Guidelines for Rehabilitation of Sick Micro and Small Enterprises (MSEs).

A. Handholding Stage

Timely and adequate assistance to MSEs and rehabilitation effort should begin on a proactive basis when early signs of sickness are detected. This stage would be termed as **'handholding stage'** as defined below. An account may be treated to have reached the 'handholding stage'; if **any** of the following events is triggered:

i. There is delay in commencement of commercial production by more than six months for reasons beyond the control of the promoters;
ii. The company incurs losses for two years or cash loss for one year, beyond the accepted timeframe;
iii. The capacity utilization is less than 50% of the projected level in terms of quantity or the sales are less than 50% of the projected level in terms of value during a year.

B. Definition of Sickness

A Micro or Small Enterprise (as defined in the MSMED Act 2006) may be said to have become **Sick**, if

i. Any of the borrower accounts of the enterprise remains NPA for three months or more

OR

ii. 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.

The MSE units which could not be revived after intervention by Bank at the 'handholding stage' need to be classified as sick subject to complying with any one of the two conditions as laid down above and based on a viability study the viable/potentially viable units be provided rehabilitation package. The rehabilitation package should be implemented speedily in a time bound manner. The rehabilitation package should be fully implemented within six months from the date the unit is declared as 'potentially viable' / 'viable'. While identifying and implementing the rehabilitation package, Bank needs to do 'holding on operation' for a period of six months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during the period of such 'holding on operation'.

Units becoming sick on account of wilful mismanagement, wilful default, unauthorized diversion of funds, disputes among partners / promoters, etc. should not be classified as sick units and accordingly should not be eligible for any relief and concessions

C. Viability

The decision on viability of the unit should be taken at the earliest but not later than 3 months of the unit being declared as sick.

The following procedure should be adopted by the banks before declaring any unit as unviable:

iii. In micro (manufacturing) enterprises, having investment in plant and machinery up to Rs.5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2 lakh, the Branch Manager may take a decision on viability.
iv. The Relationship Manager's declaration of the unit as unviable, as evidenced by the viability study, should have the approval of the next higher authority/relevant sanctioning authority for both micro and small units. In case such a unit is declared unviable, an opportunity should be given to the unit to present the case before being sent to next higher authority/sanctioning authority.
v. The sanctioning authority should take such decision only after giving an opportunity to the promoters of the unit to present their case.

vi. For sick units with credit facilities of Rs.1 crore and above, the viability/un viability will be decided jointly by a Committee compromising Head- Business unit, Head- Credit Business segment and relevant sanctioning authority as per Commercial Credit Policy. This will improve the quality of decision as collective wisdom of the members shall be utilized, especially while taking decision on rehabilitation proposals.

vii. Decision of the Bank will be informed to the promoters in writing. The above process should be completed in a time bound manner not later than 3 months.

In case of malfeasance or fraud, the above procedure shall not be followed.

D. Reliefs and Concessions for Rehabilitation of Potentially Viable Units

i. Interest Dues on Cash Credit and Term Loan -

The Bank may waive penal interest of the unit from the date when it started incurring cash losses continuously. After this is done, the unpaid interest on term loans and cash credit during this period should be segregated from the total liability and funded as Funded Interest Term Loan (FITL). 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 program.

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 (3) per cent in the case of tiny/decentralized sector units and by not more than two per cent for other MSME units, below the documented 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 may be 1.5 % to 3% points below the prevailing interest rate for the borrower. This rate can be below Base Rate as per prevailing RBI guidelines. However, such concessions should not be extended as a matter of rule and should be need based linked to the viability of the unit.

v. Cash Losses -

Cash losses are likely to be incurred in the initial stages of the rehabilitation program till the unit reaches the breakeven level. Such cash losses excluding interest as may be incurred during the nursing program may also be financed by the Bank and 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 the rates prescribed by SIDBI under its scheme for rehabilitation