# Guidelines related to MSME Sector

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This Section consists of three parts:

**Part I** : The guidelines related to MSME Sector which deals with the objective, scope & applicability, definition, schemes, procedures, monitoring, operational guidelines of loans under MSME sector and eligibility criteria, regulatory guidelines, reliefs and concessions under MSME Restructuring / Rehabilitation package.

## PART –I

### 9.1 Preamble:

The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. MSMEs have been established in almost all-major sectors in the Indian industry.

In India, the Micro, Small & Medium Enterprises (MSMEs) play a pivotal role in the overall industrial economy of the country. As per available statistics ($4^{th}$ Census of MSME Sector), this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country.

This policy on MSME sector embodied the objectives, scope and applicability, definitions, procedures, monitoring mechanism and other operational guidelines and eligibility criteria, regulatory guidelines, reliefs and concessions in respect of restructuring and rehabilitation of MSMEs.

### 9.2 Objective:

The Policy aims to make Bank's functionaries at various levels aware of the guidelines regarding MSME sector for managing the quality and health of MSME loan portfolio and also move aggressively to take a fair market share to build up an appropriate and sound MSME portfolio. However, to face the competition and facilitate growth, the policy shall be constantly evolving measures to foster growth, remain competitive and also to mitigate risk involved and thus build up a quality portfolio. The Policy also aims to strengthen the arms of field functionaries to acquire new accounts and thus increase borrower base.

**Other objectives**

1. Bank's positive commitment to its Micro and Small Enterprise (MSE) customers to provide easy, speedy and transparent access to banking services in their day to day operations and in times of financial difficulty.
2. Positive thrust and hassle free credit to the Micro & Small Enterprise (MSE) sector.
3. Increased Coverage under credit guarantee scheme of CGTMSE and generation of large number of youth entrepreneur.
4. The policy strives to ensure that the socio economic obligations cast on the bank are fully met and ensures compliance of all the directives/guidelines issued by the Government/RBI and all other regulatory requirements on Micro, Small and Medium Enterprises (MSMEs).

### 9.3 Scope & Applicability of the policy guidelines:

1. The Provisions of this policy guideline shall be applicable to the MSME credit portfolio of the Bank, if otherwise not prescribed for specific schematic / non-schematic advances.
2. This policy document covers policy guidelines for sanctioning fund based credit facilities such as Working Capital Facilities, Term Loan facilities and all Non-Fund Based facilities. Further advances to Small and Micro units, being a Priority Sector Advance, RBI guidelines/Govt. of India guidelines are followed.
3. The guidelines contained in this policy documents are subordinated to RBI/FEMA/SEBI/other regulatory guidelines. All regulatory guidelines subsequent to this policy guideline and not covered will be integral part of this policy and will be followed strictly.

**9.4 Definition of Micro, Small and Medium Enterprises (MSME):**

MSME Development Act, 2006 has given the definition of Micro, Small & Medium Enterprises for both the sectors i.e. Manufacturing Sector & Service Sector.

| Sector | Manufacturing Enterprises | Service Enterprises |
|---|---|---|
| | **Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:** | **Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below:** |
| **Micro Enterprises** | A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh. | A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh; |
| **Small Enterprises** | A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and | A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and |
| **Medium Enterprises** | A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore. | A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crores but does not exceed Rs 5 Crore. |

***Note:*** In case of the Manufacturing enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O. 1722(E) dated October 5, 2006

- Bank loans to Micro, Small and Medium Enterprises, for both manufacturing and service sectors (Limit up to Rs 5.00 Crore per unit to Micro & Small Service Enterprises and Rs 10.00 crore to Medium Service Enterprises) are eligible to be classified under the priority sector.

**9.5 Lending Schemes:**

To give a thrust to Micro, Small & Medium Enterprises (MSME) business, the segment is sub-divided into Schematic and Non-Schematic Lending. Our Bank is continuously evolving various schemes considering the requirement of specific groups of borrowers. Bank has formed the following schemes:

1) Dena Laghu Udyami Credit Card (DLUCC) Scheme.
2) Dena Artisan's Credit Card (DACC
3) Channel Financing Scheme
    a. Supplier Bill Discounting Scheme
    b. Dealer Finance Scheme
4) Scheme for Financing Agro Processing Units.
5) Scheme for financing Small Road & Transport Operators (SRTO) :
6) Scheme for providing finance to Farmers / Traders / Processors / Arthiyas against pledge of ware house receipt (WHR) issued by Collateral Management Agencies.
7) Capital subsidy scheme for installation of Solar Systems.
8) Wind Mill Scheme.
9) Scheme for financing Textile units of 'Bhilwara'
10) Scheme for Ceramic units for Morvi, Wankaner Districts under Rajkot Zone & Thangadh District under Bhavnagar Zone.
11) Scheme for Cluster Units as identified by UNIDO (United Nations Industrial Development Organization) viz. Casting & Forging, Diesel Engines, Electric Motors, Machine Tools, Diamond Processing & Wall Clocks (only for Rajkot Zone)
12) Scheme for Financing to Contractors
13) Line of Credit Facility (Open Composite Facility) to MSME borrowers
14) Scheme for issuance of Weavers Credit Card.

