**<u>Bank's Lending policy for MSME</u>**:

**<u>Lending Policy for MSME</u>:**

i. Bank will strive to achieve a 20 percent year-on-year growth in credit to Micro and Small Enterprises (MSE).

ii. In case of Micro Enterprises, the Bank plans to achieve above 7.5% of ANBC or Credit Equivalent Amount of Off-Balance Sheet exposure, whichever is higher.

iii. Bank will strive to achieve 10% annual growth in the number of Micro Enterprise accounts.

iv. Bank will strive to achieve 60% of total lending to MSE sector as on corresponding quarter of the previous year to Micro enterprises.

v. The genuine credit needs of the MSME sector shall be met with.

vi. As far as possible, the requirements of MSME client for term loan as well as working capital limits shall be taken care of, so as to avoid inconvenience to such borrowers.

vii. The working capital assessment to MSME clients will normally be made under Turnover Method up to a limit of Rs.5.00 crore wherein 20% of the projected turnover will be the eligibility for bank finance and 5% of the turnover will be the margin of the borrower. For WC limits above Rs.5.00 crore, assessment will normally be made under Working Capital Gap method.

In case of service units where primary securities like stock & book debts are low/negligible/not applicable, the following systems will be followed for <u>Working Capital Assessment</u>:

a) <u>On expenditure basis</u>: In all cases where the exposure is up to Rs.5.00 crore, the average of accepted expenditure for 60 to 90 days shall be taken as <u>working capital gap</u> and 75% of this will be considered as permissible bank finance.

b) <u>Cash Budget System:</u> For limits exceeding Rs.5.00 crore

viii. While considering term loans up to Rs.2.00 crore to such entities debt equity ratio up to 5:1 may be considered as against the normal debt equity ratio of 3:1

suggested in the case of others. Similarly, the acceptable level of TOL to TNW will be 7:1 in such cases, as against the ratio of 5:1 suggested in other cases.

ix. As far as possible, drawing be allowed by margin on stock and book debts without insisting for separate sub-limit to debtors.

x. As far as possible, the temporary short-term requirements of MSE borrowers will be met expeditiously.

xi. Bank will not take collateral securities and third party guarantee for loans up to Rs.10.00 lakh to be granted to MSE sector.

xii. All eligible loans up to Rs.10 lakh per unit to MSE sector shall be covered under the Credit Guarantee scheme of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

xiii. All eligible loans beyond Rs.10.00 lakhs but up to Rs.200.00 lakhs per MSE unit will also be covered under CGTMSE as per CGTMSE rules, on case to case basis irrespective of other facilities sanctioned to/enjoyed by the same MSE unit.

xiv. Waiver of CGTMSE coverage for eligible loans where adequate primary immovable security is created.

xv. Differential interest rate will be fixed for MSE loan accounts covered under CGTMSE.

xvi. No processing fee for loans up to Rs.5.00 lakh.

**<u>Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs):</u>**

**<u>Introduction :</u>**

The Reserve Bank of India has advised all the Banks to operationalize the framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises having loans up to Rs.25.00 crore exposure, duly approved by the Board. Restructuring of loan accounts of MSMEs with exposure above Rs.25.00 crore will continue to be governed by the extant guidelines on CDR/JLF mechanism. The Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (having exposure up to

Rs.25.00 crore), approved by the Board of Directors of the Bank is furnished hereunder:

**Identification of incipient stress:**

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 |
| 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 of above Rs.10 lakh to the Committee for stressed Micro, Small and Medium Enterprises (MSME) within five working days for a suitable Corrective Action Plan (CAP).

**Committee for Stressed Micro, Small and Medium Enterprises:**

In order to enable faster resolution of stress in an MSME account, Bank has formed Committee for Stressed Micro, Small and Medium Enterprises as per the following arrangements:

1. Bank has constituted a Committee at Head Office, which will deal with the stressed MSME loan accounts of above Rs.10.00 lakhs up to Rs.25.00 crores for examining a CAP. The Committee will be the Standing Committee and will resolve the reported stress of MSME accounts.
2. For MSME borrowers having credit facilities under a consortium of banks or multiple banking arrangement (MBA), our bank will take a lead in referring to the Committee, if the account is reported as stressed either by the borrower

or any of the lenders under this Framework, where our Bank is the consortium leader or having the largest exposure to the borrower under MBA, as the case may be. In case our Bank is neither the consortium leader nor having the largest exposure to the borrower under MBA, we will report to the committee formed by other bank having highest exposure under MBA or consortium leader bank.

