LOAN POLICY FOR MICRO & SMALL ENTERPRISES SECTOR

ADVANCES & ASSET PLANNING DEPARTMENT

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LOAN POLICY FOR MSE SECTOR

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A. PREAMBLE:

Micro and Small Enterprises (MSEs) are considered as the growth engines of the Indian economy due to their spread and depth. They create vast employment opportunities and contribute significantly to our GDP. Their share in the exports is also significant. The scope of lending to Micro and Small Enterprises is expanding due to various policy measures of banks, RBI and Government of India. A comprehensive and liberal lending policy is required to enable the MSE sector to play it's pre-eminent role in the Indian economy without any hurdles. Accordingly, this policy is fine tuned in line with objectives of the bank to meet the genuine requirements and aspirations of the MSE sector.

B. OBJECTIVES OF THE POLICY:

The percentage of our Bank's MSE credit to total credit stood at 17.65% as on 31.03.2011. This percentage improved to 18.50% as on 31.03.2012. The prime objective of this policy is to improve this percentage to 20.00% by 31.03.2013 by facilitating smooth flow of credit to MSE Sector. The other objectives of the policy are as under:

a. To describe the MSE sector and its functional coverage.
b. To lay down guidelines for assessment of credit to MSE units.
c. To make available adequate and hassle-free credit facilities to MSE enterprises.
d. To achieve various growth parameters prescribed for MSE sector.
e. To comply with RBI/Government of India guidelines and instructions on MSE financing.
f. To give more thrust to Micro and Small Enterprises.
g. To adopt cluster based financing for Micro and Small Enterprises.
h. To improve coverage under Credit Guarantee Scheme of CGTMSE.
i. To implement various Government sponsored schemes applicable to MSE sector.
j. To adhere to the BCSBI's Code of Commitment to Micro and Small Enterprises.

C. DEFINITION OF MSE ENTERPRISES:

In order to facilitate the promotion and development of Micro, Small and Medium Enterprises, the Government of India enacted THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT 2006 (MSMED ACT 2006) on June 16, 2006. The Act became operational from October 2, 2006. The Act introduces the concept of "Enterprises" as against the "Industries". The Enterprises are now grouped under two major heads namely manufacturing and services. The MSMED Act 2006 defines various categories of enterprises in terms of Investment in Plant, Machinery and Equipments. Various categories of Micro and Small Enterprises are defined as under:

a. ENTERPRISES ENGAGED IN MANUFACTURING OR PRODUCTION, PROCESSING OR PRESERVATION OF GOODS AS UNDER:

1. **Micro Enterprise**: where investment in plant and machinery (original cost excluding land, building and other specified items) **does not exceed Rs.25 lacs.**
   (Micro Level-I investment upto Rs.10 lacs / Micro Level-II investment above Rs.10 lacs to Rs.25 lacs)

2. **Small Enterprise**: where investment in plant and machinery (original cost excluding land, building and other specified items) is more than **Rs.25 lacs but does not exceed Rs.5 crores.**

b. ENTERPRISES ENGAGED IN PROVIDING OR RENDERING OF SERVICES:

1. **Micro Enterprise** is an enterprise where investment in equipment **does not exceed Rs.10 lacs.** (Micro Level I – investment upto Rs.4 lacs /Micro Level II investment above Rs. 4 lacs to Rs. 10 lacs)

2. **Small Enterprise** is an enterprise where investment in equipment is more **than Rs.10 lacs but does not exceed Rs.2 crores.**

   These will include small road & water transport operators, small business, retail trade, professional & self employed persons and other service enterprises.

   In both the above cases the investment in equipment (original cost) excluding land, building, furniture, fittings and other items not directly relating to service rendered or as notified under the MSMED Act 2006 should be reckoned for the purpose of determining the investment.

c. KHADI AND VILLAGE INDUSTRIES SECTOR (KVI):

All advances granted to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery will be considered as advances to Micro Enterprises. Such advances will be eligible for consideration under the Micro enterprises Segment within the priority sector.

Advances granted to units in the KVI sector are the credit facilities made available to individuals, artisans, institutions, co-operative societies etc., for production of khadi products, cottage industries/village industries products.

d. INDIRECT FINANCE TO MSE SECTOR:

- Persons involved in assisting the decentralized sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.
- Advances to cooperatives of producers in the decentralized sector viz. artisans, village and cottage industries.
- Loans granted by banks to Micro Finance institutions, on, or after, April 1, 2011 for on-lending to micro & small enterprises (manufacturing as well as service) subject to the compliance of guidelines specified in Master Circular on “Lending to Priority Sector”

e. SCOPE AND COVERAGE:

This policy covers credit facilities to micro and small enterprises (both manufacturing and services sector) and all related issues such as assessment of credit, margin norms, security requirements, coverage under Credit Guarantee Scheme etc. This also covers policy on identification and rehabilitation of sick & potentially viable units in the MSE Sectors.

