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STATE BANK OF BIKANER & JAIPUR SME DEPARTMENT HEAD OFFICE, JAIPUR.		
Circular No.SIB/ 26 /2005-06		06 January 2006 16 Paush 1927(S)

**ADVANCES - DEBT RESTRUCTURING MECHANISM
FOR SMALL & MEDIUM ENTERPRISES (SME)**

Please refer to our circular No.SIB/20/2005-06 dated 11.10.2005 on policy package for stepping up flow of credit to SMEs. Reserve Bank of India has issued guidelines for restructuring of debt of all eligible small & medium enterprises.

2. Keeping in view the guidelines of debt restructuring scheme for SME issued by RBI, Bank's extant guidelines on restructuring and also the CDR scheme of RBI which cover multiple / consortium accounts of RS.10 cr and above, the debt restructuring scheme for SMEs has been formulated by our Bank. The salient features of the scheme are detailed at Annexure-I.

3. For the purpose of monitoring and reporting, the branches are required to submit data / progress to the respective controlling authority on the enclosed format (Annexure-III) on monthly basis. The zonal heads will review the progress and ensure submission of consolidated position / data / progress to our SME department by 5th of succeeding month positively.

4. Please be guided accordingly and make a cross reference of this circular on the circular referred above.

(K. B. JAYAPRAKASH)
GENERAL MANAGER
(PLG. & DEV.)

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POLICY FOR DEBT RESTRUCTURING MECHANISM FOR SMALL AND MEDIUM ENTERPRISES (SMEs)

1. Introduction:

Small and Medium Enterprises (SMEs) lack access to private equity & venture capital & have a very limited access to secondary market instruments. Besides, SMEs are vulnerable to market fluctuations & face fragmented markets in respect of their inputs as well as products. The access of SMEs to technology & product innovation is also limited. Above all, SMEs face considerable delays in settlement of dues / payments of bills by the large scale buyers. SMEs facing problems, are affected by certain internal as well as external factors.

In the above backdrop, the need for evolving an appropriate mechanism for Debt- Restructuring of all eligible SMEs had been engaging the attention of the Govt. of India, I and Banks. With a view to improve flow of credit & to ensure restructuring of viable and potentially viable debts of SMEs, the Reserve Bank of India has issued guidelines for implementation by the Banks.

Accordingly, the policy has been prepared which is detailed in the following paragraphs. The policy is in line with the guidelines issued by I.

2. Definition of SMEs

“At present, a small scale industrial unit is an undertaking in which investment in plant and machinery, does not exceed Rs.1 crore, except in respect of certain specified items under hosiery, hand tools, drugs and pharmaceuticals, stationery items and sports goods, where this investment limit has been enhanced to Rs. 5 crores. A comprehensive legislation which would enable the paradigm shift from small scale industry to small and medium enterprises is under consideration of Parliament. Pending enactment of the above legislation, current SSI/ tiny industries definition may continue. Units with investment in plant and machinery in excess of SSI limit and up to Rs. 10 crores may be treated as Medium Enterprises (I). “

3. Eligibility criteria

- (i) These guidelines would be applicable to the following entities, which are viable or potentially viable:
- a) All non-corporate SMEs irrespective of the level of dues to the bank.
 - b) All corporate SMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.
 - c) All corporate SMEs, which have funded and non-funded outstanding up to Rs.10 crores under multiple/ consortium banking arrangement.

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(ii) Accounts involving fraud and malfeasance will not be eligible for restructuring under these guidelines. However, willful defaulter in exceptional cases, will be considered as advised in para- 3A below.

(iii) Accounts classified by the bank as "Loss Assets" will not be eligible for restructuring.

(iv) In respect of BIFR cases, the Bank would ensure completion of all formalities in seeking approval from BIFR before implementing the package.

3A. WILLFUL DEFAULTERS

Borrowers indulging in frauds and malfeasance will continue to remain ineligible for restructuring under the Debt Restructuring Mechanism for SMEs as hitherto. However, branches may review the reasons for classification of the borrower as willful defaulter specially in old cases where the manner of classification of a borrower as a willful defaulter was not transparent and satisfy itself that the borrower is in a position to rectify the willful default provided he is granted an opportunity under the Debt Restructuring Mechanism for SMEs. Such exceptional cases will be considered for restructuring with the approval of the Bank's Board only.

