**Policy for MSME**

**Definition of Micro, Small and Medium Enterprises as per MSMED Act 2006**

**(i) Micro Enterprises** - where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees

**(ii) Small Enterprises** - where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees

**(iii) Medium Enterprises** - where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees

**Composite criteria of investment and turnover for classification**

(i) A composite criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.

(ii) If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.

(iii) All units with Goods and Services Tax Identification Number (GSTIN) listed against the same Permanent Account Number (PAN) shall be collectively treated as one enterprise and the turnover and investment figures for all of such entities shall be seen together and only the aggregate values will be considered for deciding the category as micro, small or medium enterprise.]

**Calculation of investment in plant and machinery or equipment**

(i) The calculation of investment in plant and machinery or equipment will be linked to the Income Tax Return (ITR) of the previous year filed under the Income Tax Act, 1961.

(ii) In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31$^{st}$March of the financial year in which it files its first ITR.

(iii) The expression ''plant and machinery or equipment'' of the enterprise, shall have the same meaning as assigned to the plant and machinery in the Income Tax Rules, 1962framed under the Income Tax Act, 1961 and shall include all tangible assets (other than land and building, furniture and fittings).

(iv) The online form for Udyam Registration captures depreciated cost as on 31st March each year of the relevant previous year. Therefore, the value of Plant and Machinery or Equipment for all purposes shall mean the Written Down Value (WDV) as at the end of the Financial Year as defined in the Income Tax Act and not cost of acquisition or original price.

**Calculation of turnover**

(i) Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification.

(ii) Information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax Act or the Central Goods and Services Act (CGST Act) and the GSTIN.

**Re classification on change in investment in plant and machinery or equipment or turnover or both**

In case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration. In case of reverse-graduation of an enterprise, whether as a result of reclassification or due to actual changes in investment in plant and machinery or equipment or turnover or both, and whether the enterprise is registered under the Act or not, the enterprise will continue in its present category till the closure of the financial year and it will be given the benefit of the changed status only with effect from 1st April of the financial year following the year in which such change took place.

**Classification of MSMEs under Priority and Non Priority Sector**

All bank loans to MSMEs conforming to the RBI guidelines shall qualify for classification under priority sector lending.

**Targets under Micro & Small Enterprises (MSE sector)**

As per RBI guidelines

i) There should be minimum 20 per cent year-on-year growth in credit to Micro and Small Enterprises
ii) 10 per cent annual growth in the number of Micro Enterprise accounts and
iii) 60% of total lending to MSE sector as on preceding March 31st should go to Micro enterprises
iv) A target of 7.5 percent of ANBC or Credit Equivalent Amount of Off-Sheet Exposure, whichever is higher, has been prescribed for Micro Enterprises.

**Other Guidelines:**

'Udyam Registration Certificate' shall be obtained from all MSME enterprises (existing and new).

**Disposal of Applications**

The time norms for disposal of MSME applications complete in all aspects accompanied by documents as per check list, are as follows:

| | |
|---|---|
| a) Loans up to Rs5Lakh | Within two weeks |
| b)Above Rs 5Lakh and up to Rs 25Lakh | Within three weeks |
| c)Above Rs25 Lakh | Within six weeks |

**Rejection of MSME Loan application:**

In case of MSME advances, rejection / curtailment of limits sought, should be done only with the approval of the next higher

**Composite loan**

A composite loan limit up to Rs.1 crore can be sanctioned to enable the entrepreneurs in Micro and Small Enterprises sector to avail of their working capital and term loan requirement through Single Window.

**MUDRA Loans**

Pradhan Mantri MUDRA Yojana (PMMY) was launched to 'fund the unfunded' by bringing such enterprises to the formal financial system and extending affordable credit to them. This segment mainly consists of non-farm enterprises in manufacturing, trading and services whose credit needs are below Rs.10.00 lacs. The loans to be given to this segment for income generation is known as MUDRA loans under the PMMY and branded accordingly. The overdraft amount of Rs.10,000 sanctioned under PMJDY is also classified as MUDRA loans under PMMY. Loans up to Rs.50,000 is termed as "Shishu", loans from Rs.50,001 to Rs.5.00 lacs is termed as "Kishore" and loans above Rs.5.00 lacs to Rs.10.00 lacs is termed as "Tarun". Thrust is given for MUDRA loans and targets are fixed by Department of Financial Services, Ministry of Finance, and Government of India. Field level functionaries to put in best efforts for achieving the set targets under MUDRA.

**MUDRA Card**

Our Bank has introduced a special Rupay debit card, called MUDRA card, co-branded with MUDRA. All Micro borrowal accounts sanctioned from 08.04.2015 with total credit limits up to Rs.10.00 lacs only is covered under this. This may include government sponsored schemes, our Banks Structured Loan Products under MSME and all loans (excluding jewel loans) given to non-farm enterprises in manufacturing, trading and services sector whose credit needs are below Rs.10.00 lacs. Guidelines of the MUDRA card as per our circular ADV / 155 / 2015 – 16 dated 09.12.2015.