1. GUIDELINES ON MSE FINANCE:

Advances to MSE sector will be assessed like any other advance (except for the specific relaxations and concessions given in this policy) and credit decisions will be taken based on viability, merits and commercial judgment in each case as per general norms of lending. The credit appraisal will be made in a transparent and non-discriminatory manner. All genuine and just requirements of the MSE units will be considered and adequate amount of credit will be sanctioned to ensure that the unit does not suffer for want of funds at a later stage.

Necessary credit support will be extended to MSE units for business restructuring, modernization, expansion, diversification and technological up gradation as may be required from time to time.

The following type of credit facilities will be extended to MSE units.

A. Term Loans for creation of fixed assets.
B. Project Finance i.e. Term Loans for creation of fixed assets/project assets.
C. Working Capital Finances by way of CC Limit, WCDL, WCTL, Bills Limits, Purchase, Discounting & Negotiation of Bills, Pre shipment/Post shipment finance.
D. Non fund based facilities such as LC, BG and Buyer's Credit (BC).
E. Credit facilities under Bank's special credit schemes e.g. Term Loan against Mortgage of Immovable Property, Loans to Trade & Services against Mortgage of Immovable property, J&K Bank Contractors Finance scheme, Saral Finance for Small Business, Loans under Govt sponsored schemes, other specific products and any other type of credit depending on specific need.

1.1 ASSESSMENT OF CREDIT FOR MSE UNITS:

1.1.1 Simplified procedures will be adopted for sanction of working capital limits upto Rs.5.00 crores as per Nayak Committee. Turnover Method i.e. 20% of the projected and accepted annual turnover will be extended as working capital limit to MSE units requiring aggregate fund based working capital limits up to Rs.5.00 crores. For business enterprises whose sales are more than **Rs.40.00 lacs** audited financials shall be obtained. A reasonable growth in sales by amount ranging between 15% & 25% over the actual sales of last financial year may be normally accepted. **However, sales growth of more than 25% but up to 35% maximum can be accepted provided the entrepreneur provides sufficient justification for such increase in sales. Sales growth of more than 35% can also be accepted and such cases shall fall within the powers of Zonal Head upto loan limits falling normally under the powers of Branch Head, Cluster Head & Zonal Head. Cases where sales growth of more than 35% shall be accepted and falls in the powers of A&AP shall be sanctioned as per existing powers without considering it as deviation.** In case working capital margin is available for amount less than the required margin contribution, limit shall be sanctioned with suitable condition that the borrower shall induct deficit/shortfall amount and after being satisfied that the borrower has sufficient resources/capacity to generate adequate cash flows to meet the deficit/shortfall in working capital margin.

1.1.2 For MSE units requiring working capital limits above Rs.5.00 crores, WC Limits shall be strictly allowed as per 2nd Method of Lending based on Credit Monitoring Arrangement (CMA) data.

1.1.3 For seasonal industries such as tea, coffee, sugar, IT Services etc Cash Budget method shall be followed.

1.1.4 A combined working capital limit will be allowed against the stock and receivables without any sub limit for receivables. However, a separate Bills Discounting/Purchase limit can be sanctioned wherever required depending upon the nature of activity. Margins may be different for stocks and receivables on case to case basis.

1.1.5 If the bank sanctions term loan solely or jointly with one or more Banks, working capital limit will also be sanctioned simultaneously solely or jointly to avoid delay in commencement of commercial production. It will also be ensured that there are no cases where term loan has been sanctioned but sanction of working capital facilities is awaited.

1.1.6 The interest payable up to six months after commercial production will be included as part of the project cost for assessment of credit requirements. Adequate moratorium/gestation period say, up to six months, after commencement of commercial production, will be allowed for repayment of principal amount wherever required, to enable the unit to establish itself in the market.

1.1.7 **Rejection of MSE credit application will be conveyed to the applicant only after obtaining approval from the next higher authority.**

1.2 MARGIN NORMS:

1.2.1 Term Loans:

1.2.1.1 <u>No margin is required for loans upto Rs.50000/.</u>

1.2.1.2 <u>10% for limits above Rs.50000.00 and upto Rs.2.00 lacs.</u>

1.2.1.3 For loans above Rs.2.00 lacs 25%, can be relaxed upto 20% in case of well established MSEs on merits.

1.2.2 Working Capital Finance for calculation of drawing power:

1.2.2.1 **For working capital up to Rs.5.00 crores:** Minimum margin of 20% of Stocks & 20% of Book Debts shall be prescribed in case facility will be secured against hypothecation of raw materials, work in process, finished goods etc. & assignment of book debts. However, higher margins may be stipulated depending upon the nature of activity wherever justified.

1.2.2.2 **For working capital above Rs.5.00 crores:** As per 2nd method of lending i.e. 25% of Stocks & Book Debts.

1.2.2.3 **For Post Shipment Loan:** Nil

1.2.2.4 **For PCL:** Minimum20%.

1.2.3 Minimum cash margin of 10% will be prescribed in respect of non fund based limits such as Bank Guarantee, Letter of Credit & Buyers Credit on merits.

