POLICY ON RESTRUCTURING AND REHABILITATION OF SMEs

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. Consistent with the notification of the Micro, Small and Medium Enterprises Development (MSMED) Act 2006, the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services has been modified as follows:.

Definition of Micro, Small and Medium Enterprises

(a) Enterprises engaged in the manufacture or production, processing or **preservation of goods** as specified below:

i. A micro enterprise is an enterprise where investment in plant and machinery [original cost excluding land and building and the items specified by the Ministry of Small Scale Industries] does not exceed Rs. 25 lakh;

ii. A small enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries) is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and

iii. A medium enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries) is more than Rs.5 crore but does not exceed Rs.10 crore.

(b) 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). These will include small road & water transport operators (owning a fleet of vehicles not exceeding ten vehicles), retail trade (with credit limits not exceeding Rs.10 lakh), small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs.20 lakh) and professional & self employed persons (whose borrowing limits do not exceed Rs.10 lakh of which not more than Rs.2 lakh should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15 lakh with a sub-ceiling of Rs.3 lakh for working capital requirements).

i. A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;
ii. 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
iii. A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

A debt-restructuring mechanism for units in SME sector has been formulated by RBI during September 2005. Detailed guidelines in this regard were issued to ensure restructuring of debt of eligible Small and Medium Enterprises. We propose to issue the following detailed guidelines in respect of restructuring of SMEs, in line with the RBI guidelines:

Eligibility Criteria

(i) These guidelines would be applicable to the following entities, which are viable or potentially viable

a) All non-corporate SMEs irrespective of the level of dues to banks.
b) All corporate SMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.
c) All corporate SMEs, which have funded and non-funded outstanding up to Rs.10 crore under multiple/ consortium banking arrangement

Corporate SMEs with funded and non-funded exposure of Rs.10 crore and above will be covered under Corporate Debt Restructuring (CDR) mechanism.

(ii) Normally, accounts involving wilful default, fraud and malfeasance will not be eligible for restructuring under these guidelines. But, in exceptional cases, specially in old cases where the manner of classification of a borrower as a willful defaulter was not transparent and where Bank is satisfied that the borrower is in a position to rectify the willful default provided he is granted an opportunity under the Debt Restructuring Mechanism for SMES, restructuring may be considered, but with the approval of Board of Directors of the Bank. It should be ensured that cases involving frauds or diversion of funds with malafide intent are not covered under the restructuring mechanism.

(iii) Accounts classified as "Loss Assets" will not be eligible for restructuring.

(iv) In respect of BIFR cases we should ensure completion of all formalities in seeking approval from BIFR before implementing the package.

Approach to delinquency

Credit Policy prescribes that, considering the circumstances under which delinquency occurs, it is necessary to have in place a mechanism:

- To detect the deterioration in the quality of assets promptly and arrest further deterioration, if possible.
- To consider various options to ensure continuous health of the asset.
- To ensure classification of assets as non-performing, in line with RBI guidelines.
- To recover the non-performing assets by a judicious and flexible combination of negotiation and out of court settlements on the one hand and legal means on the other.

A reporting system is already in place under which Border Line (BL) accounts which are likely to become NPAs are reported to ZO/CO on monthly basis by the branches. Remedial action is initiated on the basis of these reports. BL assets are identified on the basis of guidelines which are in line with RBI directives in this regard. In respect of large advances subjected to credit rating, the rating history would also need to be considered.

The warning signals which would need to be monitored regularly by operating functionaries include transaction related signals such as persistent irregularity in accounts, defaults in repayment obligations, devolvement of LC liabilities, invocation of bank guarantees etc. and activity related physical signals such as rejection of products, low production levels with idling machines/fewer shifts/fewer labor etc. Warning signals generally emanate from unit's financial problems, operational problems, market related problems and problems arising out of regulatory changes.

An illustrative list of warning signals is furnished below:

1. FINANCIAL

    - Persistent irregularity in the accounts
    - Defaults in payment of interest/instalments
    - Devolvement of LC liabilities/invocation of bank guarantees
    - Lower credits/reduced turn over in the account
    - Sales transactions not routed through bank account
    - Declining current ratio
    - Declining profitability/operating losses/net losses
    - Erosion in TNW
    - Opening of accounts with other banks/diversion of funds
    - Worsening credit ratings – internal/external

2. OPERATIONAL

- Low activity levels in plant/place of business
- Disorderly diversification/frequent changes in plans
- Overdue receivables
- Return of outward bills unpaid/dishonoured cheques
- Low inventory/stocks movement
- Non- payment of wages/power bills etc.
- Frequent labour problems
- Loss of critical/important customers
- Frequent return/rejection of finished goods

3. MARKET RELATED

- Inability to source supplies on usual credit terms
- Complaints regarding quality of goods/service
- Legal action against the unit
- Loss of markets/key customers
- Change in market preference for the product