**MSE Code:-**

Our Bank has adopted revised MSE Code 2015 as prescribed by Banking Codes and Standards Boards of India (BCSBI) and Field level functionaries are advised to ensure compliance with guidelines prescribed under MSE Code issued vide circular ADV / 208 / 2015 – 16 dated 01.02.2016.

**Flow of credit to Micro and Small Enterprises:-** For streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their Life Cycle, Reserve Bank of India (RBI) vide their notification dated 27.08.2015 advised Banks to ensure that their lending policies for MSEs are streamlined and made flexible in order to empower the officials concerned to take quick decisions on credit delivery to MSEs.

**(i)** 'Standby Credit Facility' may be sanctioned, while funding capital expenditure, to fund unforeseen increases in capital expenditure for MSEs.Such 'stand by credit facilities' are sanctioned at the time of initial financial closure; but disbursed only when there is a cost overrun. At the time of credit assessment of borrowers / project, such cost overruns are also taken into account while determining viability and repayment ability of the borrower and working out project Debt Equity Ratio, Debt Service Coverage Ratio, Fixed Asset Coverage Ratio etc. The objective of such 'standby credit facility' would be, among others, to extend credit speedily so that the capital asset creation is not delayed and commercial production can commence at the earliest. Maximum of 10% of the total cost of fixed assets may be considered as stand-by credit facility, on merits, while funding capital expenditure by the sanctioning authorities.

**(ii)** 25% of the working capital limit may be sanctioned as 'standby credit facility' to fund periodic capital expenditure subject to request from the party with justification for the need for capital expenditure, such capital expenditure is required within one year and the sanctioning authority should get convinced on the need for the periodical capital expenditure for which the loan is being considered. This should be sanctioned in the form of a term loan.

**(iii)** A separate additional limit of working capital may be fixed, at the time of sanction / renewal of working capital limits, specifically for meeting the temporary rise in working capital requirements arising mainly due to unforeseen / seasonal increase in demand for products produced by them. Such limits may be released primarily, where there is a sufficient evidence of increase in the demand for products produced by MSEs. Banks may also sanction ad-hoc limits subject to the extant prudential norms, to be regularised not later than three months from the date of sanction

**(iv)** We have system of review of credit limits once in six months and renewal of limits once in a year based on audited financial statements. However, audited financial statements of MSE units would ordinarily be available with a time lag, post-closing of the financial year. In such cases and where banks are convinced that changes in the demand pattern of MSE borrowers require a mid-term review, they may do so. Such mid-term reviews may be based on an assessment of sales performance of the MSEs since last review without waiting for audited financial statements. However, such midterm reviews shall be revalidated during the subsequent regular review based on audited financial statements. The borrower need not wait for one year and may approach the Bank, any time, for enhancement of credit limits, whenever the borrower gets bulk orders, whenever the need for credit limit arises.

**Rate of interest on MSME Sector:**

Interest rate under MSME sector is risk based. Interest rate is kept competitive with the aim to increase our market penetration, broad basing clientele base and provide a market edge to our field level functionaries to bring in new business to our fold.

Interest concession for external rated (SME rating) MSME units with rating of SME 1 : 0.50% and SME 2 : 0.25% from the applicable rate is permitted for MSME Loans with credit limits upto Rs 10 crore. Final Interest rate charged on floating rate loans to MSME customers should not be lower than Applicable Repo Rate + Prime Spread.

**One time Incentive for ISO Certification:**

Our Bank has put in place a Policy to give Rs. 10,000/- as one time incentive to our MSME customers for obtaining ISO Certification. In addition to obtaining ISO certification, certain key financial / performance indicators have also to be taken into account and the minimum cut-off marks to be scored by a MSME customer is 60 marks out of total 100 marks (Details as per CO:MSME Circular dated 12.02.09).

**ZED Rates MSMEs (Zero Defect and Zero Effect)**

To promote Zero Defect and Zero Effect (ZED) manufacturing amongst Micro, Small and Medium Enterprises (MSMEs) and to incentivize the ZED rated accounts, the following concessions to be extended for MSME loan accounts:

| ZED category | ROI concession | Concession in Processing charges |
|---|---|---|
| Platinum | 0.25% | 50% |
| Diamond | 0.25% | 35% |
| Gold | 0.25% | 25% |

**Growth Projection (MSME Sector)**

- There needs to be a minimum
- Year on year credit growth of 20% under MSE sector.
- We need to provide credit cover on an average to at least 5 new Micro, small and medium enterprises at each of semi urban/urban branches per year.
- Within MSME growth, the thrust area would be lending to viable units in Micro Enterprises to achieve the 60% target prescribed by RBI.
- 10 per cent annual growth in the number of Micro Enterprise accounts

**Credit Guarantee Scheme under CGTMSE**

The Trust shall cover credit facilities (Fund based and/or Non fund based) to a single eligible borrower in the Micro and Small Enterprises sector for credit facility not exceeding ₹200 lakh by way of term loan and/or working capital facilities, without any collateral security and/or third party guarantees. Provided (i) Credit facility is standard and regular (not SMA) as per RBI guidelines and / or (ii) The business or activity of the borrower for which the credit facility was granted has not ceased; and / or (iii) The credit facility has not wholly or partly been utilized for adjustment of any debt deemed bad or doubtful of recovery, without obtaining a prior consent in this regard from the Trust.

