrease in trade credit;
- Spurt in prices of raw materials, other inputs;
- Decrease in selling price of finished goods;
- power cuts, major repairs, etc.;
- Accumulation of inventories due to bulk purchases, temporary demand constraints, transport bottlenecks; etc.

Due to any of the above problems, the borrowers may not be in a position to service interest or installments or meet their commitments under letters of credit or Guarantees issued.

5. Identification of Accounts for Debt restructuring/Rehabilitation:

5.1 Sickness should be arrested at the incipient stage itself. Appropriate measures should be taken by the branches to ensure this. A close watch should be kept on the operations in the account. Borrowers should be advised about their primary responsibility to inform the Bank of any problems faced by them, which could result in the unit’s sickness so as to restore the unit to normal health at the earliest. Early detection of sickness and prompt remedial action are very crucial. Effective monitoring of the operations of the unit as well as the borrowable account(s) with the Bank is essential to identify the units showing symptoms of sickness. As an integral part of the risk management process, our Bank already has a system that captures early warning signals in respect of accounts showing first signs of weakness. A note on this system is appended as Annexure III.

5.2 Deteriorating quality of an asset is detectable well in time through a proper system of asset classification. Slippage of a standard account into watch category or substandard asset or any of the early warning signals should immediately be followed up with the borrower/unit. Necessary corrective/remedial action should be initiated immediately. The action needs to be pre-emptive for an early and effective restoration of health to a unit turning sick or showing signs of incipient sickness.

5.3 Remedial Measures in respect of sickness may include timely need-based financial assistance and even advice of non- financial nature such as change in the management practices. Difficulties faced by the unit/borrower or assistance required from outside agencies like Govt. Departments/undertakings, Electricity Boards, etc. may be sorted out by rendering timely help and advice. Wherever Term Lending Financial Institutions are involved, the position of the unit should immediately be informed to enable them also take necessary and timely remedial action.

RBI in their recent guidelines has crystallized the steps to be initiated sequentially by the lender which is as under:

6. Handholding Stage

An intermediary stage is introduced i.e. "Handholding Stage" prior to the account falling in "SICK" category so that timely and adequate assistance to MSMEs can be extended and rehabilitated quickly back to health. Effort should begin on a proactive basis when early signs of sickness are detected and the account saved from further deterioration. An account may be treated to have reached the "Handholding stage"; if any of the following events are triggered:

- a. There is delay in commencement of commercial production by more than six months for reasons beyond the control of the promoters;
- b. The company incurs losses for two years or cash loss for one year, beyond the accepted time frame;
- c. The capacity utilization is less than 50% of the projected level in terms of quantity or the sales are less than 50 % of the projected level in terms of value during a year.

After identifying the account as having reached the handholding stage, branch should take timely remedial action which includes a meeting with the borrower for diagnostic analysis, enquiry into the operations of the unit and proper scrutiny of accounts, providing guidance/counseling services to the borrower unit, timely financial assistance as per borrower's need and also helping the unit in sorting out the difficulties which are non-financial in nature or requiring assistance from other agencies. The handholding support to such units should be extended within a maximum period of two months of identification of such units.

The units which could not be revived after extending handholding support need to be classified as 'sick' subject to complying with any one of the conditions as laid down below and based on a viability study the units be provided necessary rehabilitation packages.

7. Definition of sickness

A Micro, Small and Medium Enterprise (MSME) is said to have become sick, if any of the :-

Borrowal account of the enterprise remains NPA for three months or more;

or

There is erosion in the net-worth of the unit due to accumulated losses to the extent of 50% of its net-worth during the previous accounting year.

7.1 Sickness on account of willful mis-management;

Units becoming sick on account of willful mis-management. Willful default, unauthorized diversion of funds, disputes among partners/promoters, etc. should not be classified as sick units and would not be

eligible for any relief and concessions. In such cases recovery procedures to stepped up and extant RBI guidelines in this regard should be followed.

8. Viability criteria:

Viability and the ability to service the debt after restructuring shall be the important criteria for determining eligible cases.

- a) A unit may be regarded as potentially viable if it would be in a position to generate adequate profit from its core business operations in a period not exceeding 5 years (which may be stretched to maximum 7years in deserving cases) so that it would be in position to meet its future financial obligations as agreed upon including those forming part of the restructuring package. Besides, it would be in position to withstand its business operation without the help of the concessions after the aforesaid period.
- b) The repayment period for restructured (Past) debts should not exceed 10 years from the date of implementation of the package.
- c) As per broad benchmark with regard to DSCR suggested by RBI it should be greater than 1.25 within the 5 year period in which the unit should become viable and on year to year basis the ratio should be above 1. The normal DSCR for 10 years repayment period should be around 1.33 However, as per our internal credit policy DSCR 1.25 (average) for all cases is permitted as maximum relaxation after reckoning entire repayment period of loan. We may accept the same in deserving cases.
- d) Other financial viability parameters Bench mark levels provide as per Annexure IV

Based on the norms specified above, it is to be decided whether a unit is potentially viable or not.

- Viability of a unit should be decided quickly and made known to the unit and others concerned at the earliest.
- Restructuring may or may not involve additional funding. Where additional funding is not involved, holding-on operations may be allowed in such accounts enabling the units to draw funds to the extent of deposits made by them into their account.

8.1 Decision on viability of the unit

As directed by RBI, rehabilitation of the unit may be under taken only if the related unit is declared viable and/or potentially viable. The decision on viability of the unit should be taken at the earliest but not later than 3 months of becoming sick under any circumstances.

The following procedure should be adopted before declaring any unit as unviable;

- a. A unit should be declared unviable only if the viability status is evidenced by a viability study.
- b. Branch Manager should conduct viability study of the unit as per exposure limit given in the table below and record the same along with proper justification. The viability study should be carried out as per format attached with this policy document (Annexure IX). If exposure limit of the account is beyond the purview of the respective branch incumbent then viability of the unit would be examined by next higher authority i.e. Regional Manager. However, where the aggregate limit is Rs.10.00 cr. and above guidelines issued from time to time by Credit Department, Head Office to be followed.

Authority	(Amt in Lakh)			
	Limit (As per last sanction)			
	Scale –I	Scale- II	Scale- III	Scale-IV
Branch Manager	1.50	2.00	3.00	5.00
Regional Manager	Above 100.00			

- c. The declaration of the unit as unviable, as evidenced by the viability study, should have the approval of the next higher authority. In case such a unit is declared as unviable, an opportunity should be given to the unit to present the case before the next higher authority.
- d. The modalities for presenting the case to the next higher authority should cover broadly the various aspect as brought out under para 8 above.
- e. Decision of the higher authority should be informed to the promoters in writing. The above process should be completed in a time bound manner not later than 3 months.
- f. The competent Authority may however, take decision in cases of malfeasance or fraud without following the above procedure.
- g. **For sick units declared unviable, with credit facilities of Rs.1 crore and above, a committee approach may be adopted to reexamine the viability of unit as detailed in para 8.2 below.**

8.2 **Constitution of Committee:**

- a. For the purpose of examining the viability of unit considered unviable by the Branch Manager, a committee should be formed at all the Regional Offices to review the decision of the Branch Manager on the viability of the unit. The committee should be constituted by the Regional Manager constituting 3 members comprising preferable Head Credit, Head Credit Monitoring and Head Asset Recovery. However, in absence of such officers in the administrative set up Regional Manager may decide keeping other officers of credit background in the committee. Minimum quorum will be 2 members of the committee.
- b. For units with aggregate exposure in excess of Rs. 1.00 crore and such other cases where the authority for examining the viability of unit is vested with Regional Manager, and when considered unviable by Regional Manager, a committee should be formed at Head Office to review the decision of Regional Manager on the viability of the unit. The Committee should be constituted by the General Manager - Credit, constituting 3 members comprising preferably Head Credit, Head credit Monitoring and Head Asset Recovery. However, in absence of such officers in the administrative set up the General Manager Credit may decide keeping other officers of credit background in the committee. Minimum quorum will be 2 members of the committee.

