



Kotak Mahindra Bank

Policy and Process for Revival & Rehabilitation of MSMEs

Version 1.05

Version history:

Original policy approved by Board in the meeting held on 21st July 2016–version 1.00

Modification to policy approved by Board in the meeting held on 21st January 2019–version 1.01

Modification to policy approved by Board in the meeting held on 13th May 2020–version 1.02

Modification to policy approved by Board in the meeting held on 12th September, 2020 – version 1.03

Modification to policy approved by Board in the meeting held on 29th May 2021 (as updated with changes made by RBI vide circular dated 4th June 2021) – version 1.04

Review & modifications to the policy approved by Board in the meeting held on 22nd July 2023 – version 1.05

INDEX OF CONTENTS

1	INTRODUCTION	1
2	SCOPE OF THE POLICY:	2
3	IDENTIFICATION OF FINANCIAL STRESS:	2
	3.1 Identification by the Bank.....	2
	3.2 Identification by the Borrower	3
4	MSME COMMITTEE (MSMEC)	3
	4.1 Members of the MSME for KMBL	4
	4.2 KMBL's role as lead bank	5
	4.3 KMBL's role as a member in Consortium/MBA)	5
5	PROCESS FOR CORRECTIVE ACTION PLAN (CAP).....	5
	5.1 Making a request for revitalisation	5
	5.2 Proceedings of MSMEC after receipt of application:	6
	5.3 Timelines	7
	5.4 Options under Corrective Action Plan (CAP)	8
	5.5 Additional finance	9
6	CONDITIONS FOR RESTRUCTURING	10
	6.1 Ineligible Borrowers – Willful Defaulter or Fraud	10
	6.2 Asset classification	10
	6.3 Viability	10
	6.4 New provisions for restructuring:	11
	6.4.1 One-time restructuring scheme of RBI:	11
	6.5 Time limit	13
	6.6 Obligation of promoters	13
	6.7 Diversification / Expansion leading to stress	13
	6.8 Varying security interests of lenders	14
	6.9 Sharing information on proceedings	14
7	RELIEFS AND CONCESSIONS	14
8	PRUDENTIAL NORMS	14
9	AGREEMENTS TO BE EXECUTED	15
10	MIS and reporting	15
11	CREDIT MONITORING	15

1 **INTRODUCTION**

Due to the contribution of MSME (Micro Small and Medium Enterprises) to industrial production, exports, employment generation and economy, in general, a simpler and faster mechanism for revival and rehabilitation of units facing financial stress in this sector has been promoted by the Government of India. In line with this, RBI has issued Circular No : RBI/2015-16/338 dated 17-Mar-16. This supersedes RBI's earlier guidelines issued vide circular No. RBI/2012-13/273 dated 01-Nov-12 titled 'Guidelines for Rehabilitation of Sick Micro and Small Enterprises', except for matters pertaining to reliefs and concessions for rehabilitation of potentially viable units and one-time settlement mentioned in such circular.

RBI has directed banks to adopt a Board approved policy to operationalize this scheme before 30-Jun-16. The Policy and related process is covered in this document.

MSMEs are to be reckoned as per the MSME Development Act, 2006 (MSMED Act), as mentioned below - as modified by Govt. of India notification dated 26.06.2020 effective from 1st July 2020 or as amended from time to time:

Category of MSME	Turnover criteria (export turnover to be excluded)	Plant & machinery / equipment criteria
Micro enterprise	<= Rs. 5 crores	<= Rs.1 crore
Small enterprise	<= Rs. 50 crores	<= Rs.10 crore
Medium enterprise	<= Rs.250 crores	<= Rs.50 crore

Notes:

- Both the turnover and plant & machinery/equipment criteria have to be satisfied, to be eligible to be classified as MSME under the above categories. 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.
- 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.
- The value of Plant and Machinery or Equipment 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, which was applicable as per the earlier classification criteria.
- The cost of certain items specified in the Explanation I to sub-section (1) of section 7 of the Act shall be excluded from the calculation of the amount of investment in plant and machinery.
- The provisions & clarifications contained in extant Government notification and RBI circulars dated 02.07.2020 & 21.08.2020, or as amended from time to time, will be applicable for determining MSME classification, including the requirement of Udyam Registration Certificate for the unit.