4. Viability criteria:

A unit under SME sector may be regarded as potentially viable if it would be in a position, after implementing a Debt Restructuring Package spread over a period not exceeding seven years from the commencement of the package from Banks / financial institutions and other concerned agencies, as may be necessary, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period for restructured (past) debts should not exceed ten years from the date of implementation of the package. For the purpose, all eligible units will comply the following :

- i. Debt Service Coverage Ratio : Should have average DSCR of more than 1.25, and more than 1.00 in any year.
- ii. The break-even analysis should be carried out, and operating and cash break even points should be worked out.
- iii. The company's past performance for 3-5 years and future projections for the period of proposed repayment would be examined.

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5. Reliefs & Concessions:

a) Waiver and sacrifices in a stressed asset for restructuring would depend on the state of affairs of the borrower, viability of the company, the possibility of revival/ survival as there can not be any uniform prescription for Debt Restructuring being each case unique. As the thrust of the restructuring exercise would be to recover maximum possible amount from the borrower, **the RBI norms on relief / concessions applicable to weak / sick SSI unit could be extended to viable & potentially viable units in SME sector.**

b) The RBI has clarified that banks will also have the freedom to extend reliefs and concessions beyond the laid down parameters in deserving cases. Given the RBI's simple and easily to implementable approach to reliefs and concessions, it has been decided to extend the guidelines as given in annexure-II to accounts under SME sector (enclosed). The reliefs / concessions could, therefore, be considered to ensure restructuring of eligible SMEs at terms which are, not less, favourable to the present CDR mechanism for large corporates.

c) Promoters' sacrifice and additional funds brought by them should be a minimum of 15% of the creditors' sacrifice.

6. Delegation of Powers :

The authority empowered to sanction the loans and advances to a unit, including the additional amounts proposed under the restructuring package, shall have the powers to sanction a restructuring rehabilitation package including other reliefs and concessions within RBI guidelines as per extant Delegation of Financial Powers.

Any concession, over and above the RBI parameters would be subject to Administrative Clearance (AC) by HOCC-I in respect of proposals falling within the power of HOCC-II, HOCC-II in respect of proposals falling within the powers of HOCC - III and below. For others no AC would be required.

7. Prudential Norms for restructured accounts:

i) Treatment of 'standard' accounts subjected to restructuring:

a) A rescheduling of the installments of principal alone, would not cause a standard asset to be classified in the sub-standard category, provided the borrower's outstanding is fully covered by tangible security. However, the condition of tangible security may not be made applicable in cases where the outstanding is up to Rs.5 lakh, since the collateral requirement for loans up to Rs 5 lakh has been dispensed with for SSI / tiny sector.

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b) A rescheduling of interest element would not cause an asset to be downgraded to sub-standard category subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

c) In case there is a sacrifice involved in the amount of interest in present value terms, as at (b) above, the amount of sacrifice should either be written off or provision made to the extent of the sacrifice involved.

ii) Treatment of 'sub-standard' / 'doubtful' accounts subjected to restructuring

a) A rescheduling of the installments of principal alone, would render a 'sub-standard' / 'doubtful' asset eligible to continue in the 'sub-standard' / 'doubtful' category for the specified period (as defined in paragraph 7 below), provided the borrower's outstanding is fully covered by tangible security. However, the condition of tangible security may not be made applicable in cases where the outstanding is up to Rs.5 lakh, since the collateral requirement for loans up to Rs 5 lakh has been dispensed with for SSI / tiny sector.

b) A rescheduling of interest element would render a sub-standard / 'doubtful' asset eligible to be continued to be classified in sub-standard / 'doubtful' category for the specified period subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

c) Even in cases where the sacrifice is by way of write off of the past interest dues, the asset should continue to be treated as sub-standard / 'doubtful'.

iii) Treatment of Provision:

a) Provision made towards interest sacrifice should be created by debit to Profit & Loss account and held in a distinct account. For this purpose, the future interest due as per the current BPLR in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR + the appropriate term premium and credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis.