4. ATTITUDINAL CHANGES

- Dissension among directors/partners/promoters
- Avoids contact with the bank
- Non/delayed submission of financials/stock statements
- Fudging of financial statements

5. OTHERS

- Adverse changes in government policies
- Emergence of new competitors
- Emergence of new technology/products

If a combination of the above illustrative factors becomes evident or a particular indicator is persistent, a detailed review of the credit relationship would be warranted and enhanced level of monitoring of the asset would need to be ensured. When persistent warning signals are observed in respect of an asset, placing the asset on exit list would need to be considered. However, if it is satisfied that the irregularity was not due to any unethical/willful action and the chances of recovery are bright, the option for up gradation of the relative asset would need to be considered. The decision whether or not to place an irregular/BL asset on the exit list or on restructuring/rehabilitation list will be taken by the Credit Monitoring Committee at ZO/CO, as the case may be. An asset which is already classified as NPA would be deemed to be on the exit list unless a decision for restructuring/rehabilitation is taken by the appropriate authority.

Detailed guidelines regarding classification of an asset as BL/non-performing have been prescribed by RBI which would need to be followed.

The prescribed scanning of assets and monitoring of warning signals would need to facilitate prompt initiation of appropriate preventive/corrective action in respect of each BL asset identified. Branches should, therefore, analyse the problems/issues faced by the borrowing unit based on facts and circumstances of each case. A detailed review of each BL asset would need to be carried out by the branches based on which an appropriate action plan needs to be formulated and submitted to the controllers for necessary approvals, in line with the following:

- The review, preparation of action plan, approvals, implementation, monitoring and administration would need to be carried out within the prescribed timelines as prompt initiation of corrective action is essential to cut losses in respect of BL assets.
- Immediately on identifying a BL asset involving an exposure of Rs. 5 lac and above branch would need to carry out a detailed review of the asset. The review would examine the problems faced by the unit, the options available for mitigating the same and the cost – benefit factors thereof to ascertain whether a restructuring leading to an up gradation of the asset, within a reasonable period of time would be feasible.
- While carrying out the above review, branches would need to take into consideration the following aspects also:

    - Ascertain the reasons for the warning signals/slippage in asset quality
    - Verify adequacy of cash flows
    - Revalidate the assumptions made at the time of credit approval, particularly in regard to assessment of credit risk
    - Bring to the notice of the borrower/guarantor the warning signals/slippage in asset quality to ensure regularization in a time bound manner
    - Verify completeness and correctness of documentation – revival letters, creation of EM, registration of charges, insurance cover, rectification of deficiencies pointed out by inspectors/auditors etc.
    - Evaluate collateral for liquidity, marketability and value – attempt to improve the security coverage
    - Identify and examine availability/adequacy of primary/secondary sources of repayment
    - Finalise preventive/corrective action plan for up gradation/recovery in consultation with borrowers

- The observations/recommended action plan, vide the format furnished at annexure 1, would need to be submitted to the controllers within two weeks.
- In respect of Corporates/Large industrial units/SMEs etc., where detailed viability study needs to be carried out the same would need to be completed within one

month of capture of warning signals/identification of the asset as BL asset. Reference to CDR/BIFR etc. would also need to be examined at this stage and if considered necessary reputed consultants may be engaged for carrying out necessary viability study/preparing reports, in consultation with controllers.

- Controllers would need to examine the views of the branch and decide on a course of corrective action and convey the same to branches, under advice to CMAC, CO, within one week. However, in respect of BL assets involving exposure within the powers of ZCC the same would need to be placed to ZCC for necessary approval, while those involving exposure beyond ZCC powers would need to be submitted to CO, by the controllers along with their recommendations.
- CO would need to examine the action plans and obtain necessary approvals for the same from CCC/MC/Board, as the case may be, and convey the decisions to branch within one week.
- It would, normally, need to be ensured that within one month of capturing warning signals/identifying a BL asset, detailed action plan for restructuring the asset should be under implementation, with necessary approvals.
- Branches would need to implement the action plan promptly and submit progress reports (vide annexure 2) to controllers at monthly intervals in respect of border line exposures of Rs. 25 lac and above. Such reporting may be done on quarterly basis in respect of exposures below Rs. 25 lac.
- Review reports in respect of exposures of Rs. 25 lac and above would need to be placed to Credit Monitoring Committee at CO by CMAC at quarterly intervals.
- Wherever restructuring is not considered feasible, steps for calling up the advance would need to be initiated immediately on receipt of necessary approvals, either by way of mutually acceptable repayment programs or through legal action
- In respect of exposures of less than Rs. 5 lac, branches concerned may formulate action plans and implement them under advice to controllers, in line with the guidelines already advised, after obtaining necessary approval.

