

POLICY ON RESOLUTION FRAMEWORK 2.0 : RESOLUTION OF COVID-19 RELATED STRESS OF MICRO, SMALL, MEDIUM ENTERPRISES (MSMES)

1. Introduction :

In order to facilitate restructuring of MSME accounts which were under stress, RBI had issued circular pertaining to Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances on January 01, 2019 wherein one-time restructuring of the existing loans to MSMEs classified as 'standard' was permitted without downgrade in asset classification subject to fulfilment of certain conditions. This scheme was further extended vide RBI circular dated February 11, 2020.

In view of the continued need to support the viable MSME entities which are facing stress on account of the fallout of Covid-19 and to align the existing guidelines on restructuring of MSME advances with the Resolution Framework for COVID- 19 – related stress announced for other advances, RBI has extended the scheme for restructuring of MSME vide notification DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020. This window was valid till March 31, 2021.

In view of resurgence of the COVID-19 pandemic in India, RBI has decided to extend the above facility for restructuring of existing loans without a downgrade in the asset classification.

Accordingly, on May 5, 2021, RBI announced Resolution Framework 2.0 – Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs) vide circular RBI/2021-22/32 DOR.STR.REC.12/21.04.048/2021-22. This policy is based on the said circular.

2. Eligible Borrowers :-

Existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification, subject to the following conditions:

i . The borrower should be classified as a micro, small or medium enterprise as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020.

ii. 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 obtaining as on March 31, 2021.

iii. The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed ₹50 crore as on March 31, 2021.

iv. The borrower's account was a 'standard asset' as on March 31, 2021.

v. The borrower's account was not 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 the [circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020](#) on "Resolution Framework for COVID-19-related Stress."

3. Invocation and implementation :-

- i) The restructuring should be invoked by September 30, 2021.
For this purpose, the restructuring shall be treated as invoked when the lending institution and the borrower agree to proceed with the efforts towards finalizing a restructuring plan to be implemented in respect of such borrower
- ii) The decisions on applications received by the lending institutions from their customers for invoking restructuring under this facility shall be communicated in writing to the applicant by the lending institutions within 30 days of receipt of such applications.
- iii) The decision to invoke the restructuring under this facility shall be taken by each lending institution having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- iv) The restructuring of the borrower account is implemented within 90 days from the date of invocation.
- v) A restructuring would be treated as implemented if the following conditions are met:
 - a) 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
 - b) 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.

4. Udyam Registration :-

Udyam Registration Number to be obtained alongwith the application for restructuring.

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.

In order to ensure compliance with the time-lines for implementation of the resolution plan, the operating units should ensure that the borrower has applied for Udyam Registration at the time of receipt of application.

5. Asset Classification :-

Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between April 1, 2021 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan. The asset classification benefit will be available only if the restructuring is done as per provisions of this circular.

Post restructuring, NPA classification of these accounts shall be as per the extant IRAC norms.

6. Provisioning :-

Upon implementation of the restructuring plan, the lending institutions shall keep provision of 10 percent of the residual debt of the borrower.

Banks will, however, 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.

'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.

7. Working Capital Support for borrowers already restructured in terms of the MSME Circulars :-

- In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, lending institutions are 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.
- Reduction in margin is proposed to the extent of 10% below the existing margins stipulated for existing Working Capital limit. E.g. If the borrower is having margin of 25% on existing CC limit then DP will be reworked considering 15% margin. For arriving the drawing power, Debtors above 90 days upto 180 days to be considered with 30% margin.
- The decision with regard to above shall be taken by lending institutions by September 30, 2021.
- The reassessed sanctioned limit / drawing power shall be subject to review by the lending institution 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.

Internal Guidelines & Procedures :-

a) Application :

Borrowers facing stress on account of COVID-19 situation and proposing to avail benefit under this scheme should make a formal application at their respective Branches / SMEs. Borrower should submit the following documents alongwith the application form :-

- Last audited financial numbers for FY 2020.
- Provisional/Audited financial numbers for FY 2021.
- Projected financials over the tenor of the loan.
- GST returns (if applicable) / CA certified turnover (if GST not applicable) from April 01, 2020.
- Up to date bank statements of the account, in which the entity is transacting from April 01, 2020.

In case of small borrowers (with exposure below Rs.1 crore) who are unable to provide the above details, the viability of the business will be evaluated in the following manner:-

- Track record of the borrower (Banking relations since, repayment record).
- Past financial performance. Turnover reported in the current months.
- Visit observations.
- Debit / Credit turnover in the account.
- Latest CIBIL report.

Resolution plan submitted by the borrower should factor financial parameters as outlined in bank's credit policy.