9. **Restructuring/Rehabilitation Methods:**

Restructuring may involve:

- Re-phasing of repayment schedule in term loan accounts for both interest and installment(s).
- Waiver/concessions in interest charged with or without recompense.
- Funding the un-serviced interest/aberrations in the working capital facilities/term loan facilities. (WCTL/FITL)
- Reduction in margin for funded and non-funded limits.
- Realignment of limits from pre-sale to post-sale and vice versa or from funded to non-funded limits.
- Reassessment of the credit facilities including the working capital.

Such a restructuring may be:

- for a short or medium term:
- without additional term or working capital funding normally;
- with additional financing in genuine cases for Balancing Equipment. Modernization. etc. Working capital may be required over short/medium/long term basis within the restructuring/rehabilitation frame work.

9.1 **Holding on Operations:**

While identifying and implementing the restructuring/rehabilitation package, "holding on operation" may be considered for a period of 6 months. This will allow MSME units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during the period of such "holding on operation" less pre-agreed cutbacks, if any, to reduce overdues.

- Holding on Operations essentially implies:
 - continuous operations in the account, like opening fresh LCs to the extent of reduction in devolvement, even if devolvement is not fully cleared,
 - Roll over of LCs opened by the Bank,
 - Allowing operations in the cash credit account despite interest/forced debits not being cleared,
 - Fall in drawing power etc.
- Such Holding on Operations may generally be permitted with a cutback of say at least 10-15% towards reduction in over dues.
- Further, operations are allowed within existing outstanding/exposure level.
- Holding on Operations within the overall sanctioned Limits may be permitted by the level of Branch Manager as per extant guidelines subject to reporting to the next higher authority within 10 days.
- Grant of over limits/ad-hoc limits may also be required as a part of Holding on Operation but should be dealt with as per delegation.

10. **Delegation or such other instruction issued by Head office from time to time**

1. Restructuring of advance to be considered at one level above than the sanctioning authority.
2. In case of concession/sacrifice, the same may be considered by a delegate one level higher than the sanctioning authority under whose power limits fall for sanction, provided such sanctioning authority should not have sanctioned the proposal earlier.
3. Guidelines issued by Head Office from time to time, in this regard, to be adhered to.

11. **Techno-Economic Viability Study**

Technical/economic viability study may be carried out in house or through outside agencies whilst considering restructuring as may be determined by the sanctioning authority (to be read with para 8.1.b)

12. **Prudential norms for Asset Classification:**

Restructuring of advances could take place in the following stages;

- a. Before commencement of commercial production/operation
- b. After commencement of commercial production/operation but before the asset has been classified as "Sub Standard".
- c. After commencement of commercial production/operation and the asset has been classified as "Sub Standard' or doubtful"

12.1 The accounts classified as Standard assets should be immediately re-classified as 'Sub-standard assets' upon restructuring except for the accounts where benefits of quick implementation of restructuring/rehabilitation package is extended, as detailed in para 13 below.

12.2 The non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-structuring repayment schedule except for the accounts where benefits of quick implementation of restructuring/rehabilitation package is extended, as detailed in para 13 below.

- 12.3 All restructured accounts which have been classified as non-performing assets upon restructuring, would be eligible for up-gradation to the 'Standard' category after observation of 'satisfactory performance during the 'specified period' i.e. a period of 1 year from the date when the first payment of interest or installment of principal falls due under the terms of restructuring package. However, specified period is redefined in cases of restructuring of accounts with multiple credit facilities as '1year from the commencement of the first payment of interest or principal, whichever is later for the credit facility (ies) with longest period of moratorium. Further, the accounts classified as NPA on restructuring can be upgraded only when all the outstanding loans / facilities in the account perform satisfactorily during the specified period.
- 12.4 In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.
- 12.5 Additional finance, if any, may be treated as 'standard asset', upto a period of 1 year after the first interest/principal payment whichever is earlier, falls due under the approved restructuring package. However, in the case of accounts where the pre restructuring facilities were classified as 'substandard' and 'doubtful' interest income on the additional finance should be recognized only on cash basis. If the restructured asset does not qualify for up gradation at the end of the above specified 1 year period the additional finance shall be placed in the same asset classification category as the restructured debt.
- 12.6 **Repeated Re-structuring:** In case a restructured asset, which is a standard asset on restructuring, is subjected to restructuring on a subsequent occasion (re-structuring), it should be classified as substandard.
If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it first became NPA. However, such advances restructured on second or more occasions may be allowed to be upgraded to standard category after one year from the date of first payment of interest or repayment of principal whichever falls due earlier in terms of the current restructuring package subject to satisfactory performance.
If the second restructuring takes place after the period up to which the concession were extended under the terms of the first restructuring the account shall not be reckoned as a repeated structuring.
- 12.7 **Restructuring of Short -Terms Loans:** Restructuring would normally involve modification of terms of the advances/ securities which would generally include, among other, alteration of repayment period/ repayable amount/ the amount of installments/rate of interest (due to other than competitive reasons) In view of the extant definition, any roll over of a short term loan will be considered as 'restructuring'.
However, following working group recommendation, RBI has clarified that the cases of roll-over of short term loans, where proper pre-sanction assessment has been made, such roll over is allowed depending upon the actual requirement of the borrower and no concession has been provided due to weakness of the borrower then these might not be considered as re-structured accounts. However, if such accounts are rolled over for more than 2 times then third roll -over onwards the account would have to be treated as a restructured account.
- 13 **Treatment of Provision**
- a) Reduction in the rate of interest and /or reschedulement of the repayment of principal amount, as part of the restructuring, will result in diminution in the fair value of the advance. Such diminution in value is an economic loss for the bank and therefore should be provided by debit to Profit & Loss account. Such provision should be held in addition to the provision as per existing provisioning norms and in an account distinct from that for normal provisions.

