POLICY ON LENDING TO MSME

FEDERAL BANK

YOUR PERFECT BANKING PARTNER

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1. Introduction

MSME is fast growing sector in the Indian Economy. Micro, Small & Medium Enterprises sector constitute the growth engine of the country's economy. The MSMEs lead to entrepreneurial development and diversification of the industrial sector, and also provide depth to industrial base of the economy. MSMEs play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries. MSMED Act was notified in 2006 to address different issues affecting MSMEs and seeks to facilitate the development of these enterprises by enhancing their competitiveness. Bank has given highest importance to financing MSMEs in our strategical growth plan. With the Government committed to give fillip to this sector through infrastructure development, skill set development/entrepreneurship development, technology upgradation etc, the scope for MSME finance has increased even further.

2. Objective

The MSME loan policy is designed with the following objectives:

a) To describe the MSME sector and its functional coverage.

b) To lay down guidelines for assessment of credit to MSME units.

c) To make available adequate and hassle-free credit facilities to MSME enterprises.

d) To achieve various growth parameters prescribed for MSME sector.

e) To comply with RBI/Government of India guidelines and instructions on MSME financing.

f) To give more thrust to Micro and Small Enterprises.

g) To adopt cluster based financing for MSMEs.

h) To implement various Government sponsored schemes applicable to MSMEs.

i) To adhere to the BCSBI's Code of Commitment to MSMEs.

3. Scope and Coverage

This policy covers credit facilities to micro and small enterprises (both manufacturing and services sector) and all related issues such as assessment of credit, margin norms, security requirements, coverage under Credit Guarantee Scheme etc. It also covers policy on identification and rehabilitation of sick & potentially viable units in the MSE Sectors.

4. Definition of Micro, Small and Medium Enterprises

Government of India, vide Gazette Notification dated June 26, 2020, has revised criteria for classification of enterprises as Micro, Small and Medium enterprises. An enterprise shall be classified as a Micro, Small or Medium enterprise based on the composite criteria of investment in plant & machinery/ equipment and turnover, as provided below.

Classification of enterprise	Investment in Plant & Machinery / Equipment	Turnover
Micro	Does not exceed ₹ 1 Cr, and	Does not exceed ₹ 5 Cr

Small	Does not exceed ₹ 10 Cr, and	Does not exceed ₹ 50 Cr
Medium	Does not exceed ₹ 50 Cr, and	Does not exceed ₹ 250 Cr

Note

a) All the enterprises falling under MSME definition are required to register online on the Udyam Registration portal and obtain 'Udyam Registration Certificate'.
b) For Priority Sector Lending purposes, Bank shall be guided by the classification recorded in the Udyam Registration Certificate (URC).
c) Retail and Wholesale trade are included as MSMEs for the limited purpose of priority sector lending and are allowed to be registered on Udyam Registration Portal.
d) The certificate issued on Udyam Assist Portal (UAP) to Informal Micro Enterprises (IMEs) shall be treated at par with Udyam Registration Certificate (URC) for the purpose of availing Priority Sector Lending benefits. IMEs with an Udyam Assist Certificate (UAC) can be treated as Micro Enterprises for Priority Sector Lending classification purposes.

5. Classification of MSMEs under Priority Sector

MSMEs falling under the revised definition engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service will qualify for classification under priority sector lending.

5.1. Factoring Transactions

a) 'With Recourse' Factoring transactions entered into by bank where the 'assignor' is a Micro, Small or Medium Enterprise would be eligible for classification under MSME category on the reporting dates.

b) In terms of paragraph 9 of Circular DBR.No.FSD.BC.32/24.01.007/2015-16 dated July 30, 2015 on 'Provision of Factoring Services by Banks- Review', inter-alia, the borrower's bank shall obtain from the borrower, periodical certificates regarding factored receivables to avoid double financing/ counting. Further, the 'factors' must intimate the limits sanctioned to the borrower and details of debts factored to the banks concerned, taking responsibility to avoid double financing.

c) Factoring transactions pertaining to MSMEs taking place through the Trade Receivables Discounting System (TReDS) shall also be eligible for classification under priority sector.

5.2. Khadi and Village Industries (KVI) Sector

All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.5 percent prescribed for Micro Enterprises under priority sector.