SME DEBT RESTRUCTURING PACKAGE

The feasibility of restructuring/rehabilitation of the unit, to turn it around, needs to be established through a quick appraisal of its potential based on detailed techno/economic viability study, as already mentioned. The study needs to spell out, inter-alia, the required strategies covering the following:

- Financial – to improve liquidity/returns
- Product mix – to ensure marketability
- Production technology/processes – to ensure quality/cost optimization
- Market – to capture/improve market share
- Human resources – to ensure effective management

The causative factors for the decline in performance of the unit thrown up by the study and the corrective measures suggested would need to be thoroughly discussed with the borrowers to ensure clear understanding of the issues and convergence of the views regarding restructuring. The restructuring package may then be finalized on the following lines:

1. Projections
2. Analysis of financials
3. Financial re-engineering
4. TL requirements
5. WC requirements
6. Funding options
7. Viability
8. Criteria/authority for deciding concessions

Projections

The projections assumed in the study would need to be critically revalidated taking into consideration the following:

- Production capacity
- Marketing strategy
- Sales channels
- Quality standards
- Technology standards
- Competition
- USPs
- Financial projections including revenues/profits/cash accruals

Projections would need to be based on conservative/pragmatic assumptions which would need to be validated after critical evaluation.

Analysis of financials

Analysis of financials would need to focus on the following:

- Ascertaining the base date – the date on which the asset was classified as Border Line/NPA since when warning signals/irregularity was persistently manifest may be taken as the base date for financial restructuring
- Analyse cash flow statements to ascertain the cause of financial distress such as diversion of funds, inadequacy/withdrawal of own funds, excessive leverage, asset creation disproportionate to production/sales etc.
- Analyse long term sources/uses and short term sources/uses
- Extent of losses and impact thereof on NW/liquidity

Financial re-engineering

Approach to financial re-engineering would need to cover the following areas:

- Segregate core irregularity and subject the same to repayment in installments out of future cash flow
- Convert core irregularity into Clean TL (past due installments of TL), funded Interest TL (unpaid/accrued interest as above) and Working Capital TL for funding of clean part of WC (outstandings less available DP on date)
- Additional funding requirements to implement the package in line with the study recommendations to be ascertained
- Sources of funding to be identified – TL/WC/equity
- Margin requirements in respect of additional funding – promoters contribution should not be less than what is prescribed in the Credit Policy of the Bank (minimum 30% of additional long term requirements in respect BIFR packages).
- At least 50% of promoters' contribution would need to be brought upfront with the balance to be brought in within six months.

TL requirements

TL would include two components, restructured part of existing dues and fresh TLs for additional/balancing equipment, if any.

- Ascertain core irregularity in TL – installments/interest past due from base date to proposed date of implementation of restructuring
- Additional TL to be assessed based on the viability study subject to normal due diligence prescribed
- Ascertain additional funding requirements – TL for additional/balancing equipment, if any
- Pricing concessions to the extent of 200 bps below the applicable card rate may be permitted, if required to ensure the financial viability during initial years
- Pricing concessions extended would be subject to right of recompense clause
- Repayment schedule for restructured TLs/fresh may be fixed between three to seven years depending on the cash flows/DSCR as prescribed by the Credit Policy. However, in exceptional cases repayment may extend up to ten years, with the approval of the Board

WC requirements

- Ascertain core irregularity in WC – clean portion of outstandings/interest unpaid/accrued as above (outstanding less DP available in respect of current assets on date – stocks which can be used and receivables which are realisable)
- The same would need to be converted into WCTL and subjected to repayment out of future cash flows as in case of other restructured TLs.
- Need based WC limit in line with the study recommendations would need to be considered
- WC assessment also would need to be carried out in line with Credit Policy prescriptions

- Pricing concessions to the extent of 200 bps below the applicable card rate may be permitted, if required to ensure the financial viability during initial years
- Pricing concessions extended would be subject to right of recompense clause
- Repayment schedule for WCTL may be fixed between three to seven years depending on the cash flows/DSCR as prescribed by the Credit Policy. However, in exceptional cases repayment may extend up to ten years, with the approval of the Board

Funding options

In addition to the various other funding options as follows may also be considered, subject to viability of the proposal/projections;

- Buyers/suppliers credit
- Market credit
- PE/VC funding
- Strategic investors
- Involvement of other banks/FIs
- Liquidation of some of the assets

Viability

The package would need to ensure that the unit would be able to generate cash surplus within 12 to 24 months from the date of implementation of the package. The entire past dues (converted in to TLs) would need to repaid normally within three to five years. The unit would need to be turned around within a reasonable period of say three to five years (maximum 7 years) and the repayment period for restructured debt will not exceed 10 years.

Criteria/authority for deciding concessions

The criteria for deciding the concessions would be as follows:

- Viability of the project – the unit should be able to turn around in a short period of time
- Need based concessions taking into consideration the projected cash flow/ profits/cash accruals only need be considered
- Sacrifices made by the promoters
- Equity/margin contribution by the promoters
- Concessions extended by other banks/FIs, if any
- Security coverage available
- Pricing concessions upto 200 bps may be considered by the authority permitted to approve the restructuring
- Repayment of TLs would need to be scheduled between three to seven years
- Pricing/repayment concessions exceeding this would need the approval of the Board

- Pricing concessions extended would be subject to 'Right of Recompense' clause.
- Restructuring proposals involving concessions may be approved by an authority one level higher than the authority who is permitted to exercise sanctioning powers in respect of loans for similar quantum. However, no authority below CCC may approve a restructuring proposal

Details of the concessions are enclosed as Annexure-3.