- b) Erosion in the fair value of the advance should be computed as the difference between the fair value of the loan before and after restructuring. Fair value of the advance before restructuring will be computed as the present value of cash flows representing the Interest at the existing rate charged on the advance before restructuring and the principal discounted at a rate equal to the Bank's BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring. Similarly fair value of loan after restructuring will be computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal discounted at a rate equal to the bank's BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date restructuring.
- c) In the case of working capital facilities the diminution on the fair value of the cash credit/overdraft component may be computed as indicated in para (a) above reckoning the higher of the outstanding amount or the limit sanctioned as the principal amount and taken the tenor of the advance as one year. The term premium in the discount factor would be as applicable for one year. The fair value of the term loan components (Working capital, term loan & funded interest term loan) would be computed as per actual cash flows and taking the term premium in the discount factor as applicable for the maturity of the respective term loan components.
- d) In the event any security is taken in lieu of the diminution in the fair value of the advance, it should be valued at Re. 1/- till maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the profit & Loss account is not negated.
- e) The diminution in the fair value may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR or Base Rate, term premium and the credit category of the borrower consequently, shortfall, if any needs to be provided for and excess provision held in the distinct account may be reversed.
- f) If due to lack of expertise/appropriate infrastructure it is difficult to ensure computation of diminution in the fair value of advances extended by small/rural branches, RBI has given the option of notionally computing the amount of diminution in the fair value by providing therefor, at 5% of total exposure, in respect of all restructured accounts where the total dues to the Bank are less than Rs. 1 Crore till the further review in this regard.
- g) The total provisions required against an account (normal provisions plus provisions in lieu of diminution in the fair value of the advance) are capped at 100% of the outstanding debt amount.**
- h) Provision on restructured accounts classified as standard advances as per RBI/Banks norms.
- i) The amount of provision made for NPA may be reversed as and when the account gets reclassified/upgraded as standard account.

14. **Prudential Norms for conversion of Principal Into Debt/Equity**

- a. A part of the outstanding principal amount can be converted into debt or equity instruments/preference shares as part of restructuring. However such conversion is allowed only in case of listed companies as a measure of last resort subject to maximum cap of 10% of the restructured debt. The debt / equity instruments so created will be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of these instruments would also be determined based on the subsequent asset classification of the restructured advance.
- b. These instruments should be held under AFS and valued as per usual valuation norms Equity classified as standard asset should be valued either at market value, if quoted or at break-up value if not quoted (without considering the revaluation reserve, if any) which is to be ascertained from the company's latest balance sheet. In case the latest balance sheet is not

available the shares are to be valued at Re.1. Equity instrument classified as NPA should be valued at market value if quoted, and in case where equity is not quoted it should be valued at Re 1. Depreciation on these instruments should not be offset against appreciation in any other securities held under the AFS category.

- c. In the case of restructured accounts classified as 'standard' the income if any generated by these instruments may be recognized on accrual basis. In the case of restructured accounts classified as non-performing assets the income if any generated by these instruments may be recognized only on cash basis.

15. Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments.

- a. The FITL/debt or equity instrument created by conversion of unpaid interest will be classified in the same asset classification category in which the restructured advance has been classified. Farther movement in the asset classification of FITL/ debt or equity instruments would also be determined based on the subsequent asset classification of the restructured advance.
- b. Valuation and provisioning norms would be as per para 15 (b) above. The depreciation if any, on valuation may be charged to the account styled as sundry Liabilities (Interest Capitalization) Account.
- c. The income if any generated by these instruments may be recognized on accrual basis, if these instruments are classified as standard and on cash basis in the cases where these have been classified as a non-performing asset.
- d. The unrealized income represented by FITL/Debt or equity instrument should have a corresponding credit in "Sundry Liabilities Account (Interest Capitalization)"
- e. In the case of conversion of unrealized interest income into equity, which is quoted, interest income can be recognized after the account is upgraded to standard category at market value of equity, on the date of such upgradation not exceeding the amount of interest converted into equity.
- f. Only on repayment in case of FITL or sale/redemption proceeds of the debt/equity instruments the amount received will be recognized in the P&L Account while simultaneously reducing the balance in the "Sundry Liabilities Account (Interest capitalization)"

16. Procedure & time frame for restructuring:

16.1 The MSME Borrower must submit specific requests for restructuring

16.2 The Debt Restructuring-MSME cell at Branch /RO would scrutinize, undertake viability study and submit proposals for sanctions to the appropriate authority for sanction approval.

16.3 The cut off date for restructuring of MSME Accounts would be the date of classifying the account as NPA or date of request received from the borrower / unit for restructuring whichever is earlier.

16.4A Debtor-creditor Agreement and an Inter-Creditor Agreement shall provide the legal basis to MSME Debt Restructuring.

All the participants in the Debt Restructuring of an MSME unit shall have to enter into a legally binding agreement, with necessary enforcement and penal clauses, to operate the system through laid down policies and guidelines.

One of the most important elements of Debtor-Creditor Agreement would be 'Stand-Still' clause binding for 60 days by both sides. Under this clause both the debtor and the creditor (S) shall agree to a legally binding stand-still whereby both parties commit themselves for not taking recourse to any of legal action during the 'stand-still period. This is necessary for enabling the Bank to

undertake the necessary debit restructuring exercise without any outside intervention, judicial or otherwise. However this will not be a bar for executing the document, Acknowledgement of Debt etc. by the borrower in favour of the Bank so as to keep the limitation alive.

The Inter-Creditors Agreement would be a legally binding agreement amongst the secured creditors with necessary enforcement and penal clauses wherein the creditors would commit themselves to abide by the various elements of MSME Debt Restructuring Mechanism. Further the creditors shall agree that if 75% of secured creditors by value agree to a Debt Restructuring package the same would be binding on the remaining secured creditors.

17. **Reliefs/concessions To Be Extended and Sacrifice:**

Norms for grant of Reliefs/Concessions are furnished in Annexure V and are common for MSMEs under Restructuring as well as Rehabilitation. For the sake of clarity we state here that the term Restructuring refers to the borrowal facilities (Fund Based as well as Non-Fund based) of the unit with us/other financial institutions whereas the term Rehabilitation refers to the progress of the unit on its way to recovery through restructuring of its liabilities/repayment obligations. Rehabilitation should result in the unit becoming viable again so as to meet such liabilities/repayment obligations.

The viability and the rehabilitation of a unit would depend primarily on the unit ability to continue to service its repayment obligations including the past restructured debts. It is therefore essential to ensure that ordinarily there is no write off or scaling down of debt such as by reduction in rate of interest with retrospective effect except to the extent indicated in the guidelines. Interest concessions granted, if any may be subject to annual review depending on the performance of the units.

The reliefs and concessions specified are not to be given in a routine manner and have to be decided based on the commercial judgment and merits of each case. Reliefs and concessions may be extended beyond the parameters in deserving cases. Only in exceptional cases, concessions/reliefs beyond the parameters would be considered. In fact the viability study should contain a sensitivity analysis in respect of risks involved that in turn will enable firming up of the corrective action matrix.

18. **Right of Recompense**

Normally, every Rehabilitation/Restructuring package involve some waivers and concessions extended by the lenders to borrowers during their difficult times in order to keep them float. When the fortune changes and profits are being earned by the borrower the lenders have the right to recoup the sacrifice. Technically 100% of such waivers/concessions result in sacrifice of past dues or future dues can be recovered by the lenders at the time of enforcing the right of recompense. But in practice the entire amount is not demanded from the borrower for the reason that the amounts involved would be huge which, if paid in full, would again cause stress on the asset which has just come out of past difficulties. Therefore only certain elements of sacrifice are considered for exercising Right of Recompense.

All restructuring package must incorporate Right to recompense clause and it should be based on certain performance criteria of the borrower In any case minimum 75% of the recompense amount should be recovered and in cases where some facility under restructuring has been extended below extended base rate 100% of the recompense amount should be recovered Detailed guidelines on Recompense have been appended as **Annexure VI**.

19. **Review & Disclosure**

The Asset Recovery Department is monitoring the progress under debt restructuring and is separately placing the same before the Board on quarterly basis.