2 **SCOPE OF THE POLICY:**

- a. These revitalization guidelines are applicable to MSME exposures of below Rs.25 Crs from the banking system with any type of banking arrangement (Sole, Multiple or Consortium).
- b. For all other MSMEs for which this policy does not apply (i.e. for aggregate banking limits of Rs.25 crores or more) the RBI notified Prudential Framework for Resolution of Stressed Assets will be applicable. In this regard, the Bank's Resolution of Stressed Assets and Recovery Policy may be referred.

The guidelines mentioned in this document will be applicable to all MSME units "Pan-Bank" identified for revitalization from 01-Jul-16 onwards. In cases where steps for remedial measures have already been taken, the same may continue with the bank or under JLF / CDR scheme, as the case may be.

Credit Risk Management Committee (CRMC) is authorized to approve any operating guidelines under this policy, as may be deemed required.

3 **IDENTIFICATION OF FINANCIAL STRESS:**

3.1 **Identification by the Bank**

SMA classification normally applies for borrowers with credit exposure of Rs.5 Crs and above with the Bank, whereas for MSME it is applicable irrespective of the exposure.

The descriptions and implications for different SMA classifications are given below.

SMA category	Basis for classification	Implication
SMA-0	Principal or interest not overdue for more than 30 days.	The delegated sanctioning authority or EWS committee can decide suitable course of action / Corrective Action Plan (CAP). Normal internal policies of the Bank will be applicable and reference to MSME committee is optional
SMA-1	Principal or interest overdue between 31-60 days.	
SMA-2	Principal or interest overdue between 61-90 days	CAP shall be formulated & recorded in writing. If Bank limits are - <ul style="list-style-type: none"> • >Rs.10 Lakhs - mandatory to refer to MSME Committee. • ≤Rs.10 Lakhs – relevant Business unit may directly take up matter with approving authority.

While the above are identifiers of stress for the purpose of undertaking CAP, the reporting to Central Repository for Information on Large Credit (CRILC) shall be in respect of borrowers with exposure of Rs.5 Crs or more with the Bank.

3.2 Identification by the Borrower

Any MSME unit may voluntarily seek remedial action from the Bank on account of stress or incipient stress, if either of the following conditions are satisfied:

- The borrower reasonably apprehends failure of its business or inability to pay debts; or
- There is erosion of net worth due to accumulated losses, to the extent of 50% or more of its net worth during the previous accounting year.

In such cases, the Borrower can approach the Bank for a CAP. When Bank limits are >Rs.10 Lakhs, the request has to be referred to the MSME Committee (MSMEC) and in all other cases to the appropriate approval authority or EWS cum Review Committee for taking a decision on the CAP.

4 MSME COMMITTEE (MSMEC)

As per RBI stipulations, all banks having exposure towards MSME sector shall constitute a Committee at each District where they are present or at Division level or Regional Office level, depending upon the number of MSME units financed in the region.

The members of the Committee would be the following, as stipulated by RBI -

- Regional/ Zonal Head of the Convening Bank (Chairperson)
- Officer in charge of MSME of the convenor bank at the regional/ zonal level ,who will act as the convenor of the Committee
- One independent external expert with expertise in the MSME related matters, nominated by the Bank
- One representative from the concerned State Government. If case the State Government does not nominate any member, an independent expert in the area of MSME may be nominated, being a retired employee of the rank of AGM or above from another bank.
- Senior representative(s) of the bank(s)/ lender(s) that has /have an exposure to the borrower. (i.e. other banks under consortium / multiple banking arrangement).

MSMEC for Consortium / Multiple Banking cases:

When an MSME borrower is under Multiple/ Consortium Arrangement, the MSME Committee to which the reference of CAP has to be made would be as below (say, Lead bank or Leader):

- The Consortium leader in the case of Consortium Banking Arrangement (CBA)
- The Bank with the largest exposure to the borrower in the case of Multiple Banking Arrangement (MBA).

4.1 Members of the MSME for KMBL

The MSME Committee for KMBL shall comprise the following members:

- EWS cum Review Committee members applicable to the respective Business Group.
- One independent external expert with expertise in the MSME related matters, nominated by the Bank,
- One representative from the concerned State Government; or an independent expert in the area of MSME, being a retired employee of the rank of AGM or above from another bank, as nominated by the Bank.