**9.5.1 Cluster based approach:** 'Cluster' means 'geographical concentration of MSMEs, producing similar products and facing similar threats and opportunities'. Clusters may be identified based on factors such as trade record, competitiveness and growth prospects and/or other cluster specific data. 60 clusters have already been identified by the Ministry of Micro, Small and Medium Enterprises, GOI for focused development of Small Enterprises Sector.

As per Ganguly Committee recommendations, banks have been advised that a full-service approach to cater to the diverse needs of the SSI sector may be achieved through extending banking services to recognized MSME clusters by adopting a 4-C approach namely, Customer focus, Cost control, Cross sell and Contain risk.

A cluster based approach to lending may be more beneficial:

**i.** in dealing with well-defined and recognized groups;
**ii.** availability of appropriate information for risk assessment,
**iii.** Monitoring by the lending institutions.
**iv.** Lower transaction and monitoring cost
**v.** Synthesis and standardization of documents
**vi.** Identification of common risk elements and their mitigation
**vii.** Wide reach

In the 'Policy Package' for Micro, Small and Medium Enterprises, it is suggested that Bank may adopt 'Cluster' based approach for financing MSME sector to enable the Micro, Small and Medium entrepreneurs to have easy access to the Bank credit and to equip bank personnel to develop requisite expertise. It is observed that our Bank has quite a few branches located in areas known for cluster activities. This factor shall be of great help to the Bank in enhancing credit to MSMEs.

**9.6 Credit Risk Management and Pricing of Loans:**

❖ Credit Risk management will be as per the Bank's guidelines

**9.6.1 Pricing of loans & Rate of Interest applicable to MSME borrowers:** The pricing of loans and applicable rate of interest will be as per the Bank's guidelines from time to time.

Additionally, the following guidelines will be applicable:

- **Additional 0.50% concession is also extended if the account is covered under CGTMSE.**
- **0.25 % concession is also extended if unit is rated by approved external credit rating agency and having rating of 'BB and above'.** At present the approved external credit rating agencies are CRISIL, CARE, ICRA, Brickwork, India Rating (formerly FITCH) & SME Rating Agency of India Ltd (SMERA).
- **In any case, the applicable interest rate should not be below base rate of our Bank.**

**9.6.2 Interest Rates for Schematic MSME Loans:** Schematic Micro, Small and Medium Enterprises (MSME) loans shall be governed by the rates indicated in the respective approved schemes as updated from time to time.

**9.6.3 TEV Study for MSME Accounts:** Techno Economic Viability to be conducted in case of MSME projects having project cost of Rs. 10 Crores and above for new projects and Rs. 15 Crores and above for existing projects for expansion/diversification from the approved TEV agencies as per Chapter 7(Techno Economic Viability study norms) of the Policy.

**9.7 Processing of Applications:**

Issue of Acknowledgement of Loan Applications**:** Branches/Zonal Offices to give system generated acknowledgement immediately on receipt of MSME loan applications till the system of online submission of limits above Rs 25 lacs and central registration of loan application is put in place. Each branch may affix a running serial number on the main application form as well as the corresponding portion for acknowledgement.

**9.8 Due Diligence of MSME Borrowers:**

Due Diligence for all new MSME Borrowers is required to be obtained from approved agencies for credit limits of Rs. 5 Crores and above. Bank may approve any other external agencies after due approval of the Chairman & Managing Director or Executive Director in absence of Chairman & Managing Director of the Bank and reports of such bureaus may also be referred to. Further for other details with regard to due diligence, the branches are advised to refer policy guidelines of our bank.

**9.9 Disposal of applications:** All MSME loan applications to be disposed of in following manner

| No | Category / Sector | Maximum time limit for sanction |
|---|---|---|
| 1 | Fresh Credit limit or enhancement of existing limit upto Rs 5 lacs | 10 days |
| 2 | Above Rs 5 lacs and upto Rs 25 lacs | 15 days |
| 3 | Credit limit upto Rs 100 lacs | 21 days |
| 4 | Above Rs 100 lacs | 30 days |

**9.10 Register of Rejected Applications**:

As per RBI guidelines, a register should be maintained at branch, wherein the data of receipt, sanction/rejection/disbursement with reasons thereof etc, should be recorder. The register should be made available to all inspecting agencies.

**(i)** Rejection of MSME applications for fresh limits/enhancement of existing limits should not be done without the approval of the next higher authority.

**(ii)** Sanction of reduced limits should be reported to the next higher authority immediately with full details for review and confirmation.

**9.11 Collateral Security**:

As per the RBI guidelines, the exemption limit for all borrowal accounts under MSE sector (both manufacturing and production and providing or rendering of services) for obtention of collateral security is Rs.10 lakh.

**Credit Guarantee Fund Trust for Micro and Small Enterprises [CGTMSE]:** The Bank has been registered as a Member Lending Institution with Credit Guarantee Fund Trust for Small Industries (CGTMSE), which guarantees collateral free loans to MSE units (Except Retail Trade) uptoRs. 100 lacs. This enables the bank to extend collateral free loans to MSE units at competitive rates. Branches may on the basis of good track record and financial position of the MSE units and as per the extant guidelines issued by the Bank in respect of CGTMSE, approve the limit up to 100.00 lakh without collateral**.** The said scheme covers new or existing Micro and Small enterprises (except Retail Trade) for credit facilities (Term Loan and / or Working Capital, both fund and non-fund based) for viable projects in respect of single eligible borrower without collateral Security and/or Third Party Guarantee.