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b) Sacrifice may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR, term premium and the credit category of the borrower. Consequently, banks may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

c) The amount of provision made for NPA, may be reversed when the account is re-classified as a 'standard asset'.

8. Additional finance

Additional finance, if any, may be treated as 'standard asset' in all accounts viz; standard, sub-standard, and doubtful accounts, up to a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the approved restructuring package. If the restructured asset does not qualify for upgradation at the end of the above period, additional finance shall be placed in the same asset classification category as the restructured debt.

9. Upgradation of restructured accounts

The sub-standard / doubtful accounts at para 7 (ii) (a) & (b) above, which have been subjected to restructuring, whether in respect of principal installment or interest, by whatever modality, would be eligible to be upgraded to the standard category after the specified period, i.e., a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms, subject to satisfactory performance during the period.

10. Asset classification status

During the specified one-year period, the asset classification status of rescheduled accounts will not deteriorate if satisfactory performance of the account is demonstrated during the period. In case, however, the satisfactory performance during the one year period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule. The asset classification would be bank-specific based on record of recovery of each bank, as per the existing prudential norms applicable to banks.

11. Repeated restructuring

The special dispensation for asset classification as available in terms of paragraphs 7, 8 and 9 above, shall be available only when the account is restructured for the first time.

12. Procedure & Time Frame:

- (i) The restructuring would follow a receipt of a request along with restructuring proposal to that effect from the borrowing units. The Branch would take immediate steps to analyze the problems based on facts & circumstances and submit report to the Controlling Authority for deciding that the restructuring of the unit is prima- facie feasible. Thereafter, suitable action will be initiated by the Controlling Authority, where considered necessary including assessment of viability by engaging outside consultants, wherever required, for working out detailed restructuring package which should be approved & implemented within a maximum period of 60 days from date of receipt of request from the borrowing unit.
- (ii) In case of eligible SMEs which are under consortium/multiple banking arrangements, the bank with the maximum outstanding may work out the restructuring package, with the consent of the bank having the second largest share.

13. Monitoring & Review :

The details of eligible cases considered / being considered for SME Debt Restructuring with further details relating to SSI accounts within the SME category will be monitored on monthly basis by SME Deptt. at Head Office. The Zonal Heads / DGM (Credit) / DGM (IR & R) will provide details of all such cases to SME Deptt. on monthly basis. The progress in rehabilitation and restructuring of SME accounts will be reviewed on a quarterly basis and the Board will be kept informed by SME Deptt.

14. Disclosure requirements:

The Debt Restructuring Scheme for SMEs will be displayed on the Bank's website and a copy of the scheme will also be forwarded to SIDBI for placing on their website.

The following disclosure in respect of restructuring undertaken during the year for SME accounts would be made in annual Balance Sheets, under "Notes on Accounts",

- (a) Total amount of assets of SMEs subjected to restructuring.
[(a) = (b)+(c)+(d)]
- (b) The amount of standard assets of SMEs subjected to restructuring.
- (c) The amount of sub-standard assets of SMEs subjected to restructuring.
- (d) The amount of doubtful assets of SMEs subjected to restructuring.

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Relief and concessions, which can be extended to potentially viable units under rehabilitation (RBI guidelines for sick SSI unit)

The viability and the rehabilitation of a sick SSI unit would depend primarily on the unit's ability to continue to service its repayment obligations including the past restructured debts. It is, therefore, essential to ensure that ordinarily there is no write-off or scaling down of debt such as by reduction in rate of interest with retrospective effect except to the extent indicated in the guidelines. The guidelines on various parameters on reliefs and concessions are given below.

i) Interest Dues on Cash Credit and Term Loan

If panel rates of interest or damages have been charged, such charges should be waived from the accounting year of the unit in which it started incurring cash losses continuously. After this is done, the unpaid interest on term loans and cash credit should be segregated from the total liability and funded. No interest may be charged on funded interest and repayment of such funded interest should be made within a period not exceeding three years from the date of commencement of implementation of the rehabilitation programme.