In addition, for consortium / multiple banking where KMBL is lead bank, the Senior representative(s) of all the bank(s)/ lender(s) that has /have an exposure to the borrower shall also be members of the MSMEC for dealing with relevant borrowers. Since EWS cum Review Committee members may be more than two, KMBL's votes by number may be restricted in line with committee composition specified by RBI in case of consortium/multiple banking cases.

Independent experts nominated by the Bank may be common or be different for various Business Groups as may be decided by the said groups.

The Chairman of the MSMEC shall be the Group Head of the Business Group to which it pertains.

The committee meeting will be convened upon request made by or on behalf of Credit Head (CH) / Regional Credit Head (RCH) to the MSMEC coordinator. EWS cum Review committee coordinator of the respective Business Group shall be the coordinator for convening MSMEC meeting.

Credit Risk Management Committee (CRMC) may modify and approve, from time to time, matters of composition of the bank's MSME Committee and its decentralization.

Representatives from Credit and Business teams may be invitees to the meeting of the committee.

As regards the Bank's on exposure the borrower, the decision / recommendation of the MSMEC on additional finance, restructuring or recovery shall be subject to approval of appropriate delegated authority (one-level higher authority subject to at-least President of the Business Group for restructuring).

4.1.1 Circulation of papers to committee members

Advance notice of at-least three working days to be given for convening a meeting and all papers relevant for discussion in the meeting to be circulated to the committee members in soft copy form at least three working days before the meeting.

4.1.2 Conduct of the meeting of MSMEC

All decisions of the Committee shall be arrived at, after deliberation and by vote, by way of physical meeting or by circulation. The Chairman of the Committee will take the final call when there is a tie. In case of any urgency or paucity of time, discussions can happen over telephone/video-conferencing after circulation of the relevant papers to the members and decision may be confirmed by email.

4.2 KMBL's role as lead bank

When KMBL is consortium leader or has largest share of exposure on borrower, the Bank will carry out the duties of co-ordination with other banks, convening meetings, getting the necessary documents from the Borrower / lender which made the reference, collecting details of dues from statutory creditors, circulating to the other banks/ lenders, taking a decision on the CAP, communicating the CAP and implementing it within the time period stipulated. Where it is one of the bankers, the Bank will provide its recommendation on the CAP to the MSMEC co-ordinator of the other bank.

4.3 KMBL's role as a member in Consortium/MBA)

KMBL shall fulfill its responsibility as committee member by way of prompt and effective co-ordination with other committee members and quick conveying of decisions.

The representative from KMBL in the MSMEC of the leader in the case or consortium, or bank with highest exposure in the case of MBA, would be the CH/RCH or as delegated by CH of the relevant Business unit. The person attending the meeting will have the responsibility of apprising in writing to the Business / Credit teams about the discussions in the meeting and decisions taken.

5 PROCESS FOR CORRECTIVE ACTION PLAN (CAP)**5.1 Making a request for revitalisation**

The request for CAP can be made by the Borrower or by one of the lending banks.

Mandatorily all requests for CAP where exposure of the Bank to the Borrower is more than Rs.10 Lakhs have to go through the MSMEC route for revitalisation. For lower exposure cases, the Bank's usual policies & processes on recovery / restructuring will be followed.

The application for Corrective Action Plan (CAP) is forwarded to the MSMEC of KMBL in the case of sole banking arrangement or where KMBL is lead bank (i.e. consortium leader or bank with largest share of exposure). Where KMBL is not the lead bank, the application shall be submitted to the MSMEC of the lead bank. Submission of the request note to the MSMEC of the Bank / other banks would be the responsibility of the Business Unit to which the borrower belongs.

If the borrower had requested for CAP, the request of the borrower shall be forwarded to the MSMEC within 5 working days from the date of receipt of application.

The request for CAP should be clearly outline the need for revitalisation, reasons for the same and comforts to be derived by the funding banks / institutions. It should be supported by -

- Latest audited accounts of the borrowing unit including its Net worth
- Details of its liabilities, including dues to the State/ Central Government and unsecured creditors, if any
- Nature of stress faced by the borrower
- Suggested remedial actions

The format of the application which is to be used for reference by borrower / lender may be as per internal operating guidelines adopted by the Bank.