1.2.4 For loans under Government sponsored schemes and Bank's special credit schemes, margin will be obtained as stipulated in the scheme even if it is different from the levels indicated above.

1.2.5 In exceptional cases, margins lesser than indicated above can be accepted subject to prior approval of the competent authority as per powers vested with them.

1.2.6 In case of restructured/rehabilitated account minimum margin norms may not apply.

1.3 SECURITY NORMS:

1.3.1 **Primary Security:** All the assets both fixed and current financed by the bank shall be obtained as primary security by the bank by way of hypothecation/assignment/mortgage (registered as well as equitable). Normally an Asset Coverage Ratio of 1.25:1 shall be maintained.

1.3.2 **Collateral:** Collateral in the form of tangible security will supplement coverage for exposure. Personal/Corporate guarantee, negative lien of fixed assets will not be considered as collateral for this purpose.

1.3.3 In respect of following categories collateral security and/or 3rd party guarantee(s) shall not be obtained:

1.3.3.1 Loans & Advances to Micro & Small Enterprises in manufacturing and services sector for credit limits up to Rs.10.00 lacs. **CGTMSE cover in all such cases i.e. loans up to Rs.10.00 lacs will be obtained by bank at its own cost.**

1.3.3.2 Loans & Advances to Micro & Small Enterprises in manufacturing and services sector for credit limits above Rs.10.00 lacs upto the credit limits as specified by the bank from time to time, provided credit guarantee cover under Credit Guarantee Trust for Micro & Small Enterprises (CGTMSE) is available and obtained. Cost of CGTMSE Fee shall be paid by the borrower for loans above Rs.10.00 lacs.

Note: Presently Bank is freely taking guarantee cover for credit facilities upto Rs 25 lacs. However, depending on the merits of each case, the bank may also consider acceptance of CGTMSE Guarantee cover on selective basis for credit facilities above Rs 25 lacs & up to Rs.1.00 crores.

1.3.3.3 Loans & Advances under Govt sponsored schemes sponsored by State/Central Governments, unless specified in the scheme. However, guarantee cover under CGTMSE will be obtained as per instructions mentioned at “a” &“b” above.

1.4 Key Ratios: For entertaining new credit proposals, following level of key ratios are required for loan limits above Rs.2.00 lacs:

Key Ratio	Minimum	Remarks
Current Ratio	1.25:1 for limits upto Rs.5.00 crores. 1.33:1 for limits above Rs.5.00 crores	May be relaxed Up to 1.10:1 in case of export credit
Debt Equity ratio (Long term debt including DPG / Equity)	3:1 **(For loans above Rs.2.00 lacs)**	May be relaxed up to 4: 1 in case of well established MSEs on merits.
DSCR (Debt service coverage Ratio)	1.:15 (Minimum) and 1.30:1 (Average)	The acceptable levels in base case scenario are prescribed as 1.15:1 (Minimum) and 1.30:1(Average). However, the levels can be relaxed upto 1.10:1 (minimum) & 1.25 :1 (average), provided the borrower has good track of repayments and has satisfactory dealings with the bank.
Interest coverage ratio	1.25:1	The ratio is an indicator of ability of the unit to repay / service the interest and is arrived at by dividing PBIT by interest and has to be analyzed in combination with other financial indicators.

1.5 CLUSTER BASED APPROACH:

Clusters are defined as sectoral and geographical concentration of MSME units sharing common opportunities and threats. Thrust will be given to cluster based finance wherever recognized clusters are existing. Following benefits of cluster based approach to lending will be taken advantage of:

- dealing with well defined groups
- availability of appropriate information for risk assessment and
- easy monitoring of borrowal units.

Diverse needs of the MSE units functioning within the cluster will be considered and adequate finance will be extended to such units.

1.6 PRICING AND CREDIT RATING OF MSE ADVANCES:

As per Risk Management Policy of the Bank, all borrowal accounts with credit limits of Rs.15.00 lacs and above (Fund & Non Fund) must be rated under Risk Scorer Application before sanction. Pricing of all loan facilities of Rs.15.00 lacs and above has been linked with internal rating grades.

Bank is already extending concessional interest rate to MSEs and same will continue as an incentive & encouragement to the MSE sector. Small units will be encouraged for external ratings by ICRA, CRISIL, ONICRA, SMERA SME Rating Agencies or from other reputed rating agencies. Bank has executed Memorandum of Understanding (MOU) with these rating agencies to get the Small & Medium Enterprises borrowers of the Bank rated. The rating exercise shall help the unit holder to understand its strengths and weakness, increase credibility with business associates and have better pricing for their loans. The rating shall depict both financial strength and performance capability of a unit. It shall also add credibility to the status of SME unit and open doors with large companies especially with those who deal with large number of vendors. It will motivate the unit holders in adopting good governance practices which shall be beneficial in long run. It shall also serve a tool for self evaluation and improvement and provide the Bank an independent credit opinion and impetus to the sanctioning authority, while improving credit risk management from regulatory perspective.