Bank may require additional information, documents and/or additional collateral to process the application of the borrower on case-to-case basis.

Borrower should also provide the remedial measures proposed for reinstatement of business.

b) Sanctioning Authority:

Proposals under the scheme would be sanctioned by respective sanctioning authority as per our approved delegation of powers in force.

c) Assessment and Viability :

The assessment note of the restructuring proposal should adequately justify that the borrower is facing stress on account of the economic fallout from COVID-19.

Illustrative list of parameters for determining stress on account of COVID-19

- Drop in demand for the product due to lock-down, restrictions of logistics etc.
- Cancellation / deferment of orders.
- Disruption arising out of lockdown, containment zones and other restrictions. Shutdown of the factory / work place. Delay in project implementation.
- Elongated working capital cycle on account of delay in realisation of debtors.
- Non-availability of adequate manpower, disrupted supply of raw-material etc.
- Inadequate transportation facilities for transport of goods / people,
- Death of key promoter director / managerial personnel due to COVID, which disrupted business decision administration & operations,
- Changes in government/regulatory policies
- Any other factors arising due to COVID (which has impacted the financial /repayment ability of the borrower).

The viability of the account (other than personal loan) shall be based on the benchmarks / financial parameters determined by the Bank in the Credit Policy. Deviations from the credit policy may be recommended with due justification and credit enhancement in form of additional security / guarantee of the promoters or directors may be insisted wherever found necessary.

Restructuring proposal should stipulate the timeline during which the viability milestones such improvement in certain financial ratios may be achieved. This may envisage introduction of additional funds in the business by promoters, sale of non-core assets among others. Milestone may also cover the progress on implementation of Greenfield / Expansion Project.

Latest visit observations should be incorporated in the assessment note.

Templates to be included in the processing note is attached as annexure.

Recommending / Sanctioning authority may stipulate the condition for conducting the Techno-Economic Viability (TEV) study from bank's empanelled consultant if found necessary.

In case of small borrowers (exposure below Rs.1 crore) where formal resolution plan alongwith the CMA is not submitted, office will do the assessment based on the past performance and as per discussion / commitment with borrower and inputs during the visit.

For products such as Kwik Lap, Gupta Dhan Yojana, Samruddhi, Loan against property, Loan against rent receivable, Unnati, Micro Finance etc. assessment of the restructuring proposal will be done in line of eligibility criteria stipulated for the said product.

d) Monitoring and Reporting :

Operating units should periodically review the account in view of the milestones stipulated in the resolution plan. Quarterly visits should be paid.

The position of the accounts considered under the scheme should be reported to SCMC / Retail credit monitoring cell by operating units falling under the purview of SBU-Wholesale & SBU-Retail respectively on quarterly basis.

Consolidated position will then be reported to Board of Directors on quarterly basis.

e) Processing fees :

One-time processing fees @0.10% of the restructured facilities with upper cap of Rs.2.50 lacs.

f) Increase in Rate of Interest :

In order to offset partial cost of additional provisions required to be made by the Bank, it is decided to increase the rate of interest of the borrowers applying for restructuring. Such rise in rate of interest is proposed in the range of 0.5% to 2.0%p.a.

Increase in the rate of interest should be decided based on the existing rate of interest charged to the borrower, rating of the borrower, moratorium / interest capitalization proposed under the restructuring package, expected timelines for reversal of provision.

g) Documentation :

In cases where the resolution plan is implemented, the operating units should obtain on record "Restructuring Agreement" covering the revised terms of sanction. Appropriate documentation to be obtained for fresh limits sanctioned under the resolution plan including the FITL.

h) Maintenance of MIS :

As per the RBI circular, bank is required to make necessary disclosures in the financial statements prescribed formats in respect of accounts where restructuring under this scheme is initiated.

Hence the operating units should maintain the necessary MIS in respect of the accounts covered under the scheme to ensure proper reporting.

Accounts restructured under this window should be marked under appropriate category in the system.

i) Grievance Redressal Mechanism :

Grievance arising out of the application for restructuring under the Resolution Framework guidelines issued by RBI may be submitted by the borrower through our website.

Grievances received through branch / SME / Zones will also be entered in the system and system will generate digital receipt for the customer.

Grievances received at branches will be escalated to the Zones/ SMEs. Zonal Incharge / SME Incharge will act as Nodal Officer. However, they should keep the SCMC / Retail Credit Monitoring Cell updated.

Preliminary remarks should be provided to the customer within 72 hours by the Nodal Officer and final response should be provided within 7 working days.

Operating Units & Nodal Officers should update the CRS and should endeavour to resolve the grievance within the stipulated time-frame.

Dash-board on the status of grievances will be generated through system for regulatory reporting.