**9.12 Composite Loan:** Limit of composite loan is enhanced to Rs. 100 lakhs to enable the MSME entrepreneurs to avail of their working capital and term loan requirement through Single Window.

**Line of Credit Facility (Open Composite facility) to MSME borrowers:** In order to provide flexibility to the MSME borrowers for hassle free and timely availability of funds, our Bank has introduced Line of Credit Facility to MSME borrowers. Details of the facility annexed to this policy document vide **Annexure 37.**

**9.13 Concessions for Micro advances /Priority advances up to Rs. 25000/-:**

a) No Penal Rate of Interest.
b) No Service / Inspection Charges.
c) Waiver of Insurance of Assets financed by Bank in the following cases.

| Category | Type of Risk | Type of Assets |
|---|---|---|
| All categories of priority sector advances upto and inclusive of Rs.10,000/- | Fire & other risks | Equipment and current assets |
| Advances to Micro & Small sectorupto and inclusive of Rs. 25,000/- by way of -<br>➢ Composite loans to artisans, village and cottage industries<br>➢ All term loans<br>➢ Working capital where these are against non-hazardous goods | <br><br>Fire<br><br>Fire<br>Fire | <br><br>Equipment and current assets<br>Equipment<br>Current Assets |
| Working capital where these are against non-hazardous goods | Fire | Current Assets |

**9.14 Credit Linked capital subsidy scheme for Technology Upgradation of Small Scale Industries (CLCSS) :**

The Revised Scheme (w.e.f.29.09.2005) aims at facilitating Technology Upgradation of Micro and Small Enterprises by providing 15% capital subsidy on institutional finance availed by them for induction of well-established and improved technology in approved sub-sectors/products. The admissible capital subsidy under the revised scheme is calculated with reference to purchase price of Plant and Machinery.

The Ministry of MSME, GOI from time to time issues office memorandum conveying the extension of the CLCSS Scheme, vide Office Memorandum No. 22/CLTUC/scheme/06/Vol-III dated 04.03.2013 advising all the Nodal Offices / PLIs to continue to accept and process the claims for release of subsidy as usual in accordance with the Scheme guidelines and instructions issued by the office of DC, MSME from time to time till further orders.

**Implementation of Online Application Tracking System under CLCSS w.e.f. from 01.10.2013:** SIDBI, the Nodal agency, Vide HO No. 705/GSC/CLCSS (Policy) dated 31.10.2013 has advised to submit the eligible subsidy claims online. Claim papers completed in all respect along with attachments should be filled on line on e-portal of DC (MSME) as per the time frame given in the following table, to enable SIDBI to process and lodge subsidy claims with O/o DC (MSME) with in stipulated time.

**9.15 Technological Upgradation Scheme (TUFS):**

GOI had launched Technology Upgradation Fund Scheme (TUFS)in 1999 to catalyze investments in all the sub-sectors of textiles and Jute industry by way of 5% interest reimbursement. The scheme was initially approved from April, 1999 to March 31st, 2004. Subsequently, the scheme was extended in 2004 and again in 2007 with modifications (as M-TUF) and further restructured (as R-TUF) w.e.f. 28.04.2011.

TUF Scheme in its R-TUFS form was extended for the first year of the 12th Plan i.e. upto 31.03.2013. Further, Government has further continued the Technology Up gradation Fund Scheme for the textiles & Jute Industries in Revised Restructured form with effect from 01.04.2013 to 31.03.2017. Accordingly, the scheme will be known as **Revised Restructured Technology Up gradation Fund Scheme (RR-TUFS).** Details of the revised scheme are available on website www.txcindia.gov.in.

**9.16 Code of Banks Commitment to Micro and Small Enterprises:**
**BCSBI Code:**The Banking Codes and Standard Board of India (BCSBI) have formulated a Code of Bank's Commitment to Micro and Small Enterprises. This is a voluntary Code, which sets minimum standards of banking practices for dealing with Micro and Small Enterprises (MSEs) as defined in the Micro Small and Medium Enterprises Development (MSMED) Act, 2006. It provides protection to MSEs and explains how banks are expected to deal with MSEs for their day to-day operations and in times of financial difficulty.
The Code does not replace or supersede regulatory or supervisory instructions issued by the Reserve Bank of India (RBI) and will comply with such instructions /directions issued by the RBI from time to time.

This is a voluntary code, reflecting the bank’s positive commitment to its Micro and Small Enterprise (MSE) customers to provide easy, speedy and transparent access to banking services in their day-to-day operations and in times of financial difficulty. This Code is not only a Charter of Rights of the MSEs but also enshrines his obligations vis-a-vis his bank.