Prudential Norms for restructured accounts

i) Treatment of 'standard' accounts subjected to restructuring

a) A rescheduling of the instalments of principal alone, would not cause a standard asset to be classified in the sub-standard category, provided the borrower's outstanding is fully covered by tangible security. However, the condition of tangible security may not be made applicable in cases where the outstanding is up to Rs.5 lakh, since the collateral requirement for loans up to Rs 5 lakh has been dispensed with for SSI / tiny sector.

b) A rescheduling of interest element would not cause an asset to be downgraded to sub-standard category subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

c) In case there is a sacrifice involved in the amount of interest in present value terms, as at (b) above, the amount of sacrifice should either be written off or provision made to the extent of the sacrifice involved.

ii) Treatment of 'sub-standard' / 'doubtful' accounts subjected to restructuring

a) A rescheduling of the instalments of principal alone, would render a 'substandard' / 'doubtful' asset eligible to continue in the 'sub-standard' / 'doubtful' category for the specified period, provided the borrower's outstanding is fully covered by tangible security. However, the condition of tangible security may not be made applicable in cases where the outstanding is up to Rs.5 lakh, since the collateral requirement for loans up to Rs 5 lakh has been dispensed with for SSI / tiny sector.

b) A rescheduling of interest element would render a sub-standard / 'doubtful' asset eligible to be continued to be classified in sub-standard / 'doubtful' category for the specified period subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

c) Even in cases where the sacrifice is by way of write off of the past interest dues, the asset should continue to be treated as sub-standard / 'doubtful'.

iii) Treatment of Provision

a) Provision made towards interest sacrifice should be created by debit to Profit & Loss account and held in a distinct account. For this purpose, the future interest due as per the current BPLR in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR + the appropriate term premium and credit risk premium for the borrower category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis.

b) Sacrifice need be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR, term premium and the credit category of the borrower. Consequently, we need to provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.
c) The amount of provision made for NPA, may be reversed when the account is re - classified as a 'standard asset'.

Additional finance

Additional finance, if any, may be treated as 'standard asset' in all accounts viz; standard, sub-standard, and doubtful accounts, up to a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the approved restructuring package. If the restructured asset does not qualify for up gradation at the end of the above period, additional finance shall be placed in the same asset classification category as the restructured debt.

Upgradation of restructured accounts

The sub-standard / doubtful accounts, which have been subjected to restructuring, whether in respect of principal instalment or interest, by whatever modality, would be eligible to be upgraded to the standard category after the specified period, i.e., a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms, subject to satisfactory performance during the period.

Asset classification status

During the specified one-year period, the asset classification status of rescheduled accounts will not deteriorate if satisfactory performance of the account is demonstrated during the period. In case, however, the satisfactory performance during the one year period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule. The asset classification would be bank-specific based on record of recovery of each bank, as per the existing prudential norms applicable to banks.

Repeated restructuring

The special dispensation for asset classification as explained in earlier paragraphs, shall be available only when the account is restructured for the first time.

Procedure

1. The restructuring would follow a receipt of a request to that effect from the borrowing units.
2. In case of eligible SMEs which are under consortium/multiple banking arrangements, the bank with the maximum outstanding may work out the restructuring package, along with the bank having the second largest share.

Time frame

The restructuring package need to be worked out and implemented within a maximum period of 60 days from date of receipt of requests.

Review

The progress in rehabilitation and restructuring of SME accounts need to be reviewed on a quarterly basis and the position informed to the Board.

Disclosure

The Debt Restructuring Scheme for SMEs will be displayed on the bank's website and copy will be forwarded to SIDBI for placing on their web site.

Banks need to disclose in their published annual Balance Sheets, under "Notes on Accounts", the following information in respect of restructuring undertaken during the year for SME accounts:
(a) Total amount of assets of SMEs subjected to restructuring.
[(a) = (b)+(c)+(d)]
(b) The amount of standard assets of SMEs subjected to restructuring.
(c) The amount of sub-standard assets of SMEs subjected to restructuring.
(d) The amount of doubtful assets of SMEs subjected to restructuring.