Under new “Hybrid Security” product bank will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining unsecured part of the credit facility, up to a maximum of ₹200 lakh, can be covered under CGS-I. CGTMSE will have pari- passu charge on the primary security as well as on the collateral security provided by the borrower for the credit facilities extended.

Extent of guarantee: The Trust shall provide guarantee as under for loans sanctioned on or after 01.04.2018:

<table>
<tr><td>Category</td><td colspan="3">Maximum Extent of Guarantee where Credit Facilities</td></tr>
<tr><td></td><td>UptoRs.5Lakh</td><td>AboveRs.5 Lakh & up to Rs.50Lakh</td><td>Above Rs. 50 Lakh up to Rs.200 Lakh</td></tr>
<tr><td>Micro Enterprises</td><td>85% of the amount in default subject to a maximum of Rs. 4.25 Lakh</td><td>75% of the amount in default subject to a maximum of Rs. 37.50 Lakh</td><td rowspan="2">75% of the amount in default subject to a maximum of ₹ 150 lakh</td></tr>
<tr><td>Women entrepreneurs / Units located in North Eastern Region (including Sikkim) (other than credit facility up to Rs. 5 Lakh to Micro Enterprises)</td><td colspan="2">80% of the amount in default subject to a maximum of Rs.40 Lakh</td></tr>
<tr><td>MSE Retail Trade (from ₹10 lakh up to ₹100 lakh)</td><td colspan="3">50% of the amount in default subject to a maximum of ₹ 50 lakh.</td></tr>
<tr><td>All other eligible category of borrowers</td><td colspan="3">75% of the amount in default subject to a maximum of Rs.150 Lakh</td></tr>
</table>

**Credit Enhancement Guarantee Scheme for Scheduled Castes (CEGSSC)**

Detailed Guidelines on CEGSSC is as per our circular ADV / 120 dated 27.09.2017

**Credit Guarantee Fund for Micro Units (CGFMU):**

- Credit Guarantee Fund for Micro Units (CGFMU) is managed and operated by National Credit Guarantee Trustee Company Ltd (NCGTC), wholly owned trustee company of Government of India
- The Credit Guarantee is available for
  a) Micro loans up to Rs.10 lakh under Manufacturing /Services sector including retail trade and loans for allied agricultural activities.
  b) Overdraft loan amountofRs.10,000/- sanctioned under PMJDY.
  c) Loans sanctioned to Self Help Groups (SHGs) between Rs.10 lakhs and Rs.20 lakhs under SHG Shakti Product after 30.01.2021 would be eligible for coverage under CGFMU, irrespective of the availability of group guarantee of SHG members.

**Credit Guarantee Fund for Stand Up India (CGSSI):**

- Credit Guarantee Fund for Stand Up India (CGSSI) is managed and operated by National Credit Guarantee Trustee Company Ltd (NCGTC), wholly owned trustee company of Government of India.
- The Credit Guarantee is available for all MSME Loans conforming to the norms of Stand Up India Scheme over Rs.10 lakh & up to Rs.100 lakh inclusive of Working Capital, to a single borrower particularly for SC/ST/Women for setting up of Greenfield Enterprises without any Collateral security and / or third party guarantee.

**Margin requirements for MSME Sector**

| SNo | Facility | Margin |
|---|---|---|
| 1. | OCC & OD / Book Debts | 20% |
| 2. | Term loan/Land & building | 30% |
| 3. | Second hand machinery | 35%<br>Further,10% relaxation is permitted as below<br>• Borrowal accounts up to ZLCC powers— COLCC(GM)<br>• Borrowal accounts under the powers of COLCC(GM) and above — Respective Sanctioning authorities |

| | | |
|---|---|---|
| 4. | Margin Requirements for MUDRA Loans | • Shishu —Nil<br>• Kishore–10%<br>• Tarun –15% |

Other margin requirements shall be as prescribed under Discretionary Power Booklet from time to time