Bank is required to publish the following information in the Balance Sheet under "Notes on Accounts" (Amount : As. In Lakhs)

Sr.	Particulars	No. of Accounts	Amount
A	Total amount of assets of SMEs subjected to restructuring (a) =(b)+(c)+(d)		
B	The amount of standard assets of SMEs subjected to restructuring		
c	The amount of sub-standard assets of SMEs subjected to restructuring		
d	The amount of doubtful assets of SMEs subjected to restructuring		

20. Miscellaneous guidelines

- Restructured loan accounts in standard category should be assigned asset code 13 for identifying restructured loan account.
- All restructuring proposals should carry a separate paragraph quoting compliance against each individual pre requisite condition of restructuring as given by RBI.

Confirmation of compliance with the prerequisite conditions of restructuring as per RBI guidelines -

S.No.	Conditions	Compliance
1	the dues to the Bank are fully secured	
2	The unit becomes viable in 5 years (may be extended to 7 years in deserving cases)	
3	The repayment period of restructured advance including the moratorium if any does not exceed 10 years.	
4	Promoters sacrifice and additional funds brought by them should be a minimum of 15 % of Banks sacrifice or 2% of the restructured debt whichever is higher Banks sacrifice means erosion in the fair value of the advance i.e NPV sacrifice (the promoters could be allowed to bring in 50% of NPV sacrifice i.e. 50% of 15% (or 2% as the case may be) upfront and the balance within a period of one year)	
5	Personal guarantee is offered by the promoters in all cases. (Corporate guarantee in lieu of personal guarantee can be accepted only in those cases where the promoters of the company are not individual but other corporate bodies or where individual promoters cannot be clearly identified)	
6	The restructuring under consideration is not a Repeated Restructuring	

- All restructuring proposals should also indicate NPV amount and sacrifice on account of restructuring and its direct impact on P&L of the Bank.

23. Other –

This policy shall be displayed on the Bank's website.

GENERAL GUIDELINES FOR REHABILITATION OF SICK MSEs

A. Handholding stage

Timely and adequate assistance to MSEs and rehabilitation effort should be on a proactive basis when early signs of sickness are detected. This stage would be termed as hand holding stage. This will ensure intervention by banks immediately after detecting early symptoms of sickness so that sickness can be arrested at an early stage.

B. One Time Settlement (OTS)

RBI vide their circular No. RPCD.SME&NFS.BC.NO. 102/06.04.01/2008-09 dated May4,2009 has requested to put in place a Non-discretionary One Time Settlement scheme for Recovery of non-performing loans for the MSE sector. We have in our Bank NPA Management policy in which Bank's OTS policy is mentioned & the same is applicable to all MSME advances.

C. Time frame for implementation of rehabilitation package:

The delay in the implementation of agreed rehabilitation packages should be reduced. One of the factors contributing to such delay was found to be the time taken for obtaining clearance from the controlling office for the relief and concessions. As it is essential to accelerate the process of clearance, Branches /Zones should play a more pro-active role in rehabilitation of MSE borrowers.

WILLFUL DEFAULTERS - (Para 2.7 of our Policy)

1. As per RBI guidelines vide DBOD No. DL (W) BC : 110:20.16.003 (1):2001-02 dated 30.05.2001-02 dated 30.05.2002, willful default is defined as follows :-
 “A Willful Default would be deemed to have occurred in any of the following events is noted:-
 - The unit has defaulted in meeting its payment/repayment obligations to the lender even when it has not utilized the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
 - The unit has defaulted in meeting its payment/repayment obligations to the lender even when it has not utilized the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
 - The unit has defaulted in meeting its payment/repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
 - The unit has defaulted in meeting its payment/repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given by him or it for the purpose of securing a term loan without the knowledge of the bank/lender.

2. The term “diversion of funds” and “siphoning of funds” are construed to include any one of the undernoted occurrences :
 - Utilization of short-terms working capital funds for long term purposes conformity with the term of sanction :
 - Deploying borrowed funds for purposes/activities or creation of assets other than those for which the loan was sanctioned ;
 - Transferring funds to the subsidiaries / Group companies or other corporates by whatever modalities;
 - Routing of funds through any bank than the lender bank or member consortium without prior permission of the lender,
 - Investment in other companies by way of acquiring equities/debt instruments without approval lenders.
 - Shortfall in deployment of funds vis-à-vis the amounts disbursed/drawn and the difference not being accounted for.

3. **Siphoning of funds** referred to above, should be construed to occur if any funds borrowed from banks/FIs are utilized for purposes un-related to the operations of the borrower, to the detriment of the financial health of the entity or of the lender. The decision as to whether a particular instance amounts to siphoning of funds would have to be a judgment of the lenders based on objective facts and circumstances of the case.

The identification of the willful default should be made keeping in view the track record to the borrowers and should be decided on the basis of isolated transaction/incidents. The default to be categorized as willful must be intentional, deliberate and calculated.

4. While the penal measures indicated below could normally be attracted by all the borrowers identified as willful defaulters or the promoters involved in diversion/siphoning of funds keeping in view the present limit of Rs. 25 lakh fixed by the Central Vigilance Commission for reporting of cases of willful default by the banks/FIs to RBI, any willful defaulter with an outstanding balance of Rs. 25 lakh or more, as on the date of this circular, would attract the penal measures stipulated below. This limit of Rs. 25 lakh may also be applied for the purpose of taking cognizance of the instances of ‘**siphoning**’/‘**diversion**’ of funds.

5. While dealing with willful default of a single borrowing company in a Group, the banks/FIs should consider the track record of the individual company, with reference to its repayment performance to its lenders. However, in cases where a letter of comfort and / or the guarantees furnished by the companies within the Group on behalf of the willfully defaulting units are not honored when invoked by the banks/ FIs, such Group companies should also be reckoned as willful defaulters. Bank will have to furnish **RBI the list of identified “Willful defaulters” on a quarterly basis**. Based on the information so collected, Reserve Bank of India will be publishing every year in a booklet/CD form the list of suit filed accounts and also an update of the list on a quarterly basis, containing the lists of ‘added’ accounts during the quarter.

6. Besides, Bank is also required to initiate following penal measures against willful defaulters :

a) No additional facilities should be granted by banks/FIs.

b) Entrepreneurs / promoters of companies, where diversion of funds, siphoning of funds, misrepresentation, falsification of account and fraudulent transactions have been identified by banks/FIs should be debarred from institutional finance from banks/FIs, Government owned NBFCs, investment institutions, etc., for floating new ventures for a Period of 5 years from the date the name of willful defaulter is disseminated in the list of willful defaulters by RBI.

c) Initiate criminal proceedings and foreclosure for recovery of dues expeditiously, wherever warranted, against the borrowers/guarantors.

d) Initiate criminal proceedings against willful defaulters wherever necessary.

e) Banks/FIs should adopt a proactive approach for a change of management of the willfully defaulting borrower unit, wherever possible.

f) Incorporate a covenant in the loan agreement with the borrowing companies stipulating that they should not induct a person who is a director on the Board of a company which has been identified as a willful defaulter and that in case, such a person is found to be on the Board of the borrower company, it would take expeditious and effective steps for removal of the person from its Board.

It should also be ensured that the penal provisions are used effectively and determinedly but after careful consideration and due caution. Towards this end, banks/FIs are advised to put in place a transparent mechanism, with the approval of their Board, for initialing criminal proceedings based on the facts of individual case. If necessary, criminal proceedings may also be initiated based on facts of each case.