Annexure 1

BORDER LINE ASSET REVIEW

Branch : Zone:

1. Name of the borrower	
2. IRAC status	
3. CRA rating	
4. Constitution	
5. Sector	
6. Group	
7. Dealing with bank since	
8. Names of directors/partners/proprietor	
9. Any adverse report on promoters	
10. Date of sanction/last renewal	
11. Position of accounts as on…….	
12. Date of identification as BL asset/capturing warning signals	
13. Warning signals/adverse features noticed and reasons for the same	
14. Key financial indicators for last three years and as on a recent date	
15. Dues to other banks/FIs if any	
16. Security coverage	
17. Current status regarding enforceability of securities	
18. Details of accounts of associates, if any, with us	

19. Date of last inspection of the unit and observations	
20. Date of meeting with borrower/guarantor and gist of discussions	
21. Comments regarding the reasons for delinquency	
22. Detailed observations of branch manager	
23. Action plan proposed with justifications	
24. Timelines suggested in respect of action plan/turning around unit/up gradation of the asset	
25. Recommendations	

Date Branch Manager

Views/recommendations of controllers

Date Zonal Head

Annexure 2

BORDER LINE ASSET PROGRESS REPORT
FOR THE MONTH/QUARTER ENDED……..

Branch : Zone:

1. Name of the borrower	
2. Action plan approved on	
3. Present position of accounts	
4. Comments regarding conduct of account	
5. Date of last inspection and observations	
6. Components of action plan and status regarding implementation	
7. Comments	

Date Branch Manager

Annexure-3

RESTRUCTURING PACKAGE – CONCESSIONS

I. Margin norms

Margin norms in respect of various facilities extended to meet additional funding requirements, relaxations permissible in respect of the same and the authority for permitting such relaxations would be the same as prescribed vide the credit policy of the Bank. However, in respect of BIFR packages, minimum 30% of additional long term requirements would need to be provided as margin by the promoters.

It would also need to be ensured that at least 50% of the promoters' contribution is brought in upfront. The balance funding would need to be provided within a period of six months or early if stipulated so vide the relative package.

Long term requirement of funds would include cost of additional machinery/equipments, start up expenses, funds for payment of pressing creditors, statutory liabilities, margin on working capital etc.

Promoters' contribution would need to be through injection of fresh funds and not by way of internal accruals/sale proceeds of assets charged etc.

II. Repayment terms

The repayment schedule in respect of various facilities extended as a part of the package may be fixed in line with the projected cash flows taking into consideration GDSCR/NDSCR also. The period may be fixed ensuring that adequate cash flow would be available with the unit after meeting the repayment obligations on an ongoing basis. They may, however, be subject to the following:

FITL	- The loan would need to be repaid in three to seven years. In respect of BIFR cases this would need to be three to five years.
WCTL	- The loan would need to be repaid in three to seven years. In respect of BIFR cases this may not exceed five years.
Existing/Fresh TLs (if any)	- The loan would need to be repaid within three to five years.

However, in exceptional cases the repayment period may be extended up to ten years with the approval of the Board.

The repayment schedule may be reviewed if the performance/cash flows of the unit exceed the projections.

III. Pricing

Pricing as prescribed by the Bank for the relative facility would need to be charged in respect of the facilities extended to the unit, including the FITL/WCTL. However, concessionary pricing up to 200 bps below card rates may be approved by the sanctioning authority after ascertaining the need for such fine pricing in ensuring the financial viability of the restructuring package.

IV. Authority for approval

Restructuring proposals involving concessions may be approved by an authority on level higher than who is otherwise permitted to exercise similar powers. However, no authority below CCC may approve a restructuring proposal.

Any deviation from the norms prescribed above would need to be approved by the Board.

Annexure-4

Comparison of major policy guidelines as per different restructuring mechanisms

CDR Mechanism	General Restructuring Policy	Restructuring policy for SMEs
Coverage of Guidelines: The CDR guidelines cover accounts of all corporate borrowers having outstanding fund-based and non-fund based exposures of Rs.10 crore and above from more than one bank / FI. The prudential norms applied under CDR mechanism have been largely based on the general asset classification norms applicable to restructured accounts of borrowers engaged in manufacturing / industrial activities and these guidelines should not be applied to restructuring/ rescheduling of credit facilities extended to traders.	The general guidelines at present cover the accounts of the borrowers in the industrial sector who have credit facilities from a single bank and are not covered under CDR/SME debt restructuring mechanisms. At present, banks have been delegated authority to formulate policies with the approval of their Board of Directors for restructuring of non-industrial accounts subject to normal prudential norms prescribed by RBI for restructured accounts.	These guidelines encompass (a) all non-corporate SMEs irrespective of the level of dues to banks. (b) All corporate SMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank. (c) All corporate SMEs, which have funded and non-funded outstanding up to Rs.10 crore under multiple/ consortium banking arrangement.
Additional Finance: The additional finance may be treated as 'standard asset', up to a period of one year after the first interest / principal payment, whichever is earlier, falls due under the approved restructuring package. However, in the case of accounts where the existing facilities are classified as 'sub-standard' and 'doubtful', interest income on the additional finance should be recognized only on cash basis. If the restructured asset does not qualify for up gradation at the end of the above specified one year period, the additional finance shall be placed in the same asset classification category	Additional finance, if any, may be treated as 'standard asset' in all accounts viz; standard, sub-standard, and doubtful accounts, up to a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the approved restructuring package. If the restructured asset does not qualify for up gradation at the end of the above period, additional finance shall be placed in the same asset classification category as the restructured debt.	Any additional finance has to be classified under the same category as the original finance and the income recognition and provisioning will be done in accordance with normal IRAC norm.