**Key Commitments under the BCSBI Code:**

The bank's key commitments to Micro, Small and Medium Enterprises (MSME):

(i) To act fairly and reasonably in all dealings with Micro and Small Enterprises (MSEs).
(ii) To help MSEs understand how the bank's financial products and services work.
(iii) To help MSEs use their account or services by providing updates.
(iv) To deal quickly and sympathetically when things go wrong.
(v) To treat all MSEs personal and business information as private and confidential.
(vi) To publicize the Code.
(vii) To adopt and practice a non-discrimination policy

**9.17 Restructuring of MSMEs Accounts :**

1. Functionaries are advised to follow Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances guidelines vide RBI Circulars RBI/2014-15/74 DBOD.No.BP.BC.9/21.04.048/2014-15 dated 01.07.2014 in case of re-structuring of advances.

2. Financial viability shall be established while approving restructuring proposals. For this purpose, it should be ensured that the DSCR, ROCE, IRR and Interest Coverage Ratios based on projected financial performance conform to Loan Policy guidelines and in respect of Large value borrowers with outstanding (FB+NFB) credit limits of Rs.5 Crore and above, IRR should also conform to Loan Policy guidelines.
3. For Eligibility & other Criteria for restructuring of advances and other operational guidelines, detail guidelines as enumerated in Chapter 8(Credit Monitoring) of the main policy guidelines to be referred.
4. As per existing prudential guidelines of RBI on restructuring of advances by banks/financial institutions, the extant incentive for quick implementation of restructuring package and asset classification benefits available on restructuring on fulfilling the conditions has been withdrawn for all restructurings effective from April 1, 2015 with the exception of provisions related to changes in DCCO in respect of infrastructure as well as non-infrastructure project loans. It implies that with effect from April 1, 2015, a standard account on restructuring (for reasons other than change in DCCO) would be immediately classified as sub-standard on restructuring as also 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 the extant asset classification norms with reference to the pre-restructuring repayment schedule.

**9.18. Incipient Sickness :**

An account shows the symptoms of becoming sick much before the account turns NPA. These symptoms are called Early Warning Signals (EWS). On identification of these symptoms through EWS, the account can be termed as having incipient sickness. In eligible cases where bank is convinced about the genuine requirement of the borrowing concern, it can go for restructuring / rehabilitation measures even when the account has not turned NPA.

The emphasis of the revised guidelines is to hasten the process of identification of a unit as sick, early detection of incipient sickness, and to lay down a procedure to be adopted by banks before declaring a unit as unviable. Accordingly, the revised guidelines are issued for rehabilitation of sick units in MSE sector as given here below as per para No 3 below.

All our field functionaries are advised, to strive for rehabilitation, in respect of units in the MSE sector, wherever the sickness is on account of circumstances beyond the control of the entrepreneurs. However, in cases of units, which are not capable of revival, field functionaries should try for a settlement and / or resort to other recovery measures, expeditiously.

**9.19 General Guidelines for Rehabilitation of Sick Micro and Small Enterprises (MSEs)**

(1) **Handholding Stage:** Timely and adequate assistance to Micro and Small Enterprises (MSEs) and rehabilitation effort should begin on a proactive basis when early signs of sickness are detected. This stage would be termed as ‘handholding stage’ as defined below. This will ensure intervention by the banks immediately after detecting early symptoms of sickness so that sickness can be arrested at an early stage.

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 timeframe;

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.

**SMA Accounts:** The extant guidelines of the Loan Policy in respect of SMA accounts and its reporting shall be mutatis mutandis applicable for Rehabilitation of Sick Micro and Small Enterprises (MSEs).The SMA accounts show the signals of incipient sickness of borrowal concerns. Therefore they are eligible for restructuring/rehabilitation on merits and subject to adherence to RBI guidelines.

The bank branches should take timely remedial action which includes an enquiry into the operations of the unit and proper scrutiny of accounts, providing guidance/counseling services, timely financial assistance as per established need and also helping the unit in sorting out difficulties which are non-financial in nature or requiring assistance from other agencies. In order to ensure timeliness for banks for taking remedial action/ measures in 'handholding stage', the handholding support to such units should be undertaken within a maximum period of two months of identification of such units.

(2) **Definition of Sickness:**

**(a) Micro & Small Enterprises**:

A Micro or Small Enterprises (as defined in the MSMED Act 2006) may be said to have become Sick, if

a. Any of the borrowal account of the enterprise remains NPA for three months or more

OR

b. 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.

**(b)Medium Enterprises:**

*(i)* Medium Enterprise (Industrial Units):The corporate medium industrial enterprises are covered under Sick Industrial Companies Act (SICA) 1985 for determining it as a sick unit, defined as under:

*"sick industrial company" means an industrial company (being a company registered for not less than five years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth."*

**i.** Under the provisions of SICA the corporate medium industrial enterprises are supposed to make a reference to Board for Industrial & Financial Reconstruction (BIFR) within 60 days from the date of finalization of the audited accounts of the company for the financial year as at the end of which the company has become a sick industrial unit. As such Bank cannot go for implementing a rehabilitation package of its own in such cases pending reference to BIFR.

**ii.** Corporate medium industrial enterprises with fund and non-fund based limits of Rs. 10 crore and above and financed through multiple / consortium arrangement are eligible to be referred to CDR and if reference has been made it would be restructured under CDR guidelines. However, such accounts can also be restructured under non-CDR route, if not referred to CDR.

**iii.** Other non-corporate medium industrial enterprises can be entertained for rehabilitation / restructuring by the Bank subject to fulfillment of other conditions mentioned elsewhere.