**Standards for Key Financials, for Micro, Small and Medium Enterprises:**

| **Financial Parameters for Working Capital and Term Loans/DPG (Applicable for Existing Accounts / Proposals)** | | | | |
|---|---|---|---|---|
| **Covenant** | **Benchmark** | **ZLCC** | **FGMCAC** | **COLCC(GM)** |
| Current Ratio(WC) | 1.00 | 1.00 | 1.00 | 1.00 |
| TOL/TNW(WC&TL) | 6:1 | 6:1 | 6:1 | 6:1 |
| Debt Equity Ratio(TL) | 4:1 | 5:1 | 5:1 | 5:1 |
| DSCR(TL) | Avg.1.50<br>Min. 1.25 | Avg.1.50<br>Min. 1.25 | Avg.1.25<br>Min.1.00 | Avg.1.00<br>Min.1.00 |
| Interest Coverage Ratio(WC) | 1.25 | 1.25 | 1.10 | 1.10 |
| Fixed Assets Coverage Ratio(TL) | 1.20 | 1.20 | 1.00 | 1.00 |
| Security Coverage Ratio(WC) | 1.20 | 1.20 | 1.00 | 1.00 |

| **Financial Parameters for Working Capital and Term Loans/DPG (Applicable for Fresh Accounts / Proposals)** | | | | |
|---|---|---|---|---|
| **Covenant** | **Benchmark** | **ZLCC** | **FGMCAC** | **COLCC(GM)** |
| Current Ratio(WC) | 1.10 | 1.00 | 1.00 | 1.00 |
| TOL/TNW(WC&TL) | 5:1 | 6:1 | 6:1 | 6:1 |
| Debt Equity Ratio(TL) | 4:1 | 5:1 | 5:1 | 5:1 |
| DSCR(TL) | Avg.1.50<br>Min. 1.25 | Avg.1.50<br>Min. 1.25 | Avg.1.25<br>Min.1.00 | Avg.1.00<br>Min.1.00 |
| Interest Coverage Ratio(WC) | 1.50 | 1.25 | 1.10 | 1.10 |
| Fixed Assets Coverage Ratio(TL) | 1.20 | 1.20 | 1.00 | 1.00 |
| Security Coverage Ratio(WC) | 1.20 | 1.20 | 1.00 | 1.00 |

Delegation for Accepting Relaxation in Financial / Performance Benchmarks–MSME Loans

- For COVID related special loan schemes, no specific financial benchmark will be applicable unless specified in the particular scheme.
- Compliance of Current Ratio need not be insisted for Educational institutions, Hospitals, Hotels, Start-ups subject to assessment based on cash budget.

**Trade Receivables Discounting System (TReDS):**

Reserve Bank of India has issued guidelines for setting up and Operating the Trade Receivables Discounting System (TReDS) for facilitating the financing of trade receivables of MSMEs from corporate and other buyers, including Government Departments and Public Sector Undertakings (PSUs), through multiple financiers. The TReDS will facilitate the discounting of both invoices as well as bills of exchange.

**Objectives of TReDS**

- The main objective of the TReDS platform is to address the critical needs of MSMEs i.e. the twin issues of promptly en-cashing receivables and eliminating credit risk. TReDS platform is expected to be a catalyst in the growth of MSMEs by bringing in transparency in the business eco-system. The transactions processed under TReDS will be "without recourse" to the MSMEs.
- The TReDS, which undertakes clearing and settlement activities, would be governed by the regulatory framework put in place by the Reserve Bank of India under the Payment and settlement Systems Act 2007 (PSS Act).
- As per RBI's Master Direction on Priority Sector Lending – Targets and Classification dated 04.09.2020, "Factoring transactions, taking place through the Trade Receivables Discounting System (TReDS) shall also be eligible for classification under Priority Sector upon operationalization of the platform". Accordingly the exposure under the TReDS platform shall be classified under MSME portfolio of the Bank.

  .

**Eligible Participants in TReDS platform:**

**Sellers:** MSME entities

**Buyers:** Reputed Proprietorships, Firms, Trusts, Corporates and other buyers including Government Departments and Public Sector Undertakings and such other entities as may be permitted by RBI, from time to time.

**Financiers:** Banks, NBFC Factors, Financial Institutions and such other institutions as may be permitted by RBI from time to time

**Enlisting with TReDS platform by the Bank, as financier**

As on date RBI has given approval to the following to set up and operate TReDS (Trade Receivables Discounting System)

a) NSE Strategic Investment Corporation Limited (NSICL) and Small Industries Development Bank of India (SIDBI), Mumbai - RXIL
b) Axis Bank Limited,Mumbai-INVOICEMART
c) Mynd Solutions Pvt.Ltd., Gurgaon,Haryana-M1 Exchange

MD & CEO is authorized to approve any platform from the list of entities approved by RBI to operate TReDS. General Manager / Department Head (DH) of functional Department of MSME is authorized to enlist the Bank on such approved platforms, and to execute the necessary agreement with the platform operators.

The fees payable by Bank to TReDS platform operator such as Registration expenses, annual expenses, transaction fee etc. are to be approved by Corporate Office level authorities delegated with powers.