National Small Industries Corporation (NSIC) provides subsidy up to 75% in rating fees to the unit holders who are registered with DIC. In addition, the rating agencies also offer concession on the normal fee structure to the clients of our Bank. As such the unit holders shall have to pay fees at subsidized rates as per the turn over of the account. Bank also extends 0.50% concession in applicable ROI to Small Enterprise units, who get top rating of SE1A, SE1B, SE2A & SE2B from these rating agencies. Concession shall be allowed from the date of latest rating, fresh or renewal, and shall be valid till validity of rating grade or one year whichever is earlier. Further concession shall be available only after submission of latest rating by the borrower which should not be older than one year**.** No concession shall be allowed/ extended after expiry of validity period of rating or one year from date of last concession whichever is earlier, till submission of fresh rating.

In consonance with the risk bearing capacity of the bank, following internal rating grade benchmarks have been set for disposal of credit proposals:

1.6.1 New Proposals with a rating grade up to 6 shall be freely considered for recommendations / approval.
1.6.2 Proposals with a rating grade of 7 shall require approval of next higher sanctioning authority.
1.6.3 Proposals with a rating grade of 8, 9 or 10 shall not be considered for recommendations / approval.
1.6.4 In case of existing accounts coming up for renewal or rating review, the rating grade of 7 and above shall warrant devising of account specific strategies which include restrictions on additional exposure, strict monitoring or modification of existing Loan structure or obtaining additional collateral.
1.6.5 Internal Credit risk rating of a borrower shall become due for updating after expiry of 12 months from the month of confirmation of earlier rating.
1.6.6 Rating shall be treated as 'overdue' after expiry of 15 months from the month of confirmation of earlier rating.

1.7 Disposal of Loan Applications:

The operative levels while acknowledging receipt of loan applications shall indicate to the applicant borrower the time period for disposal of the application. The following time frame is prescribed for disposal of loan applications after their receipt along with relevant details /information supported by requisite financial and operating statements. If additional details/ documents are required, the borrower should be immediately informed in writing.

Category of loan application	**Total time period for disposal after receipt of the loan application along with relevant information/ documents at the Business units.**
All categories of loan applications (fresh, renewal or enhancement) falling within the powers delegated to Business unit Heads.	15 days
All categories of loan applications (fresh, renewal or enhancement) for limits falling within the powers delegated to Zonal Heads and Cluster Heads.	3 weeks from the date of receipt of the proposal at the B/U.
All categories of loan applications (fresh, renewal or enhancement) falling within the powers of CHQ (other than proposals to be sanctioned by	4 weeks from the date of receipt of the proposal at the B/U.

BOD/MCB)	
All categories of loan applications (fresh, renewal or enhancement) falling within the Powers of BOD/MCB	6 weeks from the date of receipt of the proposal at the B/U.
Proposals seeking in principle sanction	One week from the date of receipt of the proposal

1.8 Take over of MSE loan accounts from other Banks/FIs:

Take over of limits from other banks / FIs is a valuable source for increasing Bank's advances. The following guidelines will be followed in such cases:

1.8.1 The account to be taken over should be a standard asset with the other bank /FI at the time of take over. This fact shall be established on the basis of credit report, as per prescribed format, obtained from the other bank / FI and examination of statement of accounts, at least for a period of last 6 months for working capital facilities and for a minimum period of 12 months in case of Term Loan accounts. Copy of sanction letters in respect of credit facilities enjoyed by the borrower shall also be examined for drawing meaningful conclusions.

1.8.2 Accounts eligible for takeover shall be having internal rating from 1 to 3.

1.8.3 The credit requirements of the borrower shall be independently assessed.

1.8.4 Formalities such as fresh documentation, transfer of securities etc between the two banks shall be expeditiously completed.

1.8.5 The key financial ratios of the loan accounts proposed for takeover have to be at bench mark level but following deviations may be permitted on case to case basis:

Key Ratios	**Minimum**	**Deviations**
Current Ratio	1.25:1 during last 2 years.	May be accepted at 1.20:1 (1.10:1 in case of export credit) subject to the satisfaction that the unit will not face any liquidity constraints and the projected ratio is within the

		benchmark level.
FACR (fixed assets coverage ratio)	1.25:1	May be relaxed up to 1.20:1, and in case of term loans upto 1.10:1 based on the background and reputation of promoters.
DER (Debt Equity Ratio)	3:1	DER upto 4:1 may be considered provided the bank is satisfied that the unit has faster generation of profits and in such cases the minimum DSCR should be 1.50 :1 (under different scenarios)
DSCR (Debt service coverage ratio)	Min:1.30:1 Average 1.50:1	Min1.20:1 Average:1.40:1 (under different scenarios) provided DER is within the permissible level

Take over proposals shall be sanctioned only by A&AP CHQ, Zonal Offices or Business Clusters depending upon the amount involved in the proposal. Takeover proposals involving sanction of facilities for limits ordinarily falling within the powers of Business unit heads shall be sanctioned by concerned Cluster Head or Zonal Head. Proposals involving sanction of facilities for limits falling within the powers of Cluster Head/Zonal Head shall be sanctioned by concerned Cluster Head/Zonal Head and those beyond the delegated powers of Zonal Heads shall be sanctioned by A&AP, CHQ. Proposals involving any deviations to the approved norms shall be sanctioned only by A&AP, CHQ.