**iv.** Sick / weak units, units with incipient sickness and accounts classified as Special Mentioned Accounts(SMA)will be eligible for restructuring / rehabilitation.

(ii) Medium Enterprise (Non-industrial units, i.e., Service sector):These units are also eligible for rehabilitation / restructuring by Bank subject to fulfillment of all regulatory guidelines as per

IRAC norms. Sick / weak units, units with incipient sickness and accounts classified as Special Mentioned Accounts(SMA) will be eligible for restructuring / rehabilitation. Accounts under this category irrespective of the limits and regardless of type of incorporation can be taken up for restructuring / rehabilitation by the Bank.

(3) Accounts not eligible for restructuring/rehabilitation:

- **i.** Units becoming sick / weak / incipient-sick / Special Mentioned Accounts(SMA)/ NPA on account of willful mismanagement, willful default, unauthorized diversion of funds, dispute among the partners / promoters, fraud, malfeasance, misre-presentation / falsification of records, siphoning of funds, borrower (any of the partners/promoters) absconding etc. will not be eligible for rehabilitation / restructuring.
- **ii.** Cases of willful defaults or any of the directors of the company appearing as a willful defaulter in RBI willful defaulter list for some other defaulting company in which they are directors, will be referred to the Board of Directors of the Bank for consideration of restructuring / rehabilitation with proper justification.
- **iii.** In case willful default has been notified by Bank to RBI as per old guidelines wherein the company/directors/partners have not been given chance to be heard by the Bank before notifying to RBI, and since such provisions now available as per RBI guidelines, such cases may be referred to Board with justification for considering restructuring / rehabilitation.
- **iv.** Accounts in loss category and accounts where legal proceeding has been initiated for recovery are not eligible for restructuring / rehabilitation.
- **v.** Banks cannot restructure / rehabilitate borrowal account with retrospective effect.

**(4)** General Eligibility Criteria :

- **i.** Banks may restructure the accounts classified under 'standard', 'substandard' and 'doubtful' categories
- **ii.** All non-corporate Micro, Small and Medium Enterprises (MSMEs)irrespective of the outstanding (both funded and non-funded).
- **iii.** All corporate MSMEs, which are enjoying banking facilities from a single bank, irrespective of the outstanding (both funded and non-funded).
- **iv.** All corporate MSMEs, which have funded and non-funded outstanding up to (i.e., below) Rs. 10 crores under multiple / consortium banking arrangement.
- **v.** All corporate MSMEs, which have funded and non-funded outstanding of Rs. 10 crore and above under multiple / consortium banking arrangement are eligible to be referred to CDR. However, if it is not preferred to be referred to CDR, can be considered for restructuring / rehabilitation under non-CDR route, subject to unanimous consent of the lenders and accepted by the borrower.
- **vi.** Restructuring / rehabilitation is to be considered only on written request of the borrower. However, the process of restructuring can be initiated by the Bank in deserving cases, subject to the borrower agreeing to the terms and condition.

**9.20** Proper classification of “Sickness” would enable banks to take timely action in identification of sick units for their revival. The MSE units which could not be revived after intervention by banks at the ‘handholding stage’ need to be classified as sick subject to complying with any one of the two conditions as laid down above and based on a viability study the viable/potentially viable units be provided rehabilitation package. The rehabilitation package should be implemented speedily in a time bound manner. The rehabilitation package should be fully implemented within six months from the date of the unit is declared as ‘potentially viable’/’viable’. While identifying and implementing the rehabilitation package, banks are advised to do ‘holding operation’ for a period of six months. This will allow small-scale 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 operation’.

**9.21** Units becoming sick on account of willful mismanagement, willful default, unauthorized diversion of funds, disputes among partners / promoters, etc. should not be classified as sick units and accordingly should not be eligible for any relief and concessions. In such cases steps should be taken for recovery of bank's dues. The declaration of a borrower as willful defaulter should be done strictly in accordance with the extant RBI guidelines.

**9.22** The above definition may be adopted for the purpose of reporting the data for the year ending 31, March, while for the purpose of formulating nursing programme; banks should go by the above definition with immediate effect.

**9.23 Viability:**

**9.23.1 Viability Study**:

**a.** No account will be taken up for restructuring / rehabilitation by the Bank unless the financial viability is established and there is a reasonable certainty of repayment from the borrower. The viability should be determined based on the acceptable viability benchmark which may be applied on a case to case basis, depending on merits of each case. The parameters may include return on capital employed; debts service coverage ratio, gap between internal rate of return and cost of funds and the amount of provision required in view of the diminution in the fair value of the restructured advance.