**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 (in case of Consortium or MBA).

(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).

(c) Wilful defaulters shall not be eligible for restructuring. However, the Committee shall review the reasons for classification of the borrower as a wilful defaulter and satisfy itself that the borrower is in a position to rectify the wilful default.

(d) Cases of Frauds and Malfeasance remain ineligible for restructuring. However, in cases of fraud/malfeasance where the existing promoters are replaced by new promoters and the borrower company is totally delinked from such erstwhile promoters / management, Bank will take a view on restructuring of such accounts based on their viability, without prejudice to the continuance of criminal action against the erstwhile promoters / management. Bank in such case will ensure that the change in ownership is carried out as per the extant guidelines of Reserve Bank of India. The asset classification of such accounts will be as per the guidelines issued by RBI from time to time.

**Viability:**

The viability of the account shall be determined by the Committee based on acceptable viability benchmarks determined by them. The acceptable benchmark ratios will be 5:1 Debt Equity Ratio, 1.25 DSCR, and Current Ratio of 1:1.10.

The period of restructured loan shall not be beyond 12 years including the moratorium period. Depending upon the cash flow the moratorium will be decided and the maximum moratorium shall be up to 3 years.

Depending upon the necessity FITL will be sanctioned and the maximum period for repayment of FITL will be 12 years, including moratorium. The rate of interest on FITL will be at par with the rate of interest of main account/s.

**Conditions relating to Restructuring under the Framework:**

(1) Under this Framework, the restructuring package will stipulate regarding certain viability milestones such as improvement in financial ratios after a period of 6 months.

(2) 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.

(3) Any restructuring under this Framework will be completed within the specified time periods.

(4) The Committee shall optimally utilize the specified time periods so that the aggregate time limit is not breached under any mode of restructuring.

(5) If the Committee takes a shorter time for an activity as against the prescribed limit, then it can have the discretion to utilize the saved time for other activities provided the aggregate time limit is not breached.

(6) The general principle of restructuring shall be that the stakeholders bear the first loss of the enterprise rather than the lenders. In the case of a company, the Committee will consider the following options, when a loan is restructured:

(a) Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices;

(b) Promoters infusing more equity into their companies;

(c) Transfer of the promoters' holdings to a security trustee or an escrow arrangement till turnaround of enterprise to enable a change in management control, if lenders favour it.

(7) 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 will be stipulated as a condition for restructuring the account, if under the Techno-Economic Viability study, the account is likely to become viable on hiving off of non-core activities and other assets.

(8) For restructuring of dues in respect of listed companies, the company may ab-initio, compensate the lenders 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, subject to the extant regulations and statutory requirements.

(9) If the lenders' sacrifice is not fully compensated by way of issuance of equities, the right of recompense clause will be incorporated to the extent of shortfall.

(10) In order to distinguish the differential security interest available to secured lenders, partially secured lenders and unsecured lenders, the Committee will consider various options, such as:

(a) prior agreement in the Inter-Creditor Agreement among the above classes of lenders regarding repayments;

(b) a structured agreement stipulating priority of secured creditors;

(c) Appropriation of repayment proceeds among secured, partially secured and unsecured lenders in certain pre-agreed proportion.

(11) The Committee shall, on request by the enterprise or any creditor shall provide information relating to the proceeding as requested by the enterprise or such creditor.

(12) Once the restructuring package is approved by the Committee, implementation of restructuring package will be done by the respective

sanctioning authorities as per the extant delegated powers to sanction the loan.

(13) Fair value loss (FVL) calculation on the restructured accounts shall be carried out as per extant guidelines of RBI.

(14) Minimum Promoter's contribution as a percentage of FVL will be 10% under Micro sector and 15% under other sectors. Out of this 50% shall come upfront and balance within 6 months.

**Prudential Norms on Asset Classification and Provisioning:**

The extant asset classification and provisioning norms will be applicable for restructuring of accounts under this Framework. As per the present guidelines, the standard account will be downgraded to NPA on restructuring under this framework.