ii) Unadjusted Interest Dues

Unadjusted interest dues such as interest charged between the date up to which rehabilitation package was prepared and the date from which actually implemented, may also be funded on the same terms as at (i) above.

iii) Term Loans

The rate of interest on term loans may be reduced, where considered necessary, by not more than three percent in the case of tiny/ decentralized sector units and by not more than two percent for other SSI units below the document rate.

iv) Working Capital Term Loan (WCTL)

After the unadjusted interest portion of the cash credit account is segregated as indicated at (i) and (ii) above, the balance representing principal dues may be treated as irregular to the extent it exceeds drawing power. This amount may be funded as Working Capital Term Loan (WCTL) with a repayment schedule not exceeding 5 years. The rate of interest applicable would be 1.5% to 3% point below BPLR, wherever applicable, to all sick SSI units including tiny and decentralized units.

v) Cash Losses

Cash losses are likely to be incurred in the initial stages of the rehabilitation programme till the unit reaches the break-even level. Such cash losses excluding interest as may be incurred during the nursing programme may also be financed by the Bank or the financial institution, if only one of them is the financier. But if both are involved in the rehabilitation package, the financial institution concerned should finance such cash losses. Interest may be charged on the funded amount at BPLR/ at the rate prescribed by SIDBI under its scheme for rehabilitation assistance.

Future cash losses in this context will refer to losses from the time of implementation of the package up to the point of cash break-even as projected. Future cash losses as above, should be worked out before interest (i.e. after excluding interest) on working capital etc. due to the banks and should be financed by the financial institutions if it is one of the financiers of the unit.

In other words, the financial institutions should not be asked to provide the interest due to the banks in the computation of future cash losses and this should be taken care of by future cash accruals.

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The interest due to the Bank should be funded by it separately. Where, however, a commercial bank alone is the financier, the future cash losses including interest will be financed by it.

The interest on the funded amounts of cash losses/ interest will be at BPLR / as at rate prescribed by SIDBI under the scheme for rehabilitation assistance.

(vi) Working Capital

Interest on working capital may be charged at 1.5% below BPLR wherever applicable. Additional working capital limits may be extended at a rate not exceeding the BPLR.

(vii) Contingency Loan Assistance

For meeting escalations in capital expenditure to be incurred under the rehabilitation programme, banks/ financial institutions may provide, where considered necessary, appropriate additional financial assistance up to 15 percent of the estimated cost of rehabilitation by way of contingency loan assistance. Interest on this contingency assistance may be charged at the concessional rate allowed for additional working capital assistance.

(viii) Funds for Start-up Expenses and Margin for Working Capital

There will be need to provide the unit under rehabilitation with funds for start-up expenses (including payment of pressing creditors) or margin money for working capital in the form of long term loans. Where a financial institution is not involved, banks may provide the loan for start-up expenses while margin money assistance may either come from SIDBI under its Refinance Scheme for Rehabilitation or should be provided by State Government where it is operating a Margin Money Scheme. Interest on fresh rehabilitation term loan may be charged at a rate 1.5% below BPLR where applicable or as prescribed by SIDBI / NABARD where refinance is obtained from it for the purpose.

All interest rate concessions would be subject to annual review depending on the performance of the units.

ix) Promoters' Contribution

For arriving at promoter's contribution, the monetary value of the sacrifices from banks, financial institutions and Government may be taken into account, in addition to the long-term requirement of funds under the rehabilitation package. Promoters' sacrifice and additional funds brought by them should be minimum of 15% of creditors' sacrifice.

(x) Right of recompense

While evolving packages, it should be made a precondition that the promoters should bring in their contribution within the stipulated time frame. Further, in regard to concessions and relief made available to sick units, banks should incorporate a 'Right of Recompense' clause in the sanction letter and other documents to the effect that when such units turn the corner and rehabilitation is successfully completed, the sacrifices undertaken by the Bank should be recouped from the units out of their future profits/ cash accruals.

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