**b.** In view of above it is decided as under :

i. In the borrowal account taken for restructuring, where there is no involvement of additional funds to be sanctioned to the borrower, the viability study should be done in-house depending on the projected balance sheet, profit and loss account and cash-flow.

ii. Wherever Bank's outstanding (fund based as well as non-fund based) is upto and inclusive of Rs. 5 crore, the viability study would be conducted in-house.

iii. Where part disbursement has taken place in a term loan sanctioned for funding / part funding the project and the project cost is more than Rs. 5 crore, in such cases viability study is to be done by outside agency in case of sole banking and as decided by the lenders in case of multiple / consortium lending.

iv. Subject to the above, in case of eligible MSME accounts which are under consortium / multiple banking arrangements, the bank with maximum outstanding may work out the restructuring package along with the bank having the second largest share.

v. Outside agencies for conducting viability study would be appointed from among the list of agencies provided in the credit policy. However, the authorities may appoint reputed chartered accountants having appropriate experience and exposure for conducting viability studies. CA firms working in the list of IDBI / SBI Caps / IL&FS and other term lending institutions etc. with adequate experience may be preferred, subject to the amount of fees acceptable by the borrower.

vi. In case of hardship faced by MSME borrowers to pay the fee for conducting viability study, the amount may be debited to borrower's account with his explicit consent and would form a part of the package. In case the viability is not established and therefore a restructuring package is not workable, the fee so payable may be debited to borrower's account since the borrower would have already given consent and accepted the fee structure before commencement of the viability study.

vii. The viability study includes techno-feasibility study, wherever required, in addition to economic viability study.

viii. In case of viability study done in-house where techno-feasibility study is also required, Bank may hire the services of appropriate agency for techno-feasibility study only and the cost of the same may be borne by the borrower in the same procedure as mentioned in point no (vi) above.

ix. Wherever conducting viability study is to be entrusted to outside agency the letter of intent (LoI) describing the scope of the study must be spelt out clearly with time limit to complete the assignment.

x. The competent authority for appointment of outside agency for conducting viability study would be the sanctioning authority in whose discretionary powers the existing borrowal limits fall. However, in the proposals falling beyond the discretionary powers of Chairman & Managing Director, i.e. proposals sanctioned by Managing Committee, Chairman & Managing Director, and in his absence Executive Director, would be the competent authority for appointment of outside agency.

**9.23.2** 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 by the banks before declaring any unit as unviable:

**a.** A unit should be declared unviable only if the viability status is evidenced by a viability study. However, it may not be feasible to conduct viability study in very small units and will only increase paperwork. As such for micro (manufacturing) enterprises, having investment in plant and machinery upto Rs.5 Lacs and micro (service) enterprises having investment in equipment uptoRs2 Lacs, the Branch Manager may take a decision on viability and record the same, along with the justification.

**b.** The declaration of the unit as unviable, as evidenced by the viability study, should have the approval of the next higher authority / present sanctioning authority for both micro and small units. In case such a unit is declared unviable, an opportunity should be given to the unit to present the case before the next higher authority.

**c.** The next higher authority should take such decision only after giving an opportunity to the promoters of the unit to present their case.

**d.** For sick units declared unviable, with credit facilities of Rs.1 crore and above, a Committee approach may be adopted. A Committee comprising of senior official of the bank may examine such proposals. A Committee approach will improve the quality of decision as collective wisdom of the members shall be utilized, especially while taking decision on rehabilitation proposals.

**e.** Decision of the above 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.

9.23.3 The banks may, however, take decision in cases of malfeasance or fraud without following the above procedure.

**9.24 Reliefs and Concessions for Rehabilitation of Potentially Viable Units**

The existing guidelines in respect of reliefs and concessions for rehabilitation of potentially viable units remain unchanged

The following table is indicative of giving relief and concessions to various facilities for the borrowers in different segments. The rate of interest and repayment may be fixed based upon the cash-flow and DSCR. It is also stipulated by RBI to make NPV provisions towards diminution of fair value of the principal amount as per restructured terms of payment and due to reduction of rate of interest which is an additional burden on the Bank. Therefore, while the indicative bench-mark is a thumb rule to follow, any deviation to that would be referred to concerned operational General Manager/ GM (SME) with proper justification for the same for consideration.

**9.24.1 Indicative Repayment Period :**

| | Period for concessions in interest rates on Term Loans & Working Capital limits as well as fresh Term Loans | Repayment period for restructured debts | Repayment period for WCTL | Repayment period for FITL |
|---|---|---|---|---|
| Medium Enterprise | 7 years | 10 years | 7 years | 3 to 5 years |
| Small Enterprise | 5 years | 7 years | 5 years | 3 years |
| Micro Enterprise | 2 years | 3 years | 2 years | 2 years |

**9.24.2 Indicative Rate of Interest:**

| Facility | Applicable Rate of Interest |
|---|---|
| Cash Credit / Other WC limits | In view of rationalization of interest rate structure for MSME borrowers and modified interest rates conveyed vide circular Nos.365/09/2011-12 dated 07.02.2012 & 157/04/2013-14 dt-23.08.2013, 241/18/2013-14 dt 31.10.2013 lower of the rate will be applicable. Besides, 1% further concession is proposed for FITL and 0.50% concession is proposed for other facilities in case of restructured accounts. However, applicable rate of interest should not be below Base Rate. |
| Term Loan / Additional Term Loans | |
| WCTL | |
| FITL | |
| Soft Loan for Start-up Expenses & Margin for Working Capital | |

Note: Wherever the existing rate of interest is less than the indicative rate of interest the same (existing rate) should continue.

**9.25. One Time Settlement** :

The One Time Settlement Scheme for recovery of NPA loans as circulated by our Recovery Management Department under the Loan Recovery Policy from time to time, to be strictly adhered to.