2. CREDIT GUARANTEE TRUST FOR MICRO AND SMALL ENTERPRISES (CGTMSE):

Bank will encourage financing viable micro and small enterprises for fund based and non fund based limits without collateral security and/or third party guarantee by taking advantage of the Credit Guarantee Scheme of CGTMSE. In order to promote flow of credit to Micro & Small Enterprises, the Bank is freely taking guarantee cover for credit facilities upto Rs 25 lacs. However, depending on the merits of each case, the bank may also consider acceptance of CGTMSE Guarantee cover on selective basis for credit facilities above Rs 25 lacs & up to Rs.1.00 crores. For loans up to Rs.10.00 lacs guarantee fee shall be paid by the bank and for loans above Rs.10.00 lacs fee shall be paid by the borrower.

3. GROWTH PARAMETRES:

The bank will set targets for growth in MSE credit by a minimum year on year growth of 20% or as mandated by Reserve Bank of India/Govt of India from time to time. Targets will also be fixed each year for fresh disbursements of MSE credit. Within the MSE sector, thrust will be given to improve advances to Micro Enterprises. Efforts will be made to ensure that all sub sectors under MSE sector receive credit as under:

Micro level I	40% of total credit to Micro & Small Enterprises
Micro Level II	20% of total credit to Micro & Small Enterprises
Small Enterprises	40% of total Credit to Micro & Small Enterprises

In additions, it shall also be ensured that 20% year-on-year growth in credit to micro and small enterprises shall be achieved and 10% annual growth in the number of micro enterprise accounts shall be achieved.

4. STRATEGIES:

To improve the flow of credit to MSE sector and to achieve the various targets and commitment for the MSE sector, the bank will adopt the following strategies:

4.1 Branch Managers and other officials handling MSE credit will be imparted training to enable them to properly understand the nuances of MSE finance and opportunities in the sector. Efforts will be made to sensitize the operative levels and inculcate positive mindset towards financing MSE units.

4.2 MSE credit processing centers will be set up at key locations to ensure prompt and efficient processing for all MSE credit applications.

4.3 Simplified loan application forms will be made available for loans to Micro Enterprises.

4.4 Zone Wise and Branch Wise annual targets will be fixed for lending to MSE sector and quarterly review notes on Zone Wise performance will be placed before Top Management.

4.5 A separate target will be fixed to branches for sanction of loans under CGTMSE cover in order to increase the coverage under Credit Guarantee Scheme of CGTMSE.

4.6 Cluster based financing will also be undertaken wherever possible.

4.7 Specialized MSE branches will be opened at potential centers, identified clusters and industrial estates to enhance the flow of credit to MSE sector.

4.8 Latest technology will be adopted for on line submission of MSE credit applications, tracking of applications and for MIS requirements.

4.9 New credit products will be developed for MSE sector to meet the emerging requirements of the sector from time to time.

4.10 Bank will implement all Government of India/State Government sponsored schemes for MSE sector and disburse credit under such schemes within the stipulated parameters.

4.11 Bank will avail refinance from SIDBI to augment the resources for lending to MSE sector, whenever considered necessary.

4.12 **To ensure that loans to MSE sector up to loan limit of Rs.10.00 lacs are extended collateral free, sanctioning powers of all sanctioning authorities against collateral security/3rd party guarantee up to Rs.10.00 lacs will be withdrawn.**

4.13 **No cross selling of financial products as a pre condition of financing MSE units.**

4.14 **Down selling of Bad/Unviable accounts to Asset Reconstruction Company.**

4.15 **Bank will create a separate portal for MSME on banks website and will place all the information & data related with MSME as suggested by RBI.**

5. MSE CARE CENTERS:

MSE Grievances Redressal cum Care centers shall be established at all Zonal Offices to handle the grievances of Micro and Small Enterprises and also to guide the MSE Entrepreneurs.

6. FOLLOW UP OF MSE CREDIT:

MSE loan portfolio will be monitored at branch and controlling office levels on regular basis. Early warning signals with regard to irregularities in the accounts will be picked up promptly and probed into. Following mechanism to be adopted by operative levels for catching early warning signals in loan limits of Rs.2.00 lacs & above:

Early Warning Signal	Benchmark
No. of times DP/limit overdrawn	More than 10 days per month
Cumulative no: of days DP/ Limit exceeded	More than 60 days in a year
No: of days interest overdue	More than one month
No: of cheques / bills payable by the borrower returned	More than 5 per month.
No: of LC/ BG issued in favour of borrower devolved/ invoked	More than 5 in a year
No: of days delay in submission of renewal proposal	More than 60 days at a time
No of days delay in submission of Periodical statements such as stock statement, book debt statement & creditors statement.	More than 30 days at a time
Variance in projected sales Vs actual sales	More than 30%
Delay in rectification of inspection irregularities (Borrower side)	More than 60 days
Default in days in compliance with sanction conditions (borrower side)	More than 60 days
Credit summation (in case of sole banking)	Less than 60% of sales
Delay in submission of financial statements.	More than one quarter

Corrective measures will be initiated without loss of time to avoid the accounts slipping into sub standard category. Borrowal accounts will be restructured, wherever necessary, under the provisions of debt restructuring mechanism for MSE enterprises. If any accounts become sick, in spite of close monitoring and follow up action, such accounts will be dealt with sympathetically and shall be rehabilitated under bank's policy on nursing and rehabilitation of sick MSE units, if they are potentially viable.