**Maximum permissible exposure under TReDS**

- The Bills discounted under this platforms are “without recourse” to MSMEs (seller).Hence the bidding is to done based on the strength of the Buyers. Individual buyers’ exposure limit to be fixed based on External Rating of the buyer, financials of the buyer extracted from secondary source of information (MCA site, platforms developed by fintech companies for collating the information of limited companies etc.),etc.
- MD & CEO is authorized to approve the overall limit for the Bank for bidding in TReDS platform for a particular financial year.
- Within this overall exposure, maximum exposure for a single buyer should be restricted:10%of total permitted exposure approved by MD&CEO. However in case of Navratna companies, the single buyer’s exposure can go up to 25%. However the universe of buyers is created as per Para given below:

**Approval of universe of buyers:**

Universe of buyers shall be created from reputed Proprietorships, Firms, Trusts, Corporates and other buyers including Government Departments and Public Sector Undertakings and such other entities as may be permitted by RBI, from time to time, as follows.

| **Particulars** | **Benchmark** |
|---|---|
| For buyers who are not enjoying any credit facilities with our bank | (i)Minimum external rating of ‘A’(+or-) |
| For buyers who are enjoying any credit facilities with our bank at least for a period of past one year | • Latest RAM rating (Combined) should be “BBB” and above.<br>• External rating need not be insisted |

| | |
|---|---|
| MNCs | External rating need not be insisted |
| Listed companies with external rating of BBB ( + / -) | TMC to approve "Universe of listed companies with 'BBB' rating on whom bank will take exposure for TReDS transaction |
| State Government / Central Government | external rating need not be insisted |
| State PSU/ Central PSU | Irrespective of external rating, provided, PSU is not declared as SMA-1/SMA-2 under CRILC in last 1 year (Except for technical reasons) |

The exposures for individual buyers are to be approved by:-

For the buyers who are not enjoying any credit facility/ies with our Bank:

COLCC (GM) to approve universe of the buyers on whom the bills are drawn on are to be discounted, along with the requisite margin, within the overall limits & sub-limits approved by Board, on a periodical basis, and based on the note placed by CO:MSME Department. While placing the note for fixing the individual limits, External rating of the company, financials of the company, existing bills of the company discounted in the platform& their performance, market report, if any about the company etc. to be discussed in the note.

For the buyers who are enjoying credit facility/ies with our Bank and sanctioned by sanctioning authority up to the level of COLCC (GM) -COLCC (GM) is the authority as explained above
For the buyers who are enjoying credit facility/ies with our Bank and sanctioned by authority above the level of COLCC (GM)

COLCC (ED) to approve universe of the buyers on whom the bills are drawn on are to be discounted, along with the requisite margin, within the overall limits & sub-limits approved by Board, on a periodical basis, and based on the note placed by CO:MSME Department.

**Exposure and Management of Risk under TReDS:**
Obtention of KYC documents from all the entities (Sellers and Buyers) and verification of KYC are done by TReDS platform operators before on-boarding them in the platform. TReDS platform operators enable the financiers (Bank, NBFC etc.) to download KYC documents.
The copies of agreements entered between TReDS platform & MSME Seller and TReDs platform & Buyers are also enabled for download by financiers from the platform. Basically the selection of buyers depends on external rating available and also on the report provided by Credit Information Companies in the platform.
The bills discounted are to be registered with Central Registry of Securitisation Asset Reconstruction and Security Interest of India(CERSAI), detailing Bank's charge.
To mitigate any credit risk

- Market report about the buyer and the industry to be verified before fixing exposure on the buyer
- Defaulters' list /CRILC report to be verified
- Track record of the buyer, if any with TReDS platform to be verified.

**Periodical review of the buyer to be done.**

- In case of any default in payment on due date by the buyer, Bank can initiate SARFAESI action and legal action against the buyer based on the agreements entered between TReDs platform & Buyers, which can be downloaded from the platform by the Bank.
- To mitigate the risk arising from Seller side, Random audit is done by TReDS platform and such report / certificate to be obtained and periodical review to be done by MSME Department

**Approval of interest rate for bills to be discounted**

- ALCO is authorized to approve floor interest rate or band for discounting bills of individual buyers or rating-wise category of buyers.
- Finer ROI for any buyers shall be approved by ED (to be informed to ALCO)/ALCO
- The approval by ED shall be valid for a period of 15 days or any other expiry date stipulated by the ED.CO: MSME Department shall place a note periodically for such approval of interest rates to ALCO.
- While trading on the platform, the Interest rate for individual bills shall be decided by the checker in the platform.

**Authority for approving finer rate of interest for bills discounted in TReDS platform, below the ROI approved by ALCO.**

| Finer ROI approving Authority / Bills drawn on | Functional Departmental General Manager | Executive Director |
|---|---|---|
| Public Sector Undertakings | Upto0.25% | Upto0.50% |
| Corporate | Upto0.50% | Upto1.00% |

**Operations in TReDS Platform:** Operations in TReDS platform (fixing of limit in platform, bidding etc.) at single place (Corporate Office, MSME Department) and parking of exposure at one branch (presently Thousand lights branch) will be adopted to have effective control on the buyer-wise exposure, follow-up and monitoring.