5.2 Proceedings of MSMEC after receipt of application:

- i. If the request is made by borrower to the Bank and forwarded by the relevant Business unit to the MSMEC, the MSMEC should convene its meeting within 5 working days from receipt of application. Even for reference by the Bank, the MSMEC shall convene its meeting at the earliest.
- ii. If the request is made by a lender to the MSMEC, the Committee will notify the borrower within 5 working days of such reference and the borrower will have to respond to the request or make a representation to the MSMEC along with details of all its liabilities, including those owed to State/Central Government and unsecured creditors within 15 days of receipt of such notice. If no response is received within the time period specified, the MSMEC can proceed ex-parte.
- iii. Response by the Borrower to the notification along with the details of dues to Government (State / Central) and secured creditors, within 15 working days from the date of receipt of notice, failing which committee can proceed ex-parte.
- iv. Upon receipt of response from borrower as foresaid, notice shall be sent by MSMEC to statutory creditors (State/Central Govt), where deemed fit. This to inform the statutory creditors about the application under the framework and permitting them

provide representation on their claims within 15 days of such notice. This information is sought for arriving at a suitable CAP and not for payment of dues by the lenders.

- v. The MSMEC shall take a decision as to the option to be adopted under the CAP within 30 days from the date of its first meeting and notify the borrower within 5 further days. The CAP may be either of **Rectification, Restructuring or Recovery**, as discussed below.
- vi. When restructuring is proposed as a CAP, Techno-Economic Viability (TEV) study has to be conducted and the terms of restructuring has to be finalized within the following time lines.

Aggregate Limit in Rs.Crs	Time limit in Working days
≤10 (TEV is optional)	≤20
>10 upto 25 (TEV is mandatory)	≤30
> 25	This scheme is not applicable.

After finalizing the restructuring package, the terms shall be notified to the borrower within 5 working days.

- vii. Implementation of CAP- The time taken for implementation of CAP will be dependent on the nature of the decision taken -

Decision taken	Time limit in Working days from date of decision
Rectification	≤30
Restructuring	≤90
Recovery	At the earliest

- viii. Continuation of operations - When an application has been admitted by the MSMEC, the borrowing entity shall continue to perform contracts essential to its survival but the Committee may impose such restrictions, as it may deem fit, for future revival of the enterprise.
- ix. The Committee will make suitable provisions for payment of tax or any other statutory dues in the CAP. The borrower has to submit the CAP to the concerned taxation or statutory authority and obtain approval of such payment plan.

5.3 Timelines

Detailed time-lines have been specified above for various activities under this Scheme. If the MSMEC is not able to decide on the CAP and restructuring package due to non- availability of information on statutory dues of the borrower, the Committee can take additional time not exceeding 30 days for deciding CAP and preparing the restructuring package. However, they should not wait beyond this period and proceed with CAP.

5.4 Options under Corrective Action Plan (CAP)

5.4.1 Rectification

This involves clearing of overdue or other irregularity by the borrower and ensuring that the account comes out of SMA status and does not slip into NPA status, without any loss or sacrifice on the part of lenders. This process should be borrower driven and requires commitment from the borrower, specifying actions & timelines, to regularize the account, supported by identifiable cash flows.

5.4.2 Restructuring:

A restructured account is one where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the bank would not otherwise consider. This is done so that the debt servicing capacity improves. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount/ the amount of instalments / rate of interest (due to reasons other than competitive reasons). Restructuring is covered in more detail in the succeeding section.

With regard to definition of restructuring and indicative financial difficulty evaluation norms, various methods & modalities of restructuring, indicative viability parameters, change in ownership, contribution/sacrifice by promoters, guarantees by promoters, and other relevant provisions as contained in Part-B of the Bank's 'Resolution of Stressed Assets and Recovery Policy' will be applicable. Credit Risk Management Committee is authorized to approve delegation of authority or modify the indicative viability parameters.

5.4.3 Recovery:

This option shall be resorted to only if rectification or restructuring options are not considered suitable for the borrower. The MSMEC may decide the best suitable recovery process to be followed, among the various legal and recovery options available, with a view to optimizing the efforts and results.

With regard to recovery strategies and guidelines, reference may be made to Part-C of the Bank's 'Resolution of Stressed Assets and Recovery Policy'.