5.3. Other Finance to MSMEs

a) Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that confirm to the definition of MSME stated above.

b) Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.

c) Loans to cooperatives of producers in the decentralized sector viz. artisans, village and cottage industries.

d) Loans sanctioned by banks to NBFC-MFIs and other MFIs (Societies, Trusts etc.) which are members of RBI recognised SRO for the sector for on-lending to MSME sector as per the conditions specified in paragraph 21 of these Master Direction – Priority Sector Lending – Targets & Classification dated September 04, 2020 as amended from time to time.

e) Loans to registered NBFCs (other than MFIs) for on-lending to Micro & Small Enterprises as per conditions specified in para 22 of Master Direction - Priority Sector Lending – Targets & Classification dated September 04, 2020 as amended from time to time.

f) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).

g) Overdraft to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders as per limits and conditions prescribed by Department of Financial Services, Ministry of Finance from time to time, will qualify as achievement of the target for lending to Micro Enterprises. Outstanding deposits with SIDBI and MUDRA Ltd on account of priority sector shortfall.

6. Targets for lending

(A). Bank is expected to enlarge credit to priority sector and ensure that priority sector advances (which include the MSME sector) constitute 40% of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off- Balance Sheet Exposure, whichever is higher. Bank is also required to achieve a sub-target of 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, for lending to Micro Enterprises.

7. Credit Appraisal

7.1. Appraisal Process

a) Customers are selected on the basis of initial screening – experience and expertise, subject to KYC compliance.

b) The loan appraisal consists of evaluating customer profile, due diligence, business viability, the acceptability of the product manufactured or services rendered, its popularity/market demand, market competitors, past credit history of the borrower, checking out for CIBIL, Willful Defaulters' List of RBI etc.

c) The borrower is visited by the officers of the bank at residence /office / factory premise. The officer understands the management, business requirement, future potential of the business and exact credit requirement of the borrower.

d) Evaluation of State and Central Govt. Policies (enabling environment) with specific reference to the Enterprise in question, Environmental stipulations, Availability of necessary infrastructure-roads, power, labour, raw material and markets.

e) Project Cost, Promoter's own financial contribution, projections for the loan tenor, detailed ratio / balance sheet analysis including parameters like BEP, liquidity, solvency, and profitability ratios etc will be carried out to grade the financial health of the borrower entity.

f) Facility will be sanctioned to each customer on the basis of eligibility and specific requirement of their business. Borrower will be internally rated on the basis of strength of past and projected financials of the borrower, availability of collateral coverage and prospects of the business. Limit will be sanctioned and pricing (ROI) will be fixed accordingly.

7.2. Working Capital Assessment

As per Nayak Committee Report, working capital limits to MSE units is computed on the basis of minimum 20% of their estimated turnover up to credit limit of ₹5 crore. This assessment takes into consideration a working capital cycle of 90 days. In view of prevailing economic environment, an increasing trend is observed in the working capital requirement of MSE units due to stretched working capital cycle.

Hence, to meet the additional working capital requirement, banks are advised by IBA to revisit their policy on lending to MSEs under turnover based assessment to enhance the working capital limits from minimum 20% to 25% of the projected turnover. Additionally, to encourage digital transactions under turnover based assessment, IBA has advised banks to assess the working capital limit up to 30% of projected turnover to MSE units having working capital limit up to ₹5 crore.

(A) Working Capital eligibility - 25% of accepted turnover

The working capital eligibility of MSE units requiring aggregate working capital limit (funded + non-funded) up to ₹5 crore shall be assessed under turnover method at 25% of the projected turnover accepted by the Bank, subject to the following conditions.

i. In the case of existing units, the operating cycle of the business shall be 75 days or more (as per the previous year's financials) and projected to increase to 90 days or more. In case of new units, the projected operating cycle shall be 90 days or more. The business model /operating cycle of similar players in the industry etc. shall be looked into while analyzing the operating cycle. The enhanced eligibility for working capital is not applicable to units having operating cycle less than 90 days.

ii. In the case of existing units, if NWC is below the stipulated level (5% of turnover) as per latest financials, 25% of projected turnover shall be sanctioned as working capital limit only after the borrower infuses the required margin (i.e., minimum of 1/5th of the gross working capital requirement). Valid proof for infusion of margin and its source shall be obtained/ confirmed before disbursement.

iii. The projected growth rate shall not be more than average of previous two years' growth rate or 25%, which is lower. However, sanctioning authority can accept projected turnover with higher growth rate for justifying reasons. In the case of new units, the projected turnover may be accepted based on the demand for the product, competition, installed capacity, tie –ups with customers etc.

(B) Working Capital eligibility - 30% of digital portion of accepted turnover

The working capital eligibility of MSE units requiring aggregate working capital limit up to ₹5 crore shall be assessed at 30% of the digital portion of projected turnover accepted by the Bank, under turnover method. The term 'digital transactions' is defined as transactions routed through the bank's books other than cash and paper based instruments (cheque, DD, PO etc.). Bill discounting won't come under digital transaction.