**Restructuring of MSME Loans:**

**Part I -For MSME loans which are 'stressed' but in 'Standard' Category as on 01.03.2020 with aggregate exposure (FB+NFB) up to Rs. 25 crore.**

**Eligibility/Applicability:**

In terms RBI circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 06, 2020, RBI has extended the one-time restructuring of MSME advances. Previously, one-time restructuring was permitted with set criteria via RBI circulars dated February 11,2020 and January 01,2019

Accordingly, a one-time restructuring of existing loans to MSMEs classified as 'standard' without a downgrade in the asset classification is permitted, subject to the following conditions:

- The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹25 crore as on March 1, 2020.
- The borrower's account was in default but was a 'standard asset' as on March 1, 2020.
- The restructuring of the borrower account is implemented by March 31,2021.
- The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limitapplicableasonMarch1,2020.
- Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between March 2, 2020 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan. The asset classification benefit will be available only if the restructuring is done as described in this section.
- A provision of 5% in addition to the provision already held shall be made in respect of the accounts restructured under these guidelines. Bank will however have the option of reversing such provision at the end of specified period subject to the account demonstrating satisfactory performance during the specified period.
- Post restructuring SMA / NPA classification of these accounts shall be as per the extant IRAC norms.
- Bank shall make appropriate disclosure in the financial statement in the under "notes on accounts" relating to the MSME accounts, under these instructions.

**The accounts which have already been restructured as per the Circular No.134/ 2018-19 dated 09.01.2019 (RBI circular dated 01.01.2019) shall be ineligible for restructuring as per the revised guidelines.**

**Identification of Stressed MSMEs:** Identification of incipient stress in the account shall be done by creating three sub-categories under the Special Mention Account (SMA) category as given in the Table below:

| SMA Sub-categories | Basis for classification |
|---|---|
| | Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress |
| SMA-1 | Principal or interest payment overdue between 31-60 days |

| | |
|---|---|
| SMA-2 | Principal or interest payment overdue between 61-90 days |
| | Accounts under stress, availed RBI dispensation& classified as standard. |

**Corrective Action Plan (CAP)**

CAP shall be decided by the sanctioning authority of the loan as per the following directions
Rectification: Approving specific actions and timelines to regularise the accounts so that the account comes out of irregularity and this should be supported with identifiable cash flows. Need based additional finance can also be given to the borrower as a part of rectification.

Restructuring: Restructuring can be considered in case of accounts which are viable and the borrower is not a willful defaulter i.e. no diversion of funds or frauds or malfeasance etc
Recovery: If rectification or restructuring is not feasible, the committee may decide on the recovery process.
Incase if the CAP is Restructuring, then viability study need to be conducted.

**Timelines:**

If the CAP is restructuring, the respective sanctioning authority of the loan shall conduct a detailed TEV study and finalize the terms of restructuring within 20 working days for accounts with exposure up to Rs.10.00 crores and within 30 working days for accountswithexposureaboveRs.10.00croresanduptoRs.25. 00crores.This should be notified to the enterprise within five working days. Upon finalization of the terms of CAP, the implementation should be completed by the Bank within 90 days if the CAP is restructuring.

**TEV Study:**

As per the Debt Restructuring Policy 2015-16 of our Bank, "In case of borrowal accounts with simple rephasem ent and the units are operating, there is no need for TEV study. However, in respect of restructuring cases involving sacrifice including funding of irregularities, a TEV study by IDO / CRM / Outside agency may be undertaken wherever required."
Considering the above,

1. If there is simple rephasement / re-scheduling, irrespective of exposure, there is no need for TEV study.
2. If there is formation of WCTL, FITL etc. and if there is sacrifice, then
    a. for accounts with exposure up to Rs.10 crores TEV study shall be conducted by CRM
    b. For accounts with exposure above Rs.10 crores up to Rs.25 crores, TEV study shall be conducted by IDO.

**Sanctioning Authority for Restructuring:**

Execution of the decision / CAP for stressed MSME will be implemented by the respective sanctioning authority in case of accounts, where there is no sacrifice or only there is simple rephasing. The decision / CAP will be implemented by the sanctioning authority as per the powers delegated in the Credit & Credit related administrative power booklet.

**Concessions:**

RBI frame work policy dt. 01.01.2020 has not dealt on reliefs and concessions for rehabilitation of potentially viable units.