**9.26 Non-Viable Units** :

a. On finding the unit unviable the borrower should be communicated in writing about the reason for not taking up the account for restructuring / rehabilitation. The decision for declaring the unit unviable is to be approved by next higher authority (authority one step higher than the sanctioning authority of the existing limit) before the written communication is made to the borrower as aforesaid. However, for tiny/micro category account with limits upto Rs. 25 lacs, the sanctioning authority can decide about the non-viability of the unit and the same can be conveyed in writing to the borrower.
b. In the said written communication Bank should inform the borrower/promoters to present their case within seven days from the date of such decision conveyed to them, if they so desire; otherwise the decision is final. In case the borrower/promoters present their case within the stipulated period of seven days, Bank's final decision must be conveyed in writing to all concerned by the authority stated above after listening to the presentation of the borrower/promoters.
c. The above process should be completed in a time bound manner, i.e., maximum 90 days from the date of receipt of the application of the borrower for restructuring / rehabilitation.
d. Where the account is not found viable, Bank should go ahead for recovery action, as deemed fit.

**9.27 Guidelines / Modalities for Restructuring / Rehabilitation** :

a. **Holding on Operation**:

While identifying and implementing the restructuring / rehabilitation package, 'holding on operation' would be allowed in the concerned account till restructuring package is implemented. This would enable 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'.

Cut back arrangement may also be explored in eligible cases depending on the cash-flow with express consent of the borrower.

The decision for allowing holding on operation / cut back arrangement would be taken by the respective sanctioning authority of the existing (pre- restructured) limit.

After receipt of application from the borrower for restructuring of limit the holding on operation to be allowed in respect of Fund Based Working Capital Limit and Non Fund Based limit.

Holding on operation means no further exposure to be increased and amount to be freezed and deposit / credit in the account may be allowed to be utilized by the borrower.

In case of BG Limit, if any guarantee is cancelled, fresh guarantee to that extent may be allowed to be issued.

In case of LC Limit, fresh LC limit may be permitted to the extent of payment of LC liability.

However, in case of devolvement of LC or invocation of BG, no further LC or BG is allowed to be issued further, till the same is cleared.

b. **Interest on Cash Credit and Term Loan Account**: Every restructuring / rehabilitation case would determine a cutoff date depending upon the irregularities and identification of the account as a sick / weak / incipient-sick / standard B account, as the case may be. Penal interest should be waived from the accounting year in which the unit started incurring losses continuously. The unpaid interest on term loan and cash credit accounts as on the cutoff date should be segregated from the total liability and be funded. Interest for implementation period and till the unit stabilizes production and earns cash profit should also be funded.

The cutoff date will be the earliest date from which the dues are in default. In case of multiple loan account, the date of earliest dues in default in any account should be taken as cutoff date.

Interest may be reduced from cutoff date irrespective of the fact whether the company has incurred cash loss or not.

c. **Funded Interest Term Loan (FITL) :** The uncharged interest / future interest may be converted to FITL repayable over a period with suitable installments and interest rate depending on the cash-flow and subject to relief and concessions available on terms of repayment and interest rate provided under the head 'Relief and Concessions' appearing hereinafter.

Where FITL is created for the uncharged interest on restructuring / rehabilitating an NPA account it is to be maintained in shadow ledger. On actual recovery amount would be taken to profit and loss account through FITL account to the extent of recovery made.

d. **Working Capital Term Loan (WCTL) :** After the unadjusted / unrecovered interest portion in the cash credit account is segregated and penal interest / other charges reversed as indicated above, the balance representing principal dues may be treated as irregular to the extent it exceeds drawing power. This amount may be converted to WCTL with repayment schedule depending on the cash-flow and subject to relief and concessions available on terms of repayment and interest rate provided under the head 'Relief and Concessions' appearing hereinafter.

e. **Term Loans :** Restructuring / re-schedulement of the repayment programme of the existing term loan may be taken up depending upon the cash-flow of the projected balance sheet for the restructuring period, wherever warranted, subject to annual review. Interest on term loan may be reduced wherever considered necessary, depending upon the cash-flow and subject to relief and concessions available on terms of repayment and interest rate provided under the head 'Relief and Concessions' appearing hereinafter.

   Reduction in Rate of interest could be considered in isolation for restructuring an account as well as a part of a restructuring package.

f. **Working Capital :** After the irregular portion of the working capital is carved out to WCTL and/or FITL, as the case may be, the regular portion of the working capital may not be adequate to run the business for the projected level of operation. Therefore, proper assessment of the working capital to be made and additional financial assistance may be extended. If the assessed limits is lower than the existing regular portion of the working capital limit the difference may be converted to WCTL. The concession and rate of interest are as stated under the head 'Relief and Concessions'.
   Wherever necessary reduction in margin and combined DP against stock and book debt may be considered (in line with Dr K C Chakraborty Committee recommendations).

g. **Cash Losses:** As mentioned earlier, units put under restructuring / rehabilitation may incur cash losses during the implementation period of the project or due to operation of the unit below BEP level till stabilization of commercial production and marketing. The unit may face hardship for servicing interest and repayment of debt during the said period. Therefore interest accrued, due and payable by the unit during the said period (period for stabilization of commercial production and marketing) may be funded and repayment of principal may be scheduled after the said period of stabilization depending on the cash-flow and DSCR**.**

h. **Additional Term Loan:** The restructuring / rehabilitation package may involve capital expenditure for acquiring fixed assets to enhance production capacity to the projected level as assumed in the viability plan. Bank may sanction the same on merits with 15 % margin contributed by the promoters. Repayment of principal and interest may be stipulated.