7. **Procedure :**

The Regional Offices shall identify and report (format given in Annexure) to Head Office, ARD on quarterly basis new accounts to be reported as 'willful defaulters'. The Branch/Region shall submit conclusive documentary evidence leading to willful nature of the default. The report/recommendations shall be signed by the Zonal Manager. The report shall be processed by HO, ARD and eligible cases will be submitted to an 'Identification Committee' headed by the Chairman with General Managers. After the account is identified by the said Committee" formed at Head Office with the Chairman & General Manager as the head and Head of ARD (HO) as members. Regional Managers shall advise the borrower company to avail this facility of appealing to Grievance Committee within 15 days. If there is any representation from the company within the stipulated period the will be given as opportunity to present their case to the Grievance committee and the decision to report the account to RBI will be reviewed or confirmed by the Committee and reporting will be done if necessary. If no representation is received within stipulated time, Head Office, ARD shall report the account to RBI in the prescribed format getting concurrence from Grievance Committee based on Regional Manager's reports about representations received (or not received) from the aggrieved parties.

8. This procedure for identifying and reporting of willful default by Head Office to RBI is applicable only for A/cs with outstanding dues of Rs. 25 lakh and above. However, Branches and Regional offices are also required to examine each account turning to NPA (with outstanding dues below Rs. 25 lakhs) to the extent of ascertaining whether any act of willful default is discernable from the part of the borrowers. Even though these Accounts with outstanding dues below Rs. 25 lakh, need not be reported to Head Office/RBI, it is advised that the branch/Region should take adequate penal measures against such borrowers as mentioned in para 5.5 above.

EARLY WARINING SIGNALS

(para 5.1 of our policy)

Our Bank already has a system that captures early warning signals in respect of account showing first signs of weakness. This system is an integral part of the risk management process of the bank.

2. For internal monitoring purposes under the system, a time for overdue accounting is designated to determine the threshold for a proactive intervention – well before the accounts become NPA. This is to enable the Bank to assess whether the default is due to some inherent weakness or due to a temporary liquidity / cash flow problem. For example, where there is a default in an account for 30 days, it shall be shifted to a watch list category, classified as Asset Code 12. All accounts displaying unsatisfactory features/early warning signals should be put under watch list for follow up and time bound action to prevent slippages, even though such accounts could be regular at present. An illustrative list of unsatisfactory features that should put a lender on guard is given below.

2.1 SIGNALS WHICH COULD BE NOTICED WITHIN THE BANK

- i. Non-compliance with the terms of sanction regarding documentation/security
- ii. Unplanned borrowing for margin contribution.
- iii. Delay in payment of interest beyond 15 days.
- iv. More than one installment overdue and beyond 30 days.
- v. Return of cheques for financial reasons.
- vi. Reduction in credit summation – not routing entire (or prorate) transactions through the Bank (opening of collection account accounts with another bank) without prior approval of appropriate authority,
- vii. Longer outstanding in the bill purchased account.
- viii. Longer period of credit allowed on sale documents negotiated through the bank and frequent returns by buyers of the same – Late or non realization of receivables.
- ix. Constant utilization of working capital limits to the hilt.
- x. Unexplained delay or failure to submit periodic statements such as stock/book debt statement, MSOD, CMA, balance sheets etc./other proofs needed review of account.
- xi. Frequent requests for over limit/additional limit or for extension of time for repayment of interest / installments.
- xii. Adhoc/ over limit/Bill Purchase over due. LC/guarantee devolvement's.
- xiii. Lakh of transparency in borrowers dealings with the Bank/avoiding to meet bank officials.
- xiv. Constant failure or unwillingness to mention unpaid stock in statements or age of book debts in book debt statement.

2.2 BENCH MARKS that have been fixed for various Early Warning Signals are reproduced here below:

- i. A/c is overdrawn for more than 30 days.
- ii. Interest overdue more than 15 days.
- iii. Variation in estimates/projection of sales 25% during the last quarter.
- iv. Delay in submission/non submission of QIS I&II 30 days.
- v. Non submission/delay in submission of MSOD statements >1 month.

- vi. Delay/Non submission of monthly stack/book debts statement > 1 month.
- vii. Return of cheques on financial grounds > 2 occasions in a month.
- viii. Invocation of guarantees/devolvement of L/Cs > 1 occasion in a month.
- ix. Devolvement of L/Cs/invocation of guarantees and non regularization of the account within 30 days from date of invocation/devolvement.
- x. No credit in the operative account for consecutive 30 days.
- xi. Delay in servicing of term loan installment > 30 days.
- xii. Return of Bills purchased > 2 Bills in a month.
- xiii. Over Due EPC beyond 30 days
- xiv. Past Due Bill > 30 days.
- xv. Less than 50% marks scored out of applicable first 80 marks of our credit rating evaluation module.

2.3. SIGNALS WHICH COULD BE NOTICED BY VISITING THE UNIT/TALKING TO BORROWERS OR THEIR EMPLOYEES OR FROM MARKET ENQUIRIES.

- i. Undue and unreported delay in project implementation.
- ii. Installations of sub standard machinery or machinery not as per the project report/approved quotations.
- iii. Frequent breakdown in plant/machinery.
- iv. Production noticeably below projected level of capacity utilization.
- v. Labour problem and frequent interruptions in manufacturing.
- vi. Non-availability of vital spare parts.
- vii. Production of unplanned items without reporting to the bank.
- viii. Disposal/replacement of vital plant and machinery without Bank's knowledge.
- ix. Downward trend in sales.
- x. Higher rate of rejection at process stage/final stage/after sales.
- xi. Delay in or failure to pay statutory dues.
- xii. Diversion of working capital to capital expenditure or for other use.
- xiii. Abnormal increase in debtors and creditors.
- xiv. Increase in inventory which may include large quantity of slow and non-moving items.
- xv. General decline in the particular industry combined with many failures.
- xvi. Rapid turnover of key personnel.
- xvii. Filling of law suits against the company by its customers, creditors, employees etc.
- xviii. Unjustified rapid expansion within a short time without appropriate financial tie up.
- xix. Sudden/frequent changes in management/infighting within the management.
- xx. Reduction in profit/unit starting incurring losses.
- xxi. Dependence on single or few buyers / no alternate market for product.
- xxii. Threat of action against the borrower from statutory bodies e.g. pollution control, Labour welfare Dept. Income Tax/Sales Tax/Octroi/Excise/Customs Dept. etc.
- xxiii. Poor or dubious record maintenance.
- xxiv. Loss of key product lines, franchises, distribution rights or sources of supply,
- xxv. Speculative inventory acquisition not in line with normal purchasing practices.
- xxvi. Poor maintenance of plant/machinery.
- xxvii. Lack of planning/poor planning.
- xxviii. Apathy of promoters/owners in running the business.
- xxix. Adverse market reports on the borrower / concern.

xxx. Loss of crucial customers.

2.4 Noticing of the early warning signals through constant vigil and initiating timely action for safeguarding the health of an account is of paramount importance. Even though the basis responsibility for the lies with the Branch Manager/Credit In-charge of the branch, looking to the enormity of the job, such work has to be shared by all other staff of the branch, not only the officers who are not directly associated with the credit functions of the branch but also, wherever available, the help of officers from other departments/ clerical staff should be taken.