Considering the nature of these MSMEs, which are stressed but still standard, concessions to the level required for an NPA account may not be necessary. Hence mostly card rate is prescribed for regular limits. In case of WCTL and FITL, special rate of MCLR+0.50% for MSEs and MCLR+0.75% for Medium Enterprises have been approved.

| **Nature of dues** | **Reliefs permitted linked to MCLR (one year) for Micro &Small Enterprises (MSEs)** | **Reliefs permitted linked to MCLR (one year)for Medium Enterprises** |
|---|---|---|
| Working Capital Term Loan | MCLR+0.50% | MCLR+0.75% |
| Funded Interest<br>Term Loan(Working capital and Term Loan) | MCLR+0.50% | MCLR+0.75% |
| Funded Cash losses | MCLR+0.50% | MCLR+0.75% |
| Contingency Loan(upto15%of<br>Cost of rehabilitation) | Card rate | Card rate |

Note: As in some cases, the above rates may be more than the card rate, the applicable rate will be the least of the above rates or the card rates

- Funding interest up to date of implementation.
- All concessions are subject to annual review and where cash surpluses generated from operations are more than the projected levels, the Bank shall review the quantum of reliefs / concessions to be extended besides deciding on accelerated repayment.
- Penal interest waiver from accounting year in which continuing cash losses start.
- Bank shall have the Right-of-Recompense.

**Specified Period:**

'Specified Period' means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package. 'Satisfactory Performance' means no payment (interest and/or principal) shall remain overdue for a period of more than 30 days. In case of cash credit / overdraft account, satisfactory performance means that the outstanding in the account shall not be more than the sanctioned limit or drawing power, whichever is lower, for a period of more than 30 days.

**Time Span for repayment:**

- The repayment period for restructured (past) debts should normally not exceed seven years from the date of implementation of the package and in exceptional cases may be extended up to ten years.
- The period of reliefs / concessions should normally not exceed five years and in exceptional cases may be extended to seven years.
- Repayment period for Funded Interest Term Loan (FITL) should normally not exceed five years and may be extended to seven years if projected cash flows requires longer repayment period. Such repayment shall be in equated monthly / quarterly instalments
- Repayment period for WCTL should normally not exceed five years and may be extended to seven years if projected cash flows requires longer repayment period.
- Noninterest bearing/ low interest carrying facility shall rank priority in repayment.

## Part II - other MSMEs, which are not covered under Part – I

**Eligibility:**
The provisions made in this framework shall be applicable to MSME accounts which are having exposure more than Rs.25 crore, including accounts under consortium or multiple banking arrangements (MBA). Also the provisions are applicable to all MSME accounts which are not covered under Part I including accounts under NPA category. Upon restructuring the asset classification of the account should be downgraded to NPA.

**Identification of incipient stress**

Identification by banks- before a loan account of a Micro, Small and Medium Enterprise turns into a Non Performing asset (NPA), banks should identify incipient stress in the account by creating three sub-categories under the special mention account (SMA)category as given below:

| SMA Sub Category | Basis of classification |
|---|---|
| SMA-0 | Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress |
| SMA-1 | Principal or interest payment overdue between 31-60 days |
| SMA-2 | Principal or interest payment overdue between 61-90 days |
| | Accounts under stress, availed RBI dispensation and classified as standard |

On the basis of the above early warning signals, the branch maintaining the accounts should consider forwarding the stressed accounts with aggregate loan limits above Rs10 lakh to the committee as referred within five working days for a suitable corrective plan (CAP) Forwarding the account to the committee for CAP will be mandatory in cases of accounts reported as SMA-2

**Identification for Corrective Action plan**

Lender / Branch maintaining the account may identify and refer to the committee to examine for corrective action plan. MSME borrower may voluntarily also, initiate the proceedings under this framework.

The corrective action plans (CAP) suggested are

Rectification: Approving specific actions and timelines to regularize the accounts so that the account comes out of irregularity and this should be supported with identifiable cash flows. Need based additional finance can also be given to the borrower as a part of rectification.
Restructuring: Restructuring can be considered in case of accounts which are viable and the borrower is not a willful defaulter i.e. no diversion of funds or frauds or malfeasance etc.
Recovery: If rectification or restructuring is not feasible, the committee may decide on the recovery process.

**Accounts upto Rs.10lacs:**

Accounts identified as SMA2 should be mandatorily examined for CAP by the Branch itself and suitable CAP should be decided.

**Accounts above Rs.10lacs:**

The accounts identified will be referred to the Committee for Stressed MSME. The committee will be constituted at Regional / Zonal Level by the Bank. The members of the committee shall be

A. The Regional or Zonal Head of the convener bank, shall be the Chairperson of the Committee
B. Officer – in –charge of the MSME Department of the convener bank at the Regional or Zonal Office level, shall be the member and convener of the committee
C. One independent external expert with expertise in MSME related matters to be nominated by bank
D. One representative from the concerned State Government. Endeavour should be made to bring representative from the respective State Government in the committee. In case, State Government does not nominate any member, then the convening Bank should proceed to include an independent expert in the Committee, namely a retired executive of another bank of the rank of AGM and above.
E. When handling accounts under consortium or Multiple Banking Arrangement (MBA), senior representatives of all banks / lenders having exposure to the borrower.

In case of independent external expert with expertise in MSME related matters (point No C), it is proposed that any external experts including Chartered Accountants / concurrent Auditors if they are having adequate expertise in MSME related matters should be nominated.