i. Funds for Startup Expenses and Margin on Working Capital : There may be need to provide startup expenses and margin money requirement in certain restructuring / rehabilitation packages which may be provided as a soft loan from the Bank with shorter repayment period and concessional rate of interest. The repayment period should be not more than 3 years. Where margin money assistance is possible to be received from SIDBI / State Govt., the same may be credited to the soft loan account directly.

j. **Promoter's Contribution**: Promoter's contribution should be 20 % of lenders sacrifice or 2 % of debt whichever is higher and same should be brought in front. Branch to keep record of induction of promoters contribution and preferable the same should be routed through account with us,

**k.** **Right of Recompense:** Bank should incorporate a condition in the terms of sanction and documents as to right of recompense that when such unit would turn around and restructuring / rehabilitation package is successfully completed, the sacrifice given by the Bank should be recovered from the unit out of their future profit and cash accruals.

**l.** **Annual Review:** The sanction of the restructuring / rehabilitation package is subject to annual review. Bank has the right to accelerate repayment schedule and charge higher rate of interest in the event the cash accrual of the unit is higher than the projections / assumptions considered in the package.

**m.** **Contingency Loan Assistance**: Bank may provide appropriate additional financial assistance upto 15% of cost of rehabilitation by way of contingency loan assistance. Interest on this loan may be charged at the concessional loan allowed for working capital assistance.

**n.** **Interest Rate :**Subject to the concessions in the rate of interest mentioned under the head 'Relief and Concessions' mentioned hereinafter, it is stated that rate of interest is to be fixed taking care of the interest coverage ratio which may be flat rate or ballooning and step up mode during the repayment period. However, it should be ensured that average yield during the package period is received by the Bank as per the rate of interest fixed and approved in the proposal.

**o.** **Conversion of Debt into Equity:** Where unpaid interest or part of debt is proposed to be converted to equity or debentures as a part of restructuring package, prior approval of HO Integrated Treasury Deptt is to be obtained and valuation and provisioning requirements would be dealt with by Integrated Treasury Deptt as per extant RBI guidelines.

**p.** **Tools for Restructuring / Rehabilitation Package:**
**DSCR:** Average DSCR of 1.5:1 should be ensured during the moratorium and repayment period of the restructuring / rehabilitation package. Other tools like interest coverage ratio, IRR, sensitivity analysis, BEP, SWOT analysis and other relevant features as have been discussed in the viability study report are to be examined and incorporated in the proposal.

**q.** Accounts covered under ECGC, CGTMSE etc.: The package would be implemented with approval / information of ECGC / CGTMSE and any other agency as applicable to the respective accounts restructured.

**r.** Accounts Referred to CDR :Accounts referred to CDR would be restructured under guidelines issued by Reserve Bank of India conveyed to branches by way of Head Office circulars from time to time, last being Credit administration Department circular no 228/46/2008-09 dated November 04, 2008.

**s.** DISCLOSURE: Bank would disclose in its balance sheet under "Notes on Accounts" the information relating to the number and amount of advances restructured and NPV sacrifice made for standard, sub-standard and doubtful advances on MSME category separately.

**9.28 Scheme for Revival, Reform and Restructuring Package for Handloom Sector**

In the Budget speech for 2011-12 on 28.2.2011, the Finance Minister had announced that the Government of India would provide Rs.3000 crore to NABARD for implementing the financial package for handloom sector for waiver of overdue loans. As a follow up of the Budget announcement, the Government has now approved the scheme. NABARD vide its letter no- NB (ND)/HP (C)/2872/2011-12 dated 25$^{th}$ January, 2012 has informed that NABARD has been made The Implementation Agency for the package. They had accordingly sent a copy of the package and has requested for approval of the package from the Board of the Bank for implementation of the same by the Branches. Our Board, in its meeting held on 07.05.2012, has approved the scheme. Salient features of the scheme are as under:

- Govt. to provide Rs.3000 crore to NABARD for implementing scheme.
- Centre to provide 80% & 20 % by State.
- 100 % of principal and 25% of interest as on the date of loan becoming NPA which is overdue on 31.03.2010. The balance 75% of overdue interest and the entire penal interest, if any, will have to be written off by the bank as a pre-condition.
- Ceiling of Rs.50000/- for individual beneficiary.
- Interest subvention of 3% for 3 years for fresh loans.
- Govt. will pay 1% and 0.5% annual service Fee towards payment of Guarantee Fee for credit guarantee of 3 years.
- The scheme also covers individual handloom weavers, master weavers and Self Help Groups (SHGs) who have taken such loans for handloom weaving purposes, provided the banks agree for sanctioning fresh loans. There would be an overall ceiling of Rs 50,000 per individual beneficiary as far as funding under this scheme is concerned in respect of waiver of overdues of individual handloom weavers.
- The government has further approved an interest subvention of 3 per cent for 3 years to be extended from the date of disbursal of the fresh loan extended by banks to the eligible handloom cooperative societies and individual handloom weavers covered under the scheme.

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