7. DEBT RESTRUCTURING MECHANISM FOR MSEs:

The objective of the scheme is to ensure timely & transparent mechanism for restructuring the debts of viable entities facing problems. The policy aims at preserving the viable units that are affected by certain internal & external factors and minimize the losses to the creditors and other stake holders through an orderly and co-ordinated restructuring programme:

7.1 Eligibility:

7.1.1 Restructuring would be allowed to the following entities, which are viable or potentially viable:

7.1.1.1 All non-corporate MSEs irrespective of the level of dues to banks.

7.1.1.2 All corporate MSEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.

7.1.1.3 All corporate MSEs, which have funded and non-funded outstanding upto Rs.10 crores under multiple/ consortium banking arrangement.

7.1.2 Accounts involving willful default, fraud and malfeasance will **not** be eligible for restructuring under these guidelines.

7.1.3 Accounts classified as "Loss Assets" will **not** be eligible for restructuring.

7.1.4 In respect of BIFR cases completion of all formalities in seeking approval from BIFR before implementing the package shall be ensured.

7.1.5 No account will be taken up for rehabilitation/restructuring unless the financial viability is established and there is a reasonable certainty of revival of the unit and repayment from the borrower, as per terms of the rehabilitation/restructuring.

7.1.6 **The units/activities not considered viable shall not be restructured and bank will accelerate recovery measures in respect of such accounts, which may include One Time Settlement (OTS) of such accounts.**

7.2 Key components of restructuring

A restructured account is one where the Bank, for economic or legal reasons relating to borrower's financial difficulty, grants to the borrower concessions that the Bank would otherwise not consider. Restructuring of a borrowal account, therefore, involves any one or more of the following:-

7.2.1 Modification of the terms and conditions like reschedulement of repayment, reduction of interest (due to reasons other than competitive reasons), security stipulations.

7.2.2 Conversion of part of the principal outstanding into debt or equity instruments

7.2.3 Conversion of unpaid interest into FITL

7.2.4 Carving out of WCTL component from working capital facility on account of irregularities in working capital account.

7.2.5 Waivers and concessions etc due to reasons other than competitive reasons.

7.2.6 Even change in date of expected commercial production (COD).

7.3 Stages at which restructuring can take place: Restructuring of advances may take place at any of the following three stages:

7.3.1 Before commencement of commercial production.

7.3.2 After commencement of commercial production/ operation but before the asset has been classified as 'sub – standard'

7.3.3 After commencement of commercial production/ operation and the asset has been classified as 'sub-standard' or 'doubtful'.

7.4 Procedure for processing restructuring proposals under MSE Mechanism: A simplified procedure on following lines shall be followed:-

7.4.1 The borrower can submit a request to the branch for restructuring his account at any time subject to fulfillment of conditions mentioned above.

7.4.2 In case of eligible MSEs, which are under consortium / multiple banking arrangements, the borrower will submit his request to the Bank having the maximum outstanding. However, the restructuring package will be worked out with the consent of the bank having the second largest share.

7.4.3 All requests received from the borrowers will be scrutinized by respective branches to ensure that the requests are prima facie in order, on the basis of examination of projected financial statements for the proposed repayment period, and are eligible for consideration as per the prescribed criteria.

7.4.4 Restructuring proposals shall not be entertained for the only possible reason of avoiding the possibility of slippage of such accounts. Any proposal for seeking restructuring shall be entertained only after ascertaining the reasons of potential or existing irregularity in the account and forming an opinion in the matter. **However, no restructuring proposal shall be rejected by any Branch Head without seeking concurrence of the next Higher Authority.**

7.4.5 Following powers have been delegated to respective competent authorities of bank:

Nature of restructuring proposal	To be submitted to
Restructuring of accounts with restructured amount for limits whose sanction falls within the powers of Branch/Cluster Head or Zonal Head and **where restructuring of outstanding facility/ies involves reschedulement of repayment only.**	Zonal Head
Restructuring of accounts with restructured amount (including component of additional funding) for limits whose sanction falls within the powers of Branch/Cluster Head or Zonal Head and **where restructuring of outstanding facility/ies**	A&AP Division, CHQ

involves reschedulement and or renegotiation of terms & conditions of sanction and or sanction of additional funds.	
Restructuring of accounts with restructured amount for limits whose sanction falls within the powers of CHQ and **where restructuring of outstanding facility/ies involves reschedulement and or renegotiation of terms & conditions and or additional funding etc.**	A&AP Division, CHQ

7.5 Procedures for determining financial viability of the unit:

Determining financial viability and ascertaining certainty of repayment shall be the main scrutiny area of a restructuring proposal. Conclusion on financial viability shall be drawn on the basis of examination of the unit's past performance and projected financials, including cash flow statements, for the proposed repayment period and after ascertaining that the projected financials are realistic and achievable and that the outstanding debt can be serviced during the proposed repayment period.