Eligibility

MSE units requiring aggregate working capital limits up to ₹5 crore and satisfying the following criteria shall be eligible for additional working capital limit of 5% for the digital portion of the turnover.

1) All conditions stipulated under item (A) above shall be complied with.

2) Existing units - Minimum 10% of credit summation for the previous year shall be through digital transactions and minimum 25% of turnover shall be projected through digital transactions.

3) New units - The borrower should have subscribed to any of the digital products of the Bank and minimum 25% of turnover shall be projected through digital transactions.

(C) Fixation of WC limit

The higher WC limit shall be assessed only to borrowers complying with conditions stipulated under (A) and (B) above. Various scenarios under which the eligible WC limit can vary are elaborated below.

Sl. No.	Particulars	Eligible WC limit
1	Conditions under A & B not complied with	20% of projected turnover
2	Conditions under A complied but B not complied with.	25% of projected turnover
3	Conditions under both A & B complied with	25% of Non-digital portion of projected turnover plus 30% of digital portion of projected turnover accepted by the bank.

In all other cases, the existing procedure of assessing working capital limit to MSE units at 20% of the projected turnover accepted by the Bank shall continue.

(D). Monitoring of WC limits

In order to promote digital transactions and to facilitate routing of transactions through WC facility, cash withdrawals from working capital credit facilities shall be restricted to the minimum. Wherever the branch or monitoring team observes that the additional working capital funds are not utilized for the purpose for which it is sanctioned / cash transactions are high / digital transactions are lower than estimates, such matter shall be taken up with the sanctioning authority for appropriate remedial action.

7.3. Turnover Method (Nayak Committee Recommendations)

(A). Simplified procedures will be adopted for sanction of working capital limits up to ₹5 crores as per Nayak Committee recommendation. Turnover Method i.e. 20% of the projected and accepted annual turnover will be extended as working capital limit to MSE units requiring aggregate fund based working capital limits up to ₹5 crores.

(B). Audited financials shall be obtained, in cases where it is mandatory as per statute and / or loan policy guidelines.

(C). A reasonable growth in sales by amount ranging between 15% & 25% over the actual sales of last financial year may be normally accepted. However, sales growth of more than 25% can be accepted provided the entrepreneur provides sufficient justification for such increase in projection in sales.

(D). For MSE units requiring working capital limits above ₹5 crores, WC Limits shall be strictly allowed as per Second Method of Lending based on Credit Monitoring Arrangement (CMA) data.

(E). Cash Budget System: For Seasonal industries such as sugar, tea etc; Software industry; Sick units; Construction/Contractors/Developers cash budget method shall be used for assessment of working capital requirements. Separate Peak and Non-Peak level credit limits shall be given consideration while working on the credit appraisal where the borrower's activities are of seasonal nature.

(F). A combined working capital limit will be allowed against the stock and receivables without any sub limit for receivables. However, a separate Bills Discounting/Purchase limit can be sanctioned wherever required depending upon the nature of activity. Margins may be different for stocks and receivables on case to case basis.

(G). Credit Risk rating exercise shall be carried out as per extant guidelines.

(H). External Credit Rating: Small Enterprises borrowers are rated by few external credit rating agencies. In case of MEs, some of the borrowers are getting their accounts rated by external credit agency like CRISIL, CARE, FITCH, etc.

(I). Sub limits for payment of dues of MSE units - In WC limits of ₹10 crores & above, sub limits to be fixed in consultation with the borrower within overall limits, specifically for meeting payment obligations in respect of purchases from MSEs.

7.4. Benchmark Financial Ratios

1	Minimum current ratio	1.17
2	Minimum DSCR	1.25
3	Debt Equity Ratio	3:1
4	Maximum TOL /TNW	5
5	Maximum TOL	Should not exceed 50% of the turnover

Deviations from benchmark ratios may be considered by credit sanctioning authorities authorized as per Credit Delegation Policy.

7.5. Security

(A). No collateral security is insisted for loans up to ₹10 lakhs to MSE units. Bank may also extend collateral-free loans up to ₹10 lakhs to all units financed under the Prime Minister Employment Generation Programme (PMEGP) administered by KVIC. In such cases, Bank may obtain the guarantee of CGTMSE as per eligibility. Delegates who sanction the loan shall ensure that the loan proposal under the CGTMSE cover is subjected to rigorous appraisal.

(B). The facilities offered by banks shall be secured by primary security and collateral security, wherever applicable. The evaluation and acceptability would be as per the credit policy decided by the Bank from time to time. All assets given as security should be insured to the fullest.

a) Primary security: Assets created out of bank finance.
b) Collateral security: Charge on borrowers' property to secure the finance normally with a margin. Waived in case, limit is covered under CGTMSE.
c) Additional security: Personal guarantee, CGTMSE cover, etc.