Recovery decision of the committee, to be binding on all lenders and shall require such minimum majority as stipulated under relevant laws & regulations. **Ex:** Under SARFAESI, 60% of the value of lenders shall have to approve enforcement of security in case of joint charge. If the MSMEC decides on options of either 'Rectification' or 'Restructuring', but the account fails to perform as per the agreed terms under these options, the Committee shall initiate recovery proceedings.

Review of recovery action:

When recovery decision is notified to the borrower, the entity may request for a review of the decision within 10 working days from the receipt of decision of the committee. The request for review shall be on the following grounds:

- A mistake or error apparent on the face of the record; or
- Discovery of new and relevant fact or information which could not be produced before the Committee earlier despite the exercise of due diligence by the enterprise.

Pursuant to such review, the committee may pursue a fresh CAP as deemed fit.

A review application shall be decided within the stipulated time frame of 30 days from date of filing by borrower.

5.5 Additional finance**Under Rectification:**

In exceptional cases, additional need based finance can be considered for meeting unavoidable increase in working capital requirements, under the rectification plan. The guidelines for such additional finance would be:

- Should be temporary in nature and shall not exceed 6 months tenor.
- Diversion of such finance or roll-over beyond 6 months, or grant of additional finance for some other purpose, shall attract NPA classification.
- Repeated rectification with funding, within the space of one year, will also be treated as restructuring and render the account as NPA.

Under Restructuring:

- If the MSMEC decides that the enterprise requires financial resources to restructure or revive, it may draw up a plan for provision of such finance.
- Additional finance should be matched by contribution by the promoters in appropriate proportion. It should not be less than the proportion at the time of original sanction of loans.
- If the existing promoters are not in a position to bring in additional funds the Committee may allow the enterprise to raise secured or unsecured loans. The committee may, with the consent of all lenders recognized, allow such loans to have higher priority than any existing debt of lenders.

General (for both rectification and restructuring):

- No additional finance should be sanctioned under CAP, in cases where the account has been reported as fraud by any lender. This is except if change in management has occurred. Also, willful defaulters are not eligible, subject to exception provided in section 6.1 below. With regard to willful defaulters and Frauds, the extant RBI stipulated restrictions / exceptions shall apply, which may be amended from time to time.
- Additional funding provided under CAP will have priority in repayment over repayment of existing debts.

6 CONDITIONS FOR RESTRUCTURING

The decisions of the committee for restructuring of debt shall be based on approval of 75% in value and 50% in number of the lenders. Such restructuring decision shall be binding on all the lenders under the terms of inter-creditor agreement. Restructuring of debt may be considered subject to the following conditions and norms.

6.1 Ineligible Borrowers – Willful Defaulter or Fraud

- Borrowers classified as Willful Defaulter are not eligible. Exception is if the MSMEC reviews the reasons for classification and satisfies itself that the borrower is in a position to rectify the willful default and subject to Board approval of the bank/s where the borrower is classified as willful defaulter.
- Borrowers classified as Fraud (cases of fraud and malfeasance) are not eligible. Where the existing promoters are replaced by new promoters and the borrower company is de-linked from erstwhile promoters / management, banks and MSMEC may take a view on restructuring based on viability. This shall be without prejudice to continuance of criminal action on erstwhile promoters / management.
- With regard to willful defaulters and Frauds, the extant RBI stipulated restrictions / exceptions shall apply, which may be amended from time to time.

6.2 Asset classification

Standard or sub-standard accounts can be considered. Doubtful accounts cannot be considered unless it is standard or sub-standard in majority of the lenders (by value).

6.3 Viability

Prima facie viability is to be established based on the TEV study conducted or evaluation by the lending banks based on benchmarks determined by the MSMEC like Current ratio, Debt Equity ratio, Debt Service Coverage Ratio, etc.

The restructuring package should clearly spell out the timelines (beyond 6 months) within which the stipulated viability milestones need to be achieved.

MSMEC will periodically review the account for achievement / non-achievement of milestones and shall consider initiating suitable measures including for recovery.

6.4 New provisions for restructuring:

6.4.1 One-time restructuring scheme of RBI: (was valid for invocations up to 30th Sep 2021 only; currently this scheme is not available).