as the restructured debt.		
One time settlement option: CDR mechanism allows one time settlement option as a part of the restructuring package in order to bring more flexibility in the exit option to the lenders who are no more interested in continuing their exposure in the corporate.	One time settlement option as a part of restructuring is not envisaged.	One time settlement option as a part of restructuring is not envisaged for industrial borrowers. No specific guidelines have been issued in this regard in the case of non-industrial borrowers
Restructuring of Doubtful accounts: Doubtful accounts are eligible to be restructured under CDR mechanism and are thus entitled to concession in the asset classification norms	Doubtful accounts are restructured as per the loan policies formulated by individual banks.	Provision on the lines of CDR mechanism has been extended.
Asset classification and provisioning norms 1.Restructuring of corporate debts under CDR system could take place in the following stages: a. before commencement of commercial production; b. after commencement of commercial production but before the asset has been classified as 'sub-standard'; c. after commencement of commercial production and the asset has been classified as 'sub-standard' or 'doubtful'. **2.**Treatment of 'standard' accounts restructured under CDR **A**. A rescheduling of the installments of principal alone, at any of the aforesaid first two stages would not cause a standard asset to be classified in the sub-standard	The asset classification and provisioning norms for the Industrial borrowers are more or less the same except for the following: i) In these cases sacrifice in the element of interest is computed as difference between the present value of future interest income reckoned based on the original rate of interest and the interest charged as per the restructuring package discounted by the current BPLR as on the date of restructuring plus appropriate term premium and credit risk premium as on the date of restructuring. ii) The conditions enumerated at para 2. (A)(ii) & B(ii) and (iii) are under CDR mechanism are	The same as applicable to CDR mechanism

category and reschedulement of installments of principal at the third stage refer to above would not cause sub-standard / doubtful asset to slip further down in the asset classification categories, provided the following conditions are satisfied. i) Advance is fully secured ii) The restructuring conforms to the following parameters: a) Restructuring under CDR mechanism is done for the first time, b) The unit becomes viable in 7 years and the repayment period for the restructured debts does not exceed 10 years, c) Promoters' sacrifice and additional funds brought by them should be a minimum of 15% of creditors' sacrifice, and d) Personal guarantee is offered by the promoter except when the unit is affected by external factors pertaining to the economy and industry. **B**. A rescheduling of interest element at any of the foregoing first two stages would not cause an asset to be downgraded to sub-standard category and reschedulement of interest element at the third stage refer to above would not	not applicable to such accounts. **Non-industrial borrowers** While banks may consider accounts other than that of industrial units also for restructuring, such accounts would have to qualify the basic test of viability before it is considered for restructuring. However, these accounts would not qualify for the special asset classification status available to restructured 'standard' and restructured 'substandard'/Doubtful accounts as indicated under CDR mechanism. The accounts which do not qualify for restructuring/ rescheduling as above, will be subjected to the following prudential norms. i) These restructured/ rescheduled accounts would continue to age and migrate to the next asset classification status in the normal course. Banks should ensure that the amount of sacrifice, if any, in the element of interest - both in term loans or working capital facilities, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved. For the purpose, the future interest due as per the original loan agreement in respect of an	

cause sub-standard / doubtful asset to slip further down in the asset classification categories, provided the following conditions are satisfied. i) The amount of sacrifice, if any, in the element of interest measured in present value terms is provided/ written off. For this purpose, the sacrifice should be computed as the difference between the present value of future interest income reckoned based on the current BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring and the interest charged as per the restructuring package discounted by the current BPLR as on the date of restructuring plus appropriate term premium and credit risk premium as on the date of restructuring. ii) The restructuring conforms to the following parameters: a) Restructuring under CDR mechanism is done for the first time, b) The unit becomes viable in 7 years and the repayment period for the restructured debts does not exceed 10 years,	account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR + the appropriate credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis. ii) These restructured/ rescheduled accounts, whether in respect of principal instalment or interest amount, by whatever modality, would be eligible to be upgraded to the standard category only after a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the revised terms, subject to satisfactory performance during the period. The amount of provision made earlier, net of the amount provided for the sacrifice in the interest amount in present value terms as aforesaid, could also be reversed after the one year period.	