7.6. Pricing

Interest rate and other charges would be as per the sanction terms as detailed in the loan agreement and copy of the same is also given to the borrower at the time of executing the agreement.

a) Loan to MSEs can be on fixed/ floating rate. Floating interest rate shall be linked to the external benchmark adopted by the bank.
b) Increase in the Fees/ Charges would be notified through our website/ Account statements/email/SMS/notice at the branches 30 days prior to the revised charges becoming effective.
c) The External Benchmark, MCLR & interest rates for specific sectors, would be available on the website for reference and would be updated as and when there is change in the rate.

8. Application process

Application forms are provided free of cost, along with a checklist. Information pertaining to fees/prepayment charges and rates would be provided to the customers at the time of application. Online system platform is enabled to MSME customers to apply and e-track the status of their application and also branches to trace the leads generated.

9. Time limits fixed for disposal of MSME Loan Applications

(A). RBI has advised banks to mandatorily acknowledge all loan applications, submitted manually or online, by their MSME borrowers. Loan applications from units under MSME sector will be disposed of (either sanctioned or rejected) within a reasonable time as mentioned in Para 18 (D), provided such applications are complete in all respects.

(B). No processing fee will be charged for loans up to ₹25,000/-. All loan applications for Micro and Small Enterprise would be processed within the time limits (mentioned in Para 18 (D)) provided the loan applications are complete in all respects and accompanied by necessary documents as per the check list. Respective Zonal Offices shall review the applications pending beyond the specified period and follow up with the respective branches/credit hubs for disposal of applications.

10. Rejection of applications

Rejection of applications for fresh limits / enhancement of existing limits of MSE units by branches should be done with the concurrence of the next higher authority. Sanction of reduced limits should be reported to the next higher authority immediately with full details for review and confirmation. A register should be maintained at branch wherein the date of receipt, sanction /disbursement/rejection with reasons thereof etc., should be recorded. The register should be made available to all inspecting Officer/Visiting Executives.

11. Disbursement

The bank shall disburse loans to MSEs within 2 working days after complying with all sanction terms.

12. Post disbursement

12.1. Change in interest rates

The bank would intimate the customer regarding interest rate change through any or all of the following modes

- Written letter
- Communication to the registered email
- SMS
- Notice at the branch
- Notification on Website

12.2. Servicing of existing accounts

The Bank meticulously pursues the following guidelines:

a) Release all securities immediately on repayment of loan and in any case not later than one week subject to any legitimate right or lien for any other claim Bank may have against the customer.

b) Grant the customer increase in the drawing power within 48 hours of lodging stock and book debt statement.

c) Bank would provide authenticated copies of all loan documents with a copy of enclosures, as quoted in the loan document.

d) All working capital accounts will be given regular bank statement on request. Customers can also request for interest statements, wherever applicable, preferably within a period of 2 months.

e) Effect pledges/ deliveries on priority upon receiving customer's request.

f) Convey our consent or otherwise within two weeks of receipt of a request for transfer of the borrower account, either from the customer or from the bank / financial institution that proposes to take over the account.

12.3. Monitoring and Due Diligence

All businesses entities having credit facility with the bank would be subject to regular monitoring as per the policy. These include, visits to administrative offices and manufacturing units, regular stock statement assessments and stock audits, monitoring of account conduct parameters like over drawings, cheque bounces, interest servicing, EMI servicing etc.

13. Initiatives

a) Launched new products suited for MSME clients viz., GST Lite, Business LAP etc. Bank has entered into tie-up with Online PSB platform for according in principle sanction of loans through digital underwriting process.

b) Simplified appraisal mechanism and documentation process. Higher working capital eligibility if sales is routed through digital channels.

c) Periodic product awareness program to educate field level functionaries at the HO/Zonal/Regional level.

d) Facilitate trade receivable financing of MSMEs from corporate buyers through TReDS platform.

e) Alliance partnership with agencies like NSIC, SIDBI, credit rating agencies etc. to augment credit flow to MSME sector.

f) To promote cluster financing, more focus is given for opening branches in the states of Punjab, Maharashtra, Tamil Nadu, Karnataka and Gujarat.

g) Tie-up with major automobile corporate to promote Road Transport Operators' financing.

h) To facilitate more connections and for the convenience of MSME customers, online registration of loan application is enabled in our corporate website.

i) Conduct of MSME meets in liaison with Chambers of Trade and Industry and other industrial associations for imparting awareness to MSE clients about economy, sector, products, services offered etc.