The Bank may undertake restructuring as per a one-time scheme of restructuring introduced by RBI vide its circular dt.01.01.2019. Vide circular dated 11.02.2020, RBI had extended the validity of the scheme till 31.12.2020. Due to the continued impact of COVID-19 pandemic, RBI further modified & extended the scheme vide circular dated 06.08.2020. In view of the uncertainties created by the resurgence of the Covid-19 pandemic in India during 2021, RBI has further extended the validity of this restructuring scheme along with modifications, vide circulars dated 5th May 2021 & 4th June 2021. Under this scheme, restructuring may be undertaken and implemented without attracting NPA classification and the borrower would continue to be under standard classification. This is subject to the following conditions:

- a) Restructuring of the borrowal account should be necessitated on account of the economic fallout from Covid-19. The credit appraisal/modification note shall include justification in this regard.
- b) The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed Rs.50 crores as on 31st March 2021.
- c) The borrower should be classified as a micro, small or medium enterprise as on March 31, 2021 in terms of the Government Gazette Notification S.O. 2119 (E) dated June 26, 2020. If the borrower is not registered in the Udyam Registration portal, such registration shall be required to be completed before the date of implementation of the restructuring plan for the plan to be treated as implemented.
- d) The borrower's account should be 'standard asset' as on 31st March, 2021. The standard classification can be retained after restructuring. The accounts which may have slipped into NPA category between April 1st, 2021 and date of implementation of restructuring should 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 per provisions of this circular.
- e) 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 limit prevailing as on 31st March 2021.
- f) To be eligible for restructuring, the borrower's account should not have been restructured in terms of the circulars DOR.No.BP.BC /4/21.04.048/2020-21 dated August 6, 2020; DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020; or DBR.No.BP.BC.18 /21.04.048/2018-19 dated January 1, 2019 (collectively referred to as MSME restructuring circulars) or under the circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on "Resolution Framework for COVID-19-related Stress." This is subject to exception specified in clause (g) below.

- g) In respect of accounts of borrowers which were restructured in terms of the aforesaid MSME restructuring circulars, it is permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. The decision with regard to above shall be taken by September 30, 2021. The reassessed sanctioned limit / drawing power shall be subject to review at least on a half yearly basis and the renewal / reassessment at least on an annual basis. The annual renewal/reassessment shall be expected to suitably modulate the limits as per the then-prevailing business conditions.
- h) The restructuring of the borrower account shall be invoked by September 30, 2021. For this purpose, the restructuring shall be treated as invoked when the Bank and the borrower agree to proceed with the efforts towards finalising a restructuring plan to be implemented in respect of such borrower. The decisions on applications received by the Bank from the customers for invoking restructuring under this facility shall be communicated in writing to the applicant within 30 days of receipt of such applications. The decision to invoke the restructuring under this facility shall be taken independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- i) The restructuring of the borrower account shall be implemented within 90 days from the date of invocation.
- j) All other instructions specified in the circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 shall remain applicable.
- k) Other stipulations as per extant circulars of RBI and any clarifications given by RBI will be applicable.

A restructuring would be treated as implemented if the following conditions are met:

- All related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities are completed by all lenders; and
- The new capital structure and / or changes in the terms and conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.

Other conditions to be complied by the Bank:

- i. A provision of 10% of the residual debt shall be kept in respect of accounts restructured under these instructions. Bank will have the option of reversing such provisions at the end of the 'specified period', subject to the account demonstrating satisfactory performance during the specified period (defined in section 8 below).
- ii. Post-restructuring, NPA classification of these accounts shall be as per the extant IRAC norms.
- iii. The Bank shall make appropriate disclosures in their financial statements, under 'Notes on Accounts', relating to the MSME accounts restructured under this scheme in the following format:
Number of accounts restructured:
Amount (Rs.in Millions):

6.5 Time limit

Any restructuring under this framework shall be completed within the timelines specified (refer sections 5.2, 5.3 & 6.4.1 above). If it finishes an activity in a shorter period than that prescribed then it can use the saved time for other activities provided the aggregate time limit is not breached.