7.5.1 Viability of the unit and fulfillment of related conditions: The eligible units shall have to comply with the following conditions:-

7.5.1.1 The unit becomes viable in 7 years and the repayment period for the restructured debt, including moratorium, does not exceed 10 years.

7.5.1.2 Average DSCR is at least 1.30 and at least 1.10 for any one year.

7.5.1.3 Promoter's sacrifice and additional funds brought by them should be minimum of 15% of Bank's sacrifice. The term "bank's sacrifice" means the amount of erosion in the fair value of the advance".

7.5.1.4 Personal guarantee, in case of advances to companies, is offered by the promoter/s except under the circumstances of unit having been affected by external factors pertaining to the economy and industry.

7.5.2 Techno Economic Viability study:

In case, techno economic viability study (TEV) is found necessary for ascertaining the viability of the unit with a fair degree of accuracy, TEV report shall be submitted by the borrower.

7.5.3 Determining financial viability of small loans:

In case of proposals involving restructuring of small loans to Micro Enterprises (Manufacturing), Micro Enterprises (Services) including advances to Small Road & Transport Operators , Small Business and Professional & Self Employed persons, which on account of small scale of business operations are neither obliged to maintain nor are maintaining audited financial statements , restructuring may be considered in absence of audited and detailed projected financial statements subject to fulfillment of following conditions :

7.5.3.1 It is established that restructuring is necessitated by factors which are beyond the control of the borrower.

7.5.3.2 It is established that there is certainty of repayment.

7.5.3.3 It is established that past performance of the borrower has remained satisfactory.

7.6 Sanction and implementation of restructuring proposals

7.6.1 Approving sanction of restructuring proposals:
If restructuring is found feasible, the restructuring proposal will be put up to the Sanctioning Authority for considering its sanction. Restructuring of credit facilities shall be approved in accordance with the prescribed guidelines. Suitable terms and conditions in accordance with the guidelines shall be incorporated in the restructuring sanction letter.

7.6.2 Recompense clause:
Recompense clause in applicable cases and as per norms prescribed by RBI shall be incorporated in the restructuring package.

7.6.3 Time period for working out and implementing the package:
The restructuring packages under MSE Mechanism and others shall be worked out, sanctioned, wherever found feasible, and implemented within a maximum time period of 90 days from the date of receipt of requests. In case of CDR proposals, the time frame as prescribed by CDREG shall be followed.

All the accounts eligible for restructuring shall be handled strictly as per prudential norms issued by RBI from time to time.

It is important to mention here that all the concessions in interest rate mentioned at para no. 8.6 below shall be applicable only to potentially viable sick units and not for normal restructuring of accounts.

8. REHABILITATION OF SICK MSE UNITS:

8.1 With a view to provide timely and adequate assistance to MSEs, bank will begin rehabilitation effort on proactive bases after detecting the early sickness signs and shall declare account to have reached "**Handholding Stage"** if any of the following events have triggered:

8.1.1 There is delay in commencement of commercial production by more than six months for reasons beyond the control of the promoters;

8.1.2 The company incurs losses for two years or cash loss for one year, beyond the accepted timeframe;

8.1.3 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.

Bank will provide handholding support to each unit which is in handholding stage within a maximum period of two months of identification of such units. These units will be provided guidance, counseling, timely financial help as per established need and will also be extended help in sorting out any difficulties which are non-financial in nature or requiring assistance from other agencies.

8.2 Definition of Sickness: A Micro or Small Enterprise (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.

The units who will not get revived at handholding stage will be classified as sick subject to complying with any one of the two conditions as laid above. A rehabilitation package based on a viability study than will be sanctioned to viable/potentially viable units. The rehabilitation package will be implemented speedily in a time bound manner within six months from the date the unit is declared as 'potentially viable' / 'viable'. While identifying and implementing the rehabilitation package **‘holding operation'** will be allowed to units for a period of six months. The units will be allowed 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'.

Units becoming sick on account of willful mismanagement, willful default, unauthorized diversion of funds, disputes among partners / promoters, etc. will not be classified as sick units and accordingly are not be eligible for any relief and concessions.

8.3 Viability of Sick MSE Units:

A unit may be regarded as potentially viable/viable if it would be in a position, after implementing a relief package spread over a period not exceeding 10 years from the commencement of the package, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period for restructured (past) debts should not exceed 10 years from the date of implementation of the package. The decision on viability of the unit will be taken at the earliest but not later than 3 months of unit becoming sick under any circumstances. The following procedure will be adopted by the bank before declaring any unit as unviable:

8.3.1 All the rehabilitation proposals will be sanctioned/recommended by a committee comprising of senior officials from Local Head Offices.