c) Promoters' sacrifice and additional funds brought by them should be a minimum of 15% of creditors' sacrifice, and d) Personal guarantee is offered by the promoter except when the unit is affected by external factors pertaining to the economy and industry. (iii) The moratorium period for interest payments fixed under restructuring is not longer than the original moratorium. **C.** A rescheduling of interest element would render a sub-standard / 'doubtful' asset eligible to be continued to be classified in sub-standard / 'doubtful' category for the specified period, i.e., a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms. The account can be upgraded after one year of satisfactory performance as indicated herein.		
Annual review of provisions Sacrifice may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the	The provisions are not required to be recalculated on annual basis in the case of industrial borrowers and not applicable in the case of	Same as applicable to CDR mechanism

outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR, term premium and the credit category of the borrower. Consequently, banks may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.	non-industrial borrowers.. .	
Prudential norms on conversion of debt into equity Where overdue interest is funded or outstanding principal and interest components are converted into equity, debentures, zero coupon bonds or other instruments and income is recognized in consequence, full provision should be made for the amount of income so recognized. Equity, debentures and other financial instruments acquired by way of conversion of outstanding principal and / or interest should be classified in the AFS category and valued in accordance with the extant instructions on valuation of banks' investment portfolio except to the extent that (a) equity may be valued as per market value, if quoted (b) in cases where equity is not quoted, valuation may be at break-up value in respect of standard assets and in respect of sub-standard / doubtful assets, equity may be initially valued at Re1 and at break-up value after restoration / up gradation to standard	**Industrial borrowers** The amount outstanding converted into other instruments would normally comprise principal and the interest components. If the amount of interest dues is converted into equity or any other instrument, and income is recognised in consequence, full provision should be made for the amount of income so recognised to offset the effect of such income recognition. Such provision would be in addition to the amount of provision that may be necessary for the depreciation in the value of the equity or other instruments, as per the investment valuation norms. However, if the conversion of interest is into equity which is quoted, interest income can be recognized at market value of equity, as on the date of conversion, not exceeding the amount of interest converted to equity. Such	Not envisaged for SMEs. General norms as indicated for industrial borrowers will be applicable

category. If the conversion of interest into equity, which is quoted, interest income can be recognized after the account is upgraded to the standard category at market value of equity, on the date of such up gradation, not exceeding the amount of interest converted into equity. If the conversion of interest is into equity, which is not quoted, interest income should not be recognized. In case of conversion of principal and / or interest into equity, debentures, bonds, etc., such instruments should be treated as NPA ab-initio in the same asset classification category as the loan if the loan's classification is substandard or doubtful on implementation of the restructuring package and provision should be made as per the norms. Consequently, income should be recognized on these instruments only on realization basis. The income in respect of unrealised interest which is converted into debentures or any fixed maturity instruments, would be recognized only on redemption of such instruments. Banks may reverse the provisions made towards income recognised at the time of conversion of accrued interest into equity, bonds, debentures etc. when the	equity must thereafter be classified in the "available for sale" category and valued at lower of cost or market value. In case of conversion of principal and /or interest in respect of NPAs into debentures, such debentures should be treated as NPA, *ab initio*, in the same asset classification as was applicable to loan just before conversion and provision made as per norms. This norm would also apply to zero coupon bonds or other instruments which seek to defer the liability of the issuer. On such debentures, income should be recognised only on realisation basis. The income in respect of unrealised interest which is converted into debentures or any other fixed maturity instrument should be recognised only on redemption of such instrument. Subject to the above, the equity shares or other instruments arising from conversion of the principal amount of loan would also be subject to the usual prudential valuation norms as applicable to such instruments. **Non-industrial borrowers** No specific instructions have been issued by RBI	

instrument goes out of balance sheet on sale / realisation of value / maturity		
Applicability of capital market exposure norms to equity created by conversion of debt. The CDR Empowered Group, while deciding the restructuring package, should decide on the issue regarding convertibility (into equity) option as a part of restructuring exercise whereby the banks / financial institutions shall have the right to convert a portion of the restructured amount into equity, keeping in view the statutory requirement under Section 19 of the Banking Regulation Act, 1949, (in the case of banks) and relevant SEBI regulations. Equity acquired by way of conversion of debt / overdue interest under the CDR mechanism is allowed to be taken up without seeking prior approval from RBI, even if by such acquisition the prudential capital market exposure limit prescribed by the RBI is breached, subject to reporting such holdings to RBI, Department of Banking Supervision (DBS), every month along with the regular DSB Return on Asset Quality. However, banks will have to comply with the provisions of Section 19(2) of the Banking	**Industrial borrowers** The amount outstanding converted into other instruments would normally comprise principal and the interest components. If the amount of interest dues is converted into equity or any other instrument, and income is recognized in consequence, full provision should be made for the amount of income so recognized to offset the effect of such income recognition. Such provision would be in addition to the amount of provision that may be necessary for the depreciation in the value of the equity or other instruments, as per the investment valuation norms. However, if the conversion of interest is into equity which is quoted, interest income can be recognized at market value of equity, as on the date of conversion, not exceeding the amount of interest converted to equity. Such equity must thereafter be classified in the "available	The provisions on the lines of CDR mechanism are not extended to SMEs. The general guidelines as indicated for industrial borrowers are applicable to SMEs also