2.5 Needless to add, the inspectors/concurrent auditors who are expected to deal with large exposure accounts in any branch, should supplement branch efforts for the purpose of credit monitoring. They will also responsible for detection of early warning signals in an account and caution the branch wall in time for initiating corrective measures.

FINANCIAL VIABILITY PARAMETERS

BENCHMARK LEVELS

(To be included in Restructuring Proposals of Corporate)

[Para 8 (d) of our policy]

1. Return on Capital Employed

A minimum ROCE equivalent to 5 year G-Sec plus 2% may be considered as adequate.

The Return on Capital Employed (ROCE) reflects the earning capacity of assets deployed. ROCE is expressed as a percentage of total earning (return) net interest plus lease rentals. 'Capital Employed' is the aggregate of net fixed assets current assets less creditors and provisions. Normally, intangible assets are excluded for calculation of ROCE. Having regard to the fact that stressed standard assets as well as sub-standard and doubtful assets are considered to a large extent due to accounting practices although the facilities might have depreciated to a large extent due to accounting practices although the facilities might not have been utilized. Similarly, interest on loans accrued and fallen due but not paid might have been used to finance cash losses. In other words, the fund is reinvested in the project. These normally get reflected in accumulated loss which is treated as intangible asset. Therefore, while working out the total capital employed, suitable adjustment is required to be made for unabsorbed depreciation and unserviced interest to lenders.

2. Gap between Internal Rate of Return and Cost of capital

The bench mark gap between Internal Rate of Return and Cost of Capital should be at least one percent.

The Internal Rate of Return (IRR) is computed as the post-tax return on capital employed during the project life based on discounted (net) cash flow method. Cash outflows each year would include capital expenditure on the project inflows from the operations of the project each year recovery of working capital in the last year of project life and residual value of capital assets in the last year of project life.

While the above definition may be relevant for project finance, for restructured cases, the investment would have already taken place and the fixed assets would have depreciated to a large extent for such existing cases. While the year of restructuring could be considered as the zero year aggregate of net fixed assets. net working capital and investment could be treated as total assets deployed cash inflows would have the same definition as for project finance project life should be considered as 15 years irrespective of the vintage of the facilities but depending economic life.

Cost of Capital is the post-tax weighted average cost of the funds deployed. Since the basic purpose of the restructuring exercise is to recovered dues the lenders dues.

It is felt that zero cost could be assigned to equity funds (equity and reserves). Cost to be assigned to the debt would be the actual cost proposed in the restructuring package. Calculation of tax shield for the purpose of working out the effective cost of debt funds would be as per usual guidelines.

3. Extent of Sacrifice

it is very difficult to evolve a benchmark for the extent of sacrifices. Going by CDR experience, the sacrifice on the part of lenders. Would be waiver of liquidated damages and in some cases compound interest. Waiver of simple interest and principal should be resorted to in deserving cases only. While the thrust of the restructuring exercise should be on recovering the maximum possible amount from the borrowers, conversion of a part of the sacrifice into equity or any other instrument should also be explored. This would be beneficial from the point of view of sharing the upside when the fortunes of the company improve pursuant to restructuring.

Waivers and sacrifices in a stressed asset which approaches lenders for restructuring would depend on the state of affairs and the viability of the borrower corporate as well as the possibility of its revival/survival. Since the basic objective of the restructuring exercise is to recover the lenders' dues and ensure productive use of assets, the extent of sacrifice would be a function of the quantum of loan, past payment record, interest rates charged and booked to profit in the past, as also alternative avenues available for recovery. Considering the very low probability of recovering the dues might be better in a restructuring exercise, which also helps other stake-holders such as labour, equity holders, the exchequer and the economy in general.

4. Other Financial Parameters

4.1 Break-Even Analysis

Break-even analysis should be carried out. Operating and cash break-even points should be worked out and they should be comparable with the industry norms.

4.2 Gross Profit Margin

Gross Profit Margin (GPM) for the industry as a whole, to which the company belongs, is available in published documents/databases (like 'Cris-Infac', Prowess or similar database ventures). Wide variation, if any, of company's GPM from the industry average would be required to be explained with qualitative information.

It is necessary that various elements of profitability estimates such as capacity utilization, price trend and price realization per unit, cost structure, etc. should be comparable to those of the operating units in the same industry.

It is also suggested that the company's past performance where commercial operations have commenced and future projector for next 5 years period when unit likely to become viable/repayment restructured advance (as the case may be) should be given in the Restructuring package on the same worksheet to have comparison of sales, sales realization, cost components, GP, GPM, interest cost, etc.

4.3 Loan life Ratio

Loan Life Ratio (LLR) is based on the Available Cash Flow (ACF) at present value principle.

$$\text{LLR} = \frac{\text{Present value of total ACF during the loan life period (including Int+prin.)}}{\text{Maximum amount of loan}}$$

The discounting factor may be the average yield expected by the lenders on the total liabilities, or alternatively, the benchmark ROCE. This ratio similar to the DSCR based on the modified

method (Actual Cash Flow Method). In project financing, sometimes LLR is used to arrive at the amount of loan that could be given to a corporate. On the same analogy, LLR can be used to arrive at sustainable debt in a restructuring exercise as also the yield. A benchmark LLR of 1.4, which would give a cushion of 40% to the amount of loan to be serviced, may be considered adequate.

BIFR CASES: FINASNCIAL VIABILITY PARAMETERS

The restructuring scheme should enable the company's net worth to turn positive in time span of not more than 2-4 years.

Adjusted DSCR (including cash outflow on account of increase in WC, normal capex etc.) should be around 1.25 and normal DSCR minimum 1.33:1.

Reasonable promoters contribution of generally around 5-10% of the cost of the scheme should be envisaged in the restructuring proposal. Promoters contribution should, preferably, be by way of inflow of funds from outside or sale of surplus land/assets.

The Corporate's EBIDTA should become positive in two years and PAT should become positive within 4-5 years. (In case regulatory benefits are to be availed for such BIFR cases, then regular parameters applicable to normal cases would be applicable, in addition to the stipulation that PAT should be positive in 4-5 years).

**Reliefs and concessions which can be extended to MSME UNITS
Under Restructuring/Rehabilitation
(Para 18 our Policy)**

The viability and the rehabilitation of a sick SSI unit would depend primarily on the unit's ability to continue to service its repayment obligations including the past restructured debts. It is, therefore, essential to ensure that ordinarily there is no write-off or scaling down of debt such as by reduction in rate of interest with retrospective effect except to the extent indicated in the guidelines. The guidelines on various parameters on reliefs and concessional are given below.

i) Interest Dues on Cash Credit and Term Loan

If penal rates of interest or damages have been charged such charged should be waived from the accounting year of the unit in which it started incurring cash losses continuously.

