

Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs) (Ref: RBI circular dated 17.03.2016):-

Eligibility & Identification:-

- ▶ The provisions made in this framework shall be applicable to MSMEs having loan limits up to Rs.25 crore, including accounts under consortium or multiple banking arrangement (MBA).
- ▶ **Identification of incipient stress**
- ▶ **Identification by banks or creditors** – Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Table below:
- ▶ **SMA Sub-categories Basis for classification**
- ▶ SMA-0 Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress (Please see Annex - I)
- ▶ SMA-1 Principal or interest payment overdue between 31-60 days
- ▶ SMA-2 Principal or interest payment overdue between 61-90 days
- ▶ On the basis of the above early warning signals, the branch maintaining the account should consider forwarding the stressed accounts with aggregate loan limits above Rs.10 lakh to the Committee **within five working days** for a suitable corrective action plan (CAP). Forwarding the account to the Committee for CAP will be mandatory in cases of accounts reported as SMA-2.
- ▶ As regards accounts with aggregate loan limits up to Rs.10 lakh identified as SMA-2, the account should be mandatorily examined for CAP by the branch itself under the authority of the branch manager
- ▶ However, the cases, where the branch manager has decided the option of recovery under CAP instead of rectification or restructuring should be referred to the Committee for their concurrence.
- ▶ **Identification by the Borrower Enterprise** - Any MSME borrower may voluntarily initiate proceedings under this Framework, if the enterprise reasonably apprehends failure of its business or its inability or likely inability to pay debts or there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year, by making an application to the branch or directly to the Committee.
- ▶ The Committee should convene its meeting at the earliest **but not later than five working days** from the receipt of the application, to examine the account for a suitable CAP. The accounts with aggregate loan limit up to Rs.10 lakh may be dealt with by the branch manager
- ▶ Where an application is filed by a bank / lender and admitted by the Committee, the Committee shall notify the concerned enterprise about such application within five working days and require the enterprise to:

- (a) respond to the application or make a representation before the Committee; and
- (b) disclose the details of all its liabilities, including the liabilities owed to the State or Central Government and unsecured creditors, if any, within fifteen working days of receipt of such notice;

Provided that if the enterprise does not respond within the above period, the Committee may proceed ex-parte.

- ▶ On receipt of information relating to the liabilities of the enterprise, the Committee may send notice to such statutory creditors as disclosed by the enterprise as it may deem fit, informing them about the application under the Framework and permit them to make a representation regarding their claims before the Committee within **fifteen working days** of receipt of such notice. It is mentioned here that these information are required for determining the total liability of the Enterprise in order to arrive at a suitable CAP and not for payments of the same by the lenders
- ▶ Within **30 days** of convening its first meeting for a specific enterprise, the Committee shall take a decision on the option to be adopted under the corrective action plan as given in subsequent paragraphs and notify the enterprise about such a decision, within **five working days** from the date of such decision.

Corrective Action Plans (CAP)

- ▶ Restructuring:– Consider the possibility of restructuring the account, if it is prima facie viable and the borrower is not a wilful defaulter, i.e., there is no diversion of funds, fraud or malfeasance, etc. Commitment from promoters for extending their personal guarantee along with their net worth statement supported by copies of legal titles to assets may be obtained along with a declaration that they would not undertake any transaction that would alienate assets without the permission of the Committee. Any deviation from the commitment by the borrowers affecting the security or recoverability of the loan may be treated as a valid factor for initiating recovery process.
- ▶ Restructuring by the Committee
- ▶ Eligibility
- ▶ (a) Restructuring cases shall be taken up by the Committee only in respect of assets reported as Standard, Special Mention Account or Sub-Standard by one or more lenders of the Committee.
- ▶ (b) However, the Committee may consider restructuring of the debt, where the account is doubtful with one or two lender/s but it is Standard or Sub-Standard in the books of majority of other lenders (by value).
- ▶ Under this Framework, the restructuring package shall stipulate the timeline during which certain viability milestones such as improvement in certain financial ratios after a period of 6 months may be achieved. The Committee shall periodically review the account for achievement / non-achievement of milestones and shall consider initiating suitable measures including recovery measures as deemed appropriate.

- ▶ Recovery :-Once the first two options at (a) and (b) above are seen as not feasible, due recovery process may be resorted to.