Under these initiatives, the bank will continue to give additional thrust to financing MSME sector as MSME is identified as a sector crucial to the growth and development of Indian economy. Bank shall follow the strategy of increasing its business in the MSME space by offering excellent service at reasonable rates but with a strong focus on the right selection of borrowers.

14. Delayed Payments

Considerable delay in settlement of dues/ payment of bills by the large-scale buyers to the micro & small manufacturing units adversely affected the recycling of funds and business operation of micro & small manufacturing units. Though the Government has enacted the Delayed Payments Act, many of the micro & small manufacturing units are reluctant to pursue cases against major buyers. The Act since amended in 1998 has made it compulsory that the payment of micro & small manufacturing suppliers should be made within 45 days.

To take care of the payment obligations of large corporate borrowers to MSEs, RBI has advised banks that while sanctioning/renewing credit limits to their large corporate borrowers (i.e. borrowers enjoying working capital limits of Rs.10 crore and above from the banking system), bank shall fix separate sub-limits, within the overall limits, specifically for meeting payment obligations in respect of purchases from MSEs either on cash basis or on bill basis.

RBI has also advised to closely monitor the operations in these sub-limits, particularly with reference to the corporate borrowers' dues to MSE units by ascertaining periodically from the corporate borrowers, the extent of their dues to MSE suppliers and ensuring that the corporates pay off such dues before the 'appointed day' /agreed date by using the balance available in the sub-limit so created.

Business & Credit Teams shall ensure compliance of the above said RBI guidelines while granting credit facility to large corporate borrowers (i.e. borrowers enjoying working capital limits of ₹10 crore and above from the banking system).

15. SME Loan Products

(A). Bank shall deliver credit through various loan products such as Business LAP, GST Lite etc with added thrust to our MSME portfolio, so that MSMEs are granted easy finance based on certain predefined parameters. Bank shall constantly continue to standardize MSME products and loan processing.

(B). Cluster based approach: Clusters are defined as sectoral and geographical concentration of MSME units sharing common opportunities and threats. Thrust will be given to cluster based finance wherever recognized clusters are existing. Following benefits of cluster based approach to lending will be taken advantage of

a) dealing with well-defined groups
b) availability of appropriate information for risk assessment and
c) easy monitoring of borrowal units.

(C). Diverse needs of the MSME units functioning within the cluster will be considered and adequate finance will be extended to such units.

16. Channel Financing

Bank shall continue to adopt the policy of expanding MSME advances by forming tie-ups with high net worth/ reputed corporates.

17. Framework for revival and rehabilitation of MSME

17.1. Identification of process of incipient stress

(A). Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), Bank shall identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given below.

SMA Sub-categories	**Basis for classification - Principal or interest payment or any other amount wholly or partly overdue between**

SMA-0	1 - 30 days
SMA-1	31 - 60 days
SMA-2	61 – 90 days

In the case of revolving credit facilities like cash credit, the SMA sub-categories will be as follows

SMA Sub-categories	**Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:**
SMA-1	31- 60 days
SMA-2	61 – 90 days

(B). On the basis of the above early warning signals, the branch maintaining the account shall consider forwarding the stressed accounts with aggregate loan limits above ₹10 lakhs to the Committee as referred in para 17.2 (c) 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.

(C). As regards accounts with aggregate loan limits up to ₹10 lakhs identified as SMA-2, the account should be mandatorily examined for CAP by the branch itself under the authority of the branch manager. Other terms and conditions, such as time limits, procedures to be followed, etc., as applicable to the cases referred to the Committee, shall be followed by the branch manager / designated official. However, the cases, where the branch manager / designated official has decided to proceed with the option of recovery under CAP instead of rectification or restructuring, should be referred to the Committee for their concurrence. The branch manager / designated official should also examine the accounts reported as SMA-0 and SMA-1, if it is deemed necessary.

17.2. 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, wherever applicable. When such a request is received by the Bank, the account with aggregate loan limits above ₹10 lakhs should be referred 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 ₹10 lakhs may be dealt with by the branch manager for a suitable CAP.

(A). As per RBI guidelines Bank shall constitute a Committee at Regional Office / Zonal Office level, depending upon the number of MSME units financed in the Region / Zone. Considering the functional and geographical divisions in our Bank we shall form committees at Zonal level. These Committees shall be Standing Committees and shall resolve the reported stress of MSME accounts of the branches falling under their jurisdiction.

(B). For MSME borrowers having credit facilities under a consortium of banks or Multiple Banking Arrangement (MBA), the consortium leader, or the bank having the largest exposure to the borrower under MBA, as the case may be, shall refer the case to its Committee, if the account is reported as stressed either by the borrower or any of the lenders under this Framework. This Committee will also coordinate between the different lenders.