After this is done, the unpaid interest on term loans and cash credit during this period should be made within a period not exceeding 3 years from the date of commencement of implementation programme.

ii) Unadjusted interest Dues

Unadjusted interest dues such as interest charged between the date up to which rehabilitation package was prepared and the date from which actually implemented, may also be funded on the same as at (i) above.

iii) Term Loans

The rate of interest on term loans may be reduced, where considered necessary.

iv) Working Capital Term Loan (WCTL)

After the unadjusted interest portion of the cash credit account is segregated as indicated at (i) and (ii) above, the balance representing principal dues may be treated as irregular to the extent it exceeds drawing power. This amount may be funded as WCTL with a repayment schedule not exceeding 5 years. The rate of interest may be decided on case to case basis as per border guidelines enumerated in para IX below.

v) Cash Losses

Cash losses are likely to be incurred in the initial stages of the rehabilitation programme till the unit reaches the break-even level. Such cash losses excluding interest as may be incurred during the nursing programme may also be financed by the bank or the financial institution, if only one of them is the financial. But if both are involved in the rehabilitation package, the financial institution concerned should finance such cash losses, relief and concessions as set out under para 18 of policy may be considered.

Future cash losses in this context will refer to losses from the time of implementation of the package up to the point of cash break-even as projected, Future cash losses as above, should be worked out before interest (i.e., after excluding interest) on working capital etc, due to the banks and should be financed by the financial institutions should not be asked to provide for interest due

to the banks in the computation of future cash losses and this should be taken care of by future cash accruals.

The interest due to the bank should be funded by it separately. Where, however, a commercial bank alone is the finance, the future cash losses including interest will be financed by it.

The interest due to the funded amounts of cash losses/interest will be at the rates prescribed by Small Industries Development Bank of India under its scheme for rehabilitation assistance.

vi) Working Capital

Interest on existing working capital limits and / or additional working capital, if any, may be contractual rate or less depending upon the viability of the Advance/project. Guidelines on charging rate of interest it discussed under para (ix) below.

vii) Contingency Loan Assistance

For meeting escalations in capital expenditure to be incurred under the rehabilitation programme, banks/FIs may provide, where considered necessary, appropriate additional financial assistance up to 15% of the estimated cost of rehabilitation by way of contingency loan assistance. Interest on this contingency assistance may be charged at the concessional rate allowed for working capital assistance.

viii) Funds for Start-up Expenses and Margin for working Capital

There will be need to provide the unit under rehabilitation with funds for startup expenses (including payment of pressing creditors) or margin money for working capital in the form of long term loans. Where a financial institution is not involved banks may provide the loan for star-up expenses, while margin money assistance may either come from SIBDI under its Refinance Scheme for Rehabilitation or should be provided by State Government where it is operating a Margin Money Scheme. Interest on fresh rehabilitation term loan may be charged as discussed in para IX below. Wherever applicable or as prescribed by SIDBI/NABARD where refinance is obtained from it for the purpose.

ix) Guidelines on charging rate of interest on various restructured facilities.

As per extant guidelines of RBI banks are not allowed to lend below the Base Rate, excepting few cases. However, RBI has further specified that the same ruling does not hold good in case of pricing of restructured loans is concerned, bank even go below the base rate if viability is established on that rate only and availability of right of recompense.

Therefore, Sanctioning authority may decide on the rate of interest to be charged on case to case basis broadly keeping in mind the following;

- a) Viability of project
- b) Availability of right of recompense

All interest rate concession would be subject to annual review depending on the performance of the units.

x) Promoter's Contribution

Promoters' sacrifice and additional funds brought by them should be a minimum of 15% at bank's sacrifice or 2% of total restructured assets whichever higher (erosion is in the fair value of the advance). However, on case to case basis the promoters may be allowed to bring half of the bank's sacrifice i.e 7.5% (1% as the case may be) upfront and balance within a period of one year which need not necessarily be brought in cash and can be brought in the form of de-rating equity, conversion of USL brought by the promoter into equity and interest free loans.

GUIDELINES ON RECOMPENSE**(Para 19 of our policy)****1. Introduction :**

The Rehabilitation/Debt Restructuring system has been evolved to ensure timely and transparent mechanism for restructuring corporate debts of viable entities facing temporary problems. Hence ordinarily every package under the Rehabilitation/Debt Restructuring involves waivers and sacrifices on the part of the lenders.

‘Recompense’ means recouping, whether fully or partially, the sacrifices made by the lenders as also waivers/concessions/reliefs given to the borrower pursuant to the approved rehabilitation/Debt Restructuring Package.

2. Elements that will go in computation of recompense :

The following items of waivers and sacrifices pursuant to the restructuring package will be eligible for computation of recompense amount.

2.1 Principal amount : The amount of waiver granted to a borrower in the repayment of the principal amount.

2.2 Interest : Any reduction in the applicable rate of interest payable by the borrower. Interest reduction will be reckoned by the difference in the rate of interest based on the average BPLR plus the appropriate term premium and credit risk premium for the concerned Borrower prevailing as at the end of each financial year (including broken period, if any) after the cut off date or the document rate, whichever is lower, and the interest rate as per the restructuring package. The computation of recompense on interest sacrifice would be on compounding basis.

2.3 Commission: Any reduction in the commission on other charges/fees charged to the borrower.

2.4 Debentures: Debenture will include all kinds of debentures are restructured. The waiver or sacrifice in the rate of interest including extension of time for redemption of the instruments shall be taken into account.

2.5 Preference shares: Any reduction in the rate of dividend or postponement in redemption.

2.6 New loans provided under the package: A new loan (term loan or working capital facility) extended to the borrower, provided it is advanced at a rate of interest, which is concessional (i.e. below the applicable rate of interest on advances to the borrower).

3. Elemental NELIGIBLE for computation of recompense amount.

The following shall not be taken into computation of recompense amount.

3.1 One-time Settlement (OTS)/Negotiated Settlement: The lender opting for one time settlement or negotiated settlement under the package.

3.2 Conversion into equity or equity related instruments – If any portion of the loan or facility was converted into equity or equity related instruments, the converted portion shall not be taken into account for computation of the recompense amount. However, in this case, from the cut off date till conversion takes place and the shares are allotted, the lender can claim recompense. If any other dues are converted into equity, the non- convertible portion (koka Portion) shall not be eligible for recompense.

3.3 Sacrifices and waivers prior to the cut off date: Any loss on account of sacrifice or waiver suffered by any tender prior to the cut off date (unless the same is pursuant to the restructuring package).

3.4 Additional finance: Additional finance (Term Loan/Working Capital) provided by lenders otherwise than under the package).

3.5 Refinancing/Rollover Lenders: The amount of fresh funds advanced by the lenders to pay off the existing loans. In case of roll over, the lender would be eligible to recover recompense up to the date of refinancing or roll over of such debt.

3.6 Financing Capex: Any fresh funds advanced by any lender for meeting capital expenditure not envisaged under the package.

3.7 Penal interest and Liquidated damages : waiver of penal interest and liquidated damages by any lender or waivers and sacrifices in respect of them on account of conversion into any instrument or otherwise.

3.8. Foreign Currency Loan: The converted portion of foreign currency loan in case Bank converts Rupee Term Loan into any foreign currency loan pursuant to Rehabilitation/Debt restructuring package.

3.9 Lending at market rates: Any existing loan/advance or fresh loan/Advance provided to the borrower at market rates. Market rate for the purposed of this paragraph means the rate at which the borrower is in a position to raise the funds for its requirements.

4. Trigger events for payments of recompense amount:

The payment of recompense amount gets triggered in the following circumstances:

(A) Mandatory :

4.1 Exit : The exit of the borrower from the Rehabilitation/Debt Restructuring package either voluntarily or at the end of the restructuring period .

4.2 Performance : if the performance of the borrower in any whole financial year is in excess of twenty-five percent of the EBIDTA as per projections. This surplus amount shall be utilized for payment of recompense amount.