8.3.2 A unit should be declared unviable only if the viability status is evidenced by a viability study.

8.3.3 For micro (manufacturing) enterprises, having investment in plant and machinery up to Rs.5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2 lakh, Branch Managers will take a decision on viability and record the same, along with the justification.

8.3.4 The declaration of the unit as unviable, as evidenced by the viability study, will be approved by a committee.

8.3.5 In case a unit is declared unviable, an opportunity will be given to the unit to present the case before the next higher authority.

8.3.6 The next higher authority will take any decision only after giving an opportunity to the promoters of the unit to present their case.

8.3.7 Decision of the above higher authority will be informed to the promoters in writing.

8.3.8 The above process should be completed in a time bound manner not later than 3 months.

8.4 **Units not Eligible for rehabilitation:** Units becoming sick on account of willful mismanagement, willful default, unauthorized diversion of funds, disputes among partners / promoters, etc. should not be considered for rehabilitation and steps should be taken for recovery of bank’s dues. The definition of willful default, as given by RBI vide its Circular DBOD No.BC.DL.(W)12/20.016.002(1)98-99 dated 20 February 1999, will broadly cover the following:

8.4.1 Deliberate non-payment of the dues despite adequate cash flow and good net worth.
8.4.2 Siphoning off of funds to the detriment of the defaulting unit.
8.4.3 Assets financed have either not been purchased or have been sold and proceeds have been misutilised.
8.4.4 Misrepresentation/falsification of records.
8.4.5 Disposal/removal of securities without bank's knowledge.
8.4.6 Fraudulent transactions by the borrower.

The views of the bank with regard to willful mismanagement of funds/defaults will be treated as final.

8.5 Reliefs and Concessions for Rehabilitation of potentially viable units: The viability and the rehabilitation of a sick MSE 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. Reliefs and concessions for sick units shall be calculated as under:

8.5.1 Interest Dues on Cash Credit and Term Loan: Penal interest or damages, if any, charged to the account, such charges shall be waived from the accounting year of the unit in which it started incurring cash losses continuously. After this, the unpaid interest on term loans and cash credit during this period should be segregated from the total liability. The amount shall be funded. No interest may be charged, if justified, on funded interest and repayment of such funded interest should be made within a period not exceeding **<u>seven</u>** years from the date of commencement of implementation of the rehabilitation programme.

8.5.2 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, shall also be funded on the same terms as at 8.3.1 above.

8.5.3 Term Loans: The rate of interest on term loans be reduced, where considered necessary and repayment period be extended subject to the conditions that total repayment period including moratorium shall not exceed 10 years from the date of implementation of package.

8.5.4 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 Working Capital Term Loan (WCTL) with a repayment schedule not exceeding 10 years including moratorium.

8.5.5 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 including interest, as may be incurred during the nursing programme, may also be financed in the shape of term loan. 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.

8.5.6 Working Capital: Additional working capital limits may be extended. Turnover method or 1st method of lending shall be applied while calculating MPBF.

8.5.7 Contingency Loan Assistance: For meeting escalations in capital expenditure to be incurred under the rehabilitation programme, bank may provide, where considered necessary, appropriate additional financial assistance maximum upto 15 per cent of the estimated cost of rehabilitation by way of contingency loan assistance.

8.6 Following reliefs and concessions may be granted for revival of potentially viable sick MSE units:

8.6.1 Interest on Working Capital:	Interest concession up to maximum 1.5% On the **existing interest rate**
8.6.2 Funded Interest Term Loan:	May be granted **Interest Free if justified.**
8.6.3 Working Capital Term Loan :	Interest concession up to maximum 1.5% On the **Existing interest rate**
8.6.4 Fresh/Existing Term Loan:	Concessions in the interest may be given

	Upto 3% (maximum) in case of Micro Enterprises & upto 2% (maximum) in case of Small Enterprises on the existing rate.
8.6.5 Contingency Loan Assistance:	Such loans shall be granted as per Concessions as mentioned above.

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

9. One Time Settlement (OTS):

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

10. CODE OF BANK'S COMMITMENT TO MICRO AND SMALL ENTERPRISES:

With a view to promote good and fair banking practices, our bank has already adopted the code of Bank's commitment to Micro and Small Enterprises issued by Banking Codes and Standard Boards of India. Our dealings with Micro and Small Enterprises will be in line with the code of Commitment adopted from time to time.

11. CONCLUDING REMARKS:

The loan policy for MSE sector will operate as part of loan policy of the Bank and subject to guidelines/instructions of Regulatory Authorities/RBI/Government of India (GOI). Therefore, the policy will be amended with the approval of the Board whenever revised guidelines are received from the Regulatory Authorities/RBI/GOI. This policy will be in force until a review is made by the Board of Directors for accommodating the emerging requirements.