(C). The Composition of the Committee shall be as under:

a) The Committee shall be constituted at Zonal level and the respective Zonal Head shall be the Chairperson of the Committee.

b) Heads of Zonal CRMDs shall be a member and convener of the Committee. Officer-in-charge of the Micro, Small and Medium Enterprises of the Bank at the Zonal office and Head of respective Credit hub or any person nominated by the Head shall be the members of the committee.

c) One independent external expert with expertise in Micro, Small and Medium Enterprises related matters to be nominated by the Bank. The independent external expert shall be nominated by the Zonal Heads for Branches situated other than in Kerala and by Head of CRMD for Branches situated in Kerala.

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 Bank / Convening bank shall proceed to include an independent expert in the Committee, namely a retired executive of another bank of the rank of DVP and above.

e) In respect of Consortium / Multiple Banking accounts, the person nominated by the Convener Bank shall be the Chairperson.

f) When handling accounts under consortium or Multiple Banking Arrangement, senior representative (of the rank of DVP and above) of the bank / lenders having exposure to the borrower, shall be the member of the Committee.

(D). Appointment of such member shall be for a period of one year. Bank may consider extension of appointment on satisfactory grounds / at the discretion of the Bank. The Bank shall take steps to fill the vacancies arising from retirement/resignation of external members. The Bank shall suitably define the functions of the Committee and fix the compensation for the members for attending the meeting. Appointment of such member shall be with the approval of the Credit Monitoring Department. Credit Monitoring Department may put in place suitable arrangements, including dedicated manpower, to ensure smooth functioning of the Committee and adherence to the stipulated timelines.

(E). While decisions of the Committee will be by simple majority, the Chairperson shall have the casting vote, in case of a tie. In case of accounts under consortium / MBA, Bank / lenders should sign an Inter-Creditor Agreement (ICA) on the lines of Joint Lenders' Forum (JLF) Agreement.

(F). All eligible stressed MSMEs shall have access to the Committee for resolving the stress in these accounts in accordance with regulations prescribed in this Framework.

(G). Provided that where the Committee decides that recovery is to be made as part of the CAP, the manner and method of recovery shall be in accordance with the existing policies approved by the board of directors of the bank which has extended credit facilities to the enterprise, subject to any regulations prescribed by the Reserve Bank of India and extant statutory requirements.

17.3. Application to the Committee for a Corrective Action Plan

(A). The Bank on identifying an MSME account as SMA-2 or suitable for consideration under the Framework or on receipt of an application from the stressed enterprise, shall forward the cases having aggregate loan limits above ₹10 lakhs to the Committee for immediate convening of meeting and deciding on a CAP. Stressed enterprises having aggregate loan limits above ₹10 lakhs can also directly file an application for CAP to the Committee or to the largest lender for onward submission under advice to all its lenders. The Bank may use the application format designed by IBA for the purpose.

(B). Where an application is filed by the bank / lenders and admitted by the Committee, the Committee shall notify the concerned enterprise about such application within five working days and require the enterprise to:

1) respond to the application or make a representation before the Committee; and
2) 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.

(C). 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 this information is 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.

(D). 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.

(E). If the corrective action plan decided by the Committee envisages restructuring of the debt of the enterprise, the Committee shall conduct detailed Techno-Economic Viability (TEV) study and finalise the terms of such a restructuring in accordance with the extant prudential norms for restructuring, within 20 working days (for accounts having aggregate exposure up to ₹10 crore) and within 30 working days (for accounts having aggregate exposure above ₹10 crore and up to ₹25 crore) and notify the enterprise about such terms, within five working days.

(F). Upon finalisation of the terms of the corrective action plan, the implementation of that plan shall be completed by the concerned bank within 30 days (if the CAP is Rectification) and within 90 days (if the CAP is restructuring). In case recovery is considered as CAP, the recovery measures should be initiated at the earliest.

(G). Where an application has been admitted by the Committee in respect of an MSME, the enterprise 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.

(H). The Committee shall make suitable provisions for payment of tax or any other statutory dues in the corrective action plan and the enterprise shall take necessary steps to submit such plan to the concerned taxation or statutory authority and obtain approval of such payment plan.

17.4. Corrective Action Plan by the Committee

(A). The Committee shall explore various options to resolve the stress in the account. The Committee shall not endeavour to encourage a particular resolution option and may decide the CAP as per the specific requirements and position of each case. While Techno-Economic viability of each account is to be decided by the concerned lender/s before considering restructuring as CAPs, for accounts with aggregate exposure of ₹10 crore & above, the Committee should conduct a detailed Techno-Economic Viability study before finalising the CAP.

(B). During the period of operation of CAP, the enterprise shall be allowed to avail both secured and unsecured credit for its business operations as envisaged under the terms of CAP.

(C). The options under CAP by the Committee may include (1) Rectification, (2) Restructuring, or (3) Recovery.

(1) Rectification: Obtaining a commitment, specifying actions and timelines, from the borrower to regularise the account so that the account comes out of Special Mention Account status or does not slip into the Non-Performing Asset category and the commitment should be supported with identifiable cash flows within the required time period and without involving any loss or sacrifice on the part of the existing lenders. The rectification process should primarily be borrower driven. However, the Committee may also consider providing need based additional finance to the borrower, if considered necessary, as part of the rectification process. It should, however, be ensured that this need based additional finance is intended only for meeting, in exceptional cases, unavoidable increased working capital requirement. In all cases of additional finance for working capital, any diversion of funds will render the account as NPA. Further, such additional finance should ordinarily be an ad-hoc facility to be repaid or regularised within a maximum period of six months. Additional finance for any other purpose, as also any roll-over of existing facilities, or funding not in compliance with the above conditions, will tantamount to restructuring.

Further, repeated rectification with funding, within the space of one year, will be treated as a restructuring and no additional finance should be sanctioned under CAP, in cases where the account has been reported as fraud by any lender.

(2) Restructuring: Bank shall 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.

The lenders in the Committee shall sign an Inter-Creditor Agreement and also require the borrower to sign the Debtor-Creditor Agreement which would provide the legal basis for any restructuring process. The format designed by IBA may be used for this purpose. Further, 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. The Inter-Creditor Agreement shall also stipulate that both secured and unsecured creditors need to agree to the final resolution.

(3) Recovery: Once the first two options at (a) and (b) above are seen as not feasible, due recovery process may be resorted to. The Committee shall decide the best recovery process to be followed, among the various legal and other recovery options available, with a view to optimizing the efforts and results.

The decisions agreed upon by a majority of the creditors (75% by value and 50% by number) in the Committee would be considered as the basis for proceeding with the restructuring of the account, and will be binding on all lenders under the terms of the Inter-Creditor Agreement. If the Committee decides to proceed with recovery, the minimum criteria for binding decision, if any, under any relevant laws or Acts shall be applicable.

17.5. Timelines

Detailed timelines are given for carrying out various activities under the Framework. If the Committee is not able to decide on CAP and restructuring package due to non-availability of information on statutory dues of the borrower, the Committee may 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.

17.6. Additional Finance

If the Committee decides that the enterprise requires financial resources to restructure or revive, it may draw up a plan for provision of such finance. Any additional finance should be matched by contribution by the promoters in appropriate proportion, and this should not be less than the proportion at the time of original sanction of loans.

Additional funding provided under restructuring / rectification as part of the CAP will have priority in repayment over repayment of existing debts. Therefore, instalments of the additional funding which fall due for repayment will have priority over the repayment obligations of the existing debt.

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 creditors recognized, provide such loans higher priority than any existing debt.

If the Committee 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 under option 17.4 (C) (3).

17.7. Restructuring by the Committee

17.7.1. 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).

(c) Wilful defaulters shall not be eligible for restructuring. However, the Committee may 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. The decision to restructure such cases shall have the approval of the Board of concerned bank within the Committee who has classified the borrower as wilful defaulter.

(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 and the Committee may 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. Further, such accounts shall also be eligible for asset classification benefits available on refinancing after change in ownership, if such change in ownership is carried out under guidelines contained in RBI circular on Prudential Framework for Resolution of Stressed Assets dated June 7, 2019 as amended from time to time.

17.7.2. Viability

(a) The viability of the account shall be determined by the Committee based on acceptable viability benchmarks determined by them.

(b) The parameters may, inter-alia, include the Debt Equity Ratio, Debt Service Coverage Ratio, Liquidity or Current Ratio, etc.

17.7.3. Conditions relating to restructuring under the framework

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.

Any restructuring under this framework shall be completed within the specified time periods.

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

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.

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 may 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.

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, if under the Techno-Economic Viability study, the account is likely to become viable on hiving off of non-core activities and other assets.

For restructuring of dues 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, 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.

In order to distinguish the differential security interest available to secured lenders, partially secured lenders and unsecured lenders, the Committee may 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.

The Committee shall, on request by the enterprise or any creditor recognised under paragraph 17.3(C), provide information relating to the proceeding as requested by the enterprise or such creditor.

17.7.4. Validation of Restructuring proposals by Expert Committee

The extant guidelines on validation of restructuring proposals by expert committee stipulated vide Part C: "Guidelines on setting up Expert Committee for validation of restructuring proposals'" of Annexure 7: "Policy on Resolution of Stressed Assets" to the Loan policy shall be applicable under this framework.

17.7.5. Prudential Norms on Asset Classification and Provisioning

The extant asset classification and provisioning norms will be applicable for restructuring of accounts under this Framework.

17.8. Review

(1) In case the Committee decides that recovery action is to be initiated against an enterprise, such enterprise may request for a review of the decision by the Committee within a period of ten working days from the date of receipt of the decision of the Committee.

(2) The request for review shall be on the following grounds:

a) a mistake or error apparent on the face of the record; or

b) 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.

(3) A review application shall be decided by the Committee within a period of thirty days from the date of filing and if as a consequence of such review, the Committee decides to pursue a fresh corrective action plan, it may do so.

18. Streamlining flow of credit to MSEs for facilitating timely and adequate credit flow during their 'Life Cycle'

Micro and small units are more prone to facing financial difficulties during their Life Cycle than large enterprises / corporates when the business conditions turn adverse. Absence of timely support at such a juncture could lead to the unit turning sick and many a time irreversibly. As such, role of banks in providing continuous support to viable MSEs during such phases of transient financial difficulties assumes significance. RBI vide Circular FIDD.MSME & NFS.BC.No.60/06.02.31/2015-16 dated 27.08.2015 advised banks to ensure that the 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.

In this connection, bank may consider the following guidelines.

(A). **Standby Credit Facility** – Bank may, at the time of sanction of project loans, consider sanction a 'standby credit facility' to fund unforeseen project cost overruns, if needed. Such 'standby 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. Bank shall, as part of their lending policy to MSEs, consider a similar approach of providing a 'standby credit facility', while funding capital expenditure, to fund unforeseen increases in capital expenditure. Further, at the discretion of bank, such 'standby credit facility' may also be sanctioned to fund periodic capital expenditure. 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.

(B). **Working Capital Limits** – In terms of extant RBI guidelines, banks are allowed to determine working capital requirements according to their assessment of the borrowers and their credit needs. Banks are required to have a transparent policy and guidelines for credit dispensation, with the approval of their Board, in respect of each broad category of economic activity.

In this connection, Bank shall also fix a separate additional limit, 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 sufficient evidence of increase in the demand for products produced by MSEs. Bank 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.

(C). **Review of Regular Working Capital Limits** – At present, bank reviews working capital limits at least 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 bank is convinced that changes in the demand pattern of MSE borrowers require a mid-term review, Bank may do so. Such mid-term reviews shall be based on an assessment of sales performance of the MSEs since last review without waiting for audited financial statements. However, such mid-term reviews shall be revalidated during the subsequent regular review based on audited financial statements.

(D). **Timelines for Credit Decisions –** Timely credit is critical to the growth of a healthy MSE sector. Towards this Reserve Bank has issued several guidelines. The direction of RBI to make suitable disclosures on the timelines for conveying credit decisions through their websites, noticeboards, product literature, etc shall be complied with. Bank may comply with the following timelines for disposing of regular, additional / ad-hoc credit facilities and restructuring of accounts, if considered viable of MSE borrowers in line with the loan policy of the Bank.

Loan applications from units under MSME sector will be disposed of within a reasonable time as mentioned below, provided such applications are complete in all respects and submitted to the branch / RM by the borrower. The timelines shall be applicable for sanction of fresh credit facilities, sanction of additional / enhancement of existing limits and for restructuring of existing limits.

Application for loans up to ₹1 Cr	Within 14 working days from the date of receipt
Application for loans above ₹1 Cr and up to ₹25 Cr	Within 30 working days from the date of receipt
Above ₹25 Cr	Within 45 working days from the date of receipt

Application for ad-hoc credit facilities shall be disposed of within a reasonable time as mentioned below, provided such applications are complete in all respects and submitted to the branch / RM by the borrower.

Application for ad hoc limit up to ₹1 Cr	Within 10 working days from the date of receipt
Application for ad hoc limit above ₹1 Cr	Within 20 working days from the date of receipt

19. Code of Bank's commitment to Micro and Small Enterprises

(A). With a view to promote good and fair banking practices; Bank has already adopted the code of Bank's commitment to MSEs issued by Banking Codes and Standard Boards of India. Our dealings with MSEs will be in line with the code of Commitment adopted from time to time.

(B). Bank will encourage financing viable micro and small enterprises for fund based and non-fund based limits without collateral security and/or third-party guarantee by taking advantage of the Credit Guarantee Scheme of CGTMSE.

20. Conclusion

The policy will be amended with the approval of the Board whenever revised guidelines are published by the Regulatory Authorities/RBI/GOI. This policy will be in force until a review is made by the Board of Directors for accommodating the emerging requirements.