4.3 Declaration of dividend : - If the borrower declares dividend in any financial year in excess of ten percent on annualized bases. The payment of recompense amount shall be equal to the dividend rate multiplied by total recompense payable or the surplus available with the borrower, which ever is lower. The recompense amount shall be payable prior to distribution of dividend.

(B) Optional

4.4 Capex : if the borrower desires to incur any capital expenditure other than modernization/expansion necessary for sustained viability of the uni out of borrowed funds (other than

internal account/equity/equity/preference capital not envisaged in the Rehabilitation/Debt Restructuring package.

(C) Exceptional

4.5 BIFR Cases : in respect of BIFR cases, the recompense amount shall be collected only after the year in which becomes positive.

5. Methodology :

5.1 On the occurrence of any of the trigger events, the Bank determines the quantum of the recompense amount payable by the borrower till the trigger date. The Bank shall also determine the amount available with the borrower for payment of the recompense, which shall be based on the performance criteria.

The Bank is entitled to claim recompense subsequent to the trigger event till final exit or expiry of restructuring period.

5.2. In case of voluntary exit from Rehabilitation/Debt Restructuring, it may be difficult to ascertain the future performance of the borrower. In these cases it is also not prudent to retain the right to collect the recompense amount till the date of expiry of the restructuring period. In such cases, the borrower shall pay the recompense amount determined as per these guidelines till final date or exit disregarding the performance criteria i.e. full recompense amount.

5.3 If the borrower delays the payment of recompense amount beyond the time frame decided by the Bank/.it shall be liable to pay interest at the BPLR of the Bank (or individual lenders concerned in case of multiple/consortium arrangement)

5.4 Once the recompense amount to be collected by the Bank is conveyed to the borrower no change shall be made before its collection.

5.5 Lenders shall have a right to defer the payment of the recompense to a future date, but not beyond the exit/restructuring period.

Sacrifices made by the lenders prior to the approval of the restructuring package. cut-off date and if the same is not covered under the restructuring package, the Bank may claim recompense from the borrower outside the purview of Rehabilitation/Debt Restructuring Package.

Has settled the recompense and complied with the conditions required for exit of the case from Rehabilitation/Debt Restructuring package the Bank cannot compel/insist on continuance of the case under Rehabilitation/Debt Restructuring package on the plea that recompense for its past waivers/sacrifices prior to approval of the package/cutoff date has not been settled by the borrower. In that case, the bank can directly take up with the borrower for settlement of their claim for recompense for its past waivers/sacrifices outside the Rehabilitation/Debt Restructuring Package.

**Narmada Jhabua Gramin Bank
Head Office, Indore**

**APPLICATION FORM
FOR DEBT RESTRUCTURING/REHABILITATION**

From :	To : The Branch Manager ----- Branch. ----- Region
Dear Sir,	
Re. : My loan account/s :	
I/We am/are seeking rehabilitation facility of may above loan account/s for the following reason/s :	
a)	
b)	
c)	
d)	
Any other details required if any, in this regard will be provided by me/us.	
I/We have been explained about the Scheme of Rehabilitation of Sick Micro, Small and Medium Enterprises and I/We agree to the terms of the Bank with regard to rehabilitation which will be extended to me on appraisal of feasibility/viability only.	
Place :	
Date :	
----- Signature Borrower/Authorized signature	

**VIABILITY STUDY REPRT
FOR RESTRUCTURING/REHABILITATION
OF MICRO, SMALL & MEDIUM ENTERPRISES**

Branch :	Submitted to:	
Region :	For	
Proposal No.		Date :

I.. Sanctioning Authority :			
Consortium/MBA		Asset Code	
		Since	
Leader Bank :		BSR Code	
Our Share :		Special Category	
		Code	
FB		Investment in	
		P&MI/Equipment's	
NFB		Risk Grade	
		External	
		External Credit Rating	
Risk Weight		Provision Amount	

II. BRIEF BACKGROUND :

1	Name of Borrower Company	
2	Year of incorporation	
3	Address	
4	Constitution	
5	Line of Activity	
6	Contact details/Mobile No.	
7	Location of Units	
8	Products	
9	Installed capacity	
10	Status of projects under implementation	
11	Composition of Board of directors/Management	
12	Share holding pattern of the company placement etc. if any.	

III. NAME OF THE PROPRIETOR/PARTNER/DIRECTOR

	Names	Net worth (as at)
1.		
2.		
3.		
4.		

IV. NAME OF THE GUARANTOR

(Rs. Lacs)

	Names	Net worth (as at)
1.		
2.		
3.		

V. POSITION OF ACCOUNT

Nature of Facility	Limit	Authority/Date	O/s Position	Overdue /Since	Repayment		ROL/Commission
Fund Based							
(A)							
Non Fund Based							
(B)							
Total (A+B)							

VI. DETAILS OF SECURITY AND VALUE :

	Natures of Facility	Particulars	Value (Rs. In lacs)	As on	Basis
1	Primary				
2	Collateral				
3	Total (1+2)				

VII. REHABILITATION PROPOSAL :

1	Details of the problems faced by the company/firm (Technical and Financial issues)		
2	Effect of problems on the performance of the company/firm		
3	Steps initiate by the company /firm to mitigate the financial difficulties		
4	Rehabilitation proposal and its justification including cutoff date, additional finance, waivers, sacrifices, etc.		
5	Term of rehabilitation		
6	Cost of project and source of finance (original/revised)		Rs. In lacs
7	Cost of project		Original Revised Cost

	Total :		
	Means of finance		
	Total :		
7	Reasons for time and cost over run (including original/revised COD etc.)		
8	Requirements of funds (restructuring scheme) and means of finance under restructuring.		

VIII. VIABILITY ASSESSMENT (After Proposed Restructuring)

	Actuals	Current year	I	II	III	IV	V	VI	VII	Total
Capital										
Tangible Net Worth										
Net Sales										
Other Income										
Operating Expenses										
Other Expenses										
Total Expenses										
Gross Profit/Loss										
Accumulated										
Accumulated loss/Net worth (%)										
PBDIT/Net sales (%)										
a) Net Profit										
b) Depreciation										
c) Interest on TL										
A. Sub Total (a+b+c)										
a) TL Installment										
b) Interest on TL										
B. Sub Total										

DSCR (A/B)										
Average DSCR										

IX ASSESSMENT OF REHABILITATION :

a) Before rehabilitation :

(Rs in lacs)

Particular	Limits Sanctioned	Liability Outstanding	Out of (B), Unpaid interest	Out of (B) irregular portion
	(A)	(B)	(C)	(D)
Term Loans				
Working Capital (including Bills, devolved LC & invoked BG)				

Note : Assessment of working capital shall be as per prevailing guidelines (Turnover Method/Maximum Permissible Bank Finance system/Cash Budget System).

b) Recommendations for Rehabilitation :

Details of Facilities	Limit	Margin	ROI	Tenability/Repayment terms	Repayment Holiday
Existing Term Loan					
Existing working capital					
Working capital Term loan					
Funded interest Term Loan					
Fresh Term Loan					
Fresh Working Capital					
Others					

X. BRANCH RECOMMENDATIONS : (Comments on Reason for sickness/Proposed Mitigants/Proposed function of the unit/how restructuring would make turnaround/comfort/benefits for lender etc.)