Regulation Act 1949 Acquisition of non-SLR securities by way of conversion of debt is exempted from the mandatory rating requirement and the prudential limit on investment in unlisted non-SLR securities prescribed by the RBI, subject to periodical reporting to RBI in the aforesaid DSB return.	for sale" category and valued at lower of cost or market value. In case of conversion of principal and /or interest in respect of NPAs into debentures, such debentures should be treated as NPA, *ab initio*, in the same asset classification as was applicable to loan just before conversion and provision made as per norms. This norm would also apply to zero coupon bonds or other instruments which seek to defer the liability of the issuer. On such debentures, income should be recognized only on realization basis. The income in respect of unpaid interest which is converted into debentures or any other fixed maturity instrument should be recognized only on redemption of such instrument. Subject to the above, the equity shares or other instruments arising from conversion of the principal amount of loan would also be subject to the usual prudential valuation norms as applicable to such instruments. ***Non- industrial borrowers*** No specific instructions are issued by RBI.	
Asset classification of repeatedly restructured accounts The regulatory concession in asset classification would not	**Industrial borrowers** Banks are not expected to	Same as applicable to CDR mechanism

be available if the account is restructured for the second or more times. In case a restructured asset, which is a standard asset on restructuring, is subjected to restructuring on a subsequent occasion, it should be classified as sub-standard. If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion its asset classification would be reckoned from the date when it became NPA on the previous occasion. However, such assets restructured for the second or more time may be allowed to be upgraded to standard category after one year from the date of first payment of interest or repayment of principal whichever falls due earlier in terms of the current restructuring package subject to satisfactory performance.	repeatedly restructure/ reschedule the amounts due to them unless there are very strong and valid reasons which warrant such repeated restructuring/rescheduling. Restructuring in all cases should be based on viability parameters. Any restructuring done without looking into cash flows of the borrower would invite supervisory concerns. It will not be appropriate to extend the special asset classification status as provided for in CDR mechanism to the accounts, where there are repeated restructuring/ rescheduling.	
Linkage of regulatory concessions with the timely disposal of applications/implementation of packages During pendency of the case with the CDR system, the usual asset classification norms would continue to apply. The process of reclassification of an asset should not stop merely because the case is referred to the CDR Cell. However, if a restructuring package under the CDR system is approved	No time limit has been prescribed.	Banks should work out the restructuring package and implement the same within a maximum period of 60 days from date of receipt of requests.

by the Empowered Group, and the approved package is implemented within 4 months from the date of approval, the asset classification status may be restored to the position which existed when the reference to the Cell was made. Consequently, any additional provisions made by banks towards deterioration in the asset classification status during the pendency of the case with the CDR system may be reversed. If an approved package is not implemented within 4 months after the date of approval by the Empowered Group, it would indicate that the success of the package is uncertain. In that case, the asset classification status of the account should not be restored to the position as on the date of reference to the CDR Cell.		
Viability benchmarks CDR Standing Forum would lay down policies and guidelines including those relating to the critical parameters for restructuring(for example, maximum period for a unit to become viable under a restructured package, minimum level of promoters'	Banks are free to determine the viability parameters in respect of such accounts in the case of both industrial borrowers and non-industrial borrowers.	Banks may decide on the acceptable viability benchmark, consistent with the unit becoming viable in 7 years and the repayment period for restructured debt not exceeding 10 years.

sacrifice.		
Coverage of willful defaulters The Core Group has discretion in dealing with willful defaulters in certain cases other than cases involving frauds or diversion of funds with malafide intentions	There are no specific instructions from RBI on the aspect in the case of these borrowers.	In the case of SMEs, the accounts of willful defaulters are not eligible for restructuring. Accounts involving willful default, fraud and malfeasance will not be eligible for restructuring under these guidelines. However banks may review the reasons for classification of the borrower as willful defaulter specially in old cases where the manner of classification of a borrower as willful defaulter was not transparent and satisfy themselves that the borrower is in a position to rectify the willful default provided he is granted an opportunity under the Debt Restructuring Mechanism for SMEs. Such exceptional cases may be admitted for restructuring with the approval of the Board of Directors of the banks only.
Institutional arrangement for restructuring of advances CDR mechanism has detailed institutional framework	No specific instructions	In regard to accounts with single bank, the individual

comprising 3 Tier structure to attend to the restructuring of cases eligible under the mechanism. In addition to this, there is a time schedule which need to be adhered while the case is being processed through various stages.	issued by RBI.	banks would deal with the restructuring in the following manner: a) The restructuring would follow a receipt of a request to that effect from the borrowing units. b) In case of eligible SMEs which are under consortium/multiple banking arrangements, the bank with the maximum outstanding may work out the restructuring package, along with the bank having the second largest share.
Disclosures Disclosure in the form prescribed by RBI is required to be made.	Disclosure in the form prescribed by RBI is required to be made.	Disclosure in the form prescribed by RBI is required to be made. .