6.6 Obligation of promoters

- i. The general principle of restructuring is that the stakeholders have to bear the first loss of the entity rather than the lenders.
- ii. Commitment has to be provided by the promoters by way of personal guarantees and net worth statement to be supported by copies of legal titles to assets and a declaration that they would not undertake any transaction that would alienate assets without the permission of the committee. Any deviation from this commitment affecting the security or recoverability of the loan shall render the account as fit for recovery proceedings.
- iii. While undertaking restructuring, the MSMEC may evaluate one or more of the following options and take an appropriate decision. The promoter is obligated to comply with the decision taken by the MSMEC.
 - Transferring equity of the company from the promoters to the lenders to compensate for their sacrifices;
 - Promoters infusing more equity into the Company;
 - Transfer of the promoters' holdings to a security trustee or an escrow arrangement till turnaround happens, to facilitate change in management control, if lenders favour it.
 - In respect of listed companies, lenders may be, ab-initio, compensated for their loss or sacrifice (diminution in fair value of account in net present value terms) by way of issuance of equities of the company upfront. This is subject to the extant regulations and statutory requirements. If the lenders' sacrifice is not fully compensated by way of issuance of equities, the right of recompense clause may be incorporated to the extent of shortfall.

6.7 Diversification / Expansion leading to stress

In case a borrower has undertaken diversification or expansion of the activities which has resulted in the stress on the core-business of the group, a clause for sale of non-core assets or other assets may be stipulated as a condition for restructuring the account. This is if under the Techno-Economic Viability study, the account is likely to become viable on hiving off of non-core activities and other assets.

6.8 Varying security interests of lenders

Differential security interests among various lenders may be dealt with by the MSMEC as per following options:

- Prior agreement in the Inter-Creditor Agreement among the above classes of lenders regarding repayments;
- Structured agreement stipulating priority of secured creditors;
- Appropriation of repayment proceeds among secured, partially secured and unsecured lenders in certain pre-agreed proportion.

6.9 Sharing information on proceedings

The MSME committee shall provide information on the restructuring proceedings to the borrower entity or statutory dues creditors, if requested by them.

7 RELIEFS AND CONCESSIONS

Any reliefs / concessions, etc., to MSME borrowers may be considered by the Bank on merits for units considered viable. Reliefs/concessions could be waiver of penal interest, concessional interest rate, interest free FITL, etc. One-time settlement may also be offered. These decisions shall be those deemed appropriate for ensuring maximum recovery by the Bank. These decisions are subject to the decision / recommendation of MSME Committee and appropriate sanctioning authority.

8 PRUDENTIAL NORMS

The extant asset classification and provisioning norms stipulated by RBI, shall apply for restructuring MSME units under this framework.

As a general rule, barring the one-time exception specified in section 6.4 above, any MSME account which is restructured must be downgraded to NPA upon restructuring and will slip into progressively lower asset classification and higher provisioning requirements as per extant IRAC norms. Such an account may be considered for up-gradation to 'standard' only if it demonstrates satisfactory performance during the 'specified period', as defined in extant RBI stipulations on asset classification & provisioning.

'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.

9 AGREEMENTS TO BE EXECUTED

In case of accounts under consortium / MBA, the lenders will have to sign an Inter-Creditor Agreement (ICA) and Debtor- Creditor Agreement. Indian Banks Association (IBA) has specified a format for the ICA. These agreements would bind the lenders and also seek compliance from the participating banks on the decisions made by the Committee.

The Agreement may stipulate that both secured and unsecured creditors need to agree to the final resolution of Corrective Action Plan (CAP). A “stand-still” clause as defined in extant guidelines on Restructuring of Advances) may be stipulated in the Debtor-Creditor Agreement to enable a smooth process of restructuring. The stand-still clause does not mean that the borrower is precluded from making payments to the lenders. These Agreements will be subject to internal clearance by Legal Department of the Bank.

ICA may be executed by persons as authorized by Group Head / President of respective Business group. With regard to ICA, CRMC may approve any operating guidelines as deemed required.

10 MIS AND REPORTING

Business/Credit/Monitoring teams of respective business segments shall maintain adequate information on MSME units referred to MSMEC, progress of CAP, implementation status, etc. This is to facilitate any internal or external reporting.

11 CREDIT MONITORING

The Bank shall undertake effective credit monitoring of restructured account, covering the following:

- Tracking the progress of projects under implementation;
- Tracking loans that have been restructured and are under moratorium period/ rescheduled repayment period;
- Breach of viability parameters and other key covenants stipulated on the borrowers.