In case of State Government representative (Point No D), Zonal Manager should write to the concerned State Government Department for nomination. If the State Government does not nominate, then an independent expert in the Committee, namely a retired executive of another bank of the rank of AGM and above, can be included.

Powers for nomination / appointment of the independent external expert and retired executive of another bank of the rank of AGM and above (If the State Government does not nominate), shall be vested with the ZLCC. The period of appointment / nomination of Chartered Accountant and independent expert in the Committee, namely a retired executive of another bank of the rank of AGM and above (in case of Government not nominating a representative) shall be for one year, subject to review after completion of one year. The sitting fee shall be Rs.3000 / - per meeting for each person. However, sitting fee shall not be paid to the representative nominated by the Government All proceedings should be recorded and duly intimated to the borrower.

**Timelines:**

When the borrower voluntarily approaches for CAP, the lender, on receipt of request, should refer to the committee and the committee should convene its meeting, not later than five working days from the receipt of application. When the application is filed by the Bank and admitted by the committee, the committee should notify the enterprise within five working days and seek response / disclosure of all liabilities. If the enterprise does not respond within fifteen working days, then the committee may proceed ex-parte.

If information is received, notice is sent to statutory creditors seeking representation within fifteen working days of receipt of notice. (This is only for determining the total liability of the enterprise and not for payments of the same by the lenders). Within 30days of convening the first meeting for a specific enterprise, the committee shall decide on the CAP.

If the CAP is restructuring, the committee shall conduct a detailed TEV study and finalize the terms of restructuring within 20 working days for accounts with exposure up to Rs.10.00 crores and within 30 working days for accounts with exposure above Rs.10.00 crores and up to Rs. 25.00 crores. This should be notified to the enterprise within five working days. Upon finalization of the terms of CAP, the implementation should be completed by the Bank within 30 days if the CAP is rectification and within 90 days if the CAP is restructuring.

**TEV Study:**

In case of borrowal accounts with simple rephasement and the units are operating, there is no need for TEV study. In respect of restructuring cases involving sacrifice including funding of irregularities, a TEV study may be undertaken wherever required. As per Loan Policy, TEV study is not needed for the exposures up to Rs.25 crores. However, depending upon the complexity of the cases, Zonal Managers shall decide on the need for TEV study by IDO or any outside agency.

**Powers for implementation**

Execution of the decision / CAP of the committee for stressed MSME will be implemented by the ZLCC in case of accounts with credit exposure / sacrifice amount falling under the powers of ZLCC. In case of accounts with credit exposure / sacrifice amount exceeding the powers of ZLCC, the decision / CAP of the committee will be implemented by the respective sanctioning authority.

The decision / CAP will be implemented by the sanctioning authority as per the powers delegated in the Credit & Credit related administrative power booklet.

**Reliefs**

| **Nature of dues** | **Reliefs permitted linked to MCLR (one year) for Micro &Small Enterprises (MSEs)** | **Reliefs permitted linked to MCLR (one year) for Medium Enterprises** |
|---|---|---|
| Working capital | MCLR+2.45% | MCLR+2.95 |
| Working Capital Term Loan | MCLR+0.95%to MCLR+2.45% | MCLR+1.45%to MCLR+2.95% |
| Funded Interest Term Loan(Working capital and Term Loan) | Maximum of full interest relief. | Maximum of full interest relief. |
| Funded Cash losses | MCLR+0.95% | MCLR+1.45% |
| Existing Term Loan | Upto3%below documented rate | Upto2%below Documented rate |
| Promoter's Contribution | Minimum of 20 per cent of banks' sacrifice or 2 per cent of the restructured debt, whichever is higher. | Minimum of 20 per cent of banks' sacrifice or 2 percent of the restructure debt, whichever is higher. |
| Contingency Loan(upto15%of Cost of rehabilitation) | MCLR+2.45% | MCLR+2.95% |

Note: As in some cases, the above rates may be more than the card rate, the applicable rate will be the least of the above rates or the card rates

- Funding interest up to date of implementation
- All concessions are subject to annual review and where cash surpluses generated from operations are more than the projected levels, the Bank shall review the quantum of reliefs / concessions to be extended besides deciding on accelerated repayment.
- Penal interest waiver from accounting year in which continuing cash losses start.

**Time Span for repayment:**

- The repayment period for restructured (past) debts should normally not exceed seven years from the date of implementation of the package and in exceptional cases may be extended up to ten years.
- The period of reliefs / concessions should normally not exceed five years and in exceptional cases may be extended to seven years.
- Repayment period for Funded Interest Term Loan (FITL) should normally not exceed five years and may be extended to seven years if projected cash flows requires longer repayment period. Such repayment shall be in equated monthly / quarterly instalments
- Repayment period for WCTL should normally not exceed five years and may be extended to seven years if projected cash flows requires longer repayment period.
- Noninterest bearing/ low interest carrying facility shall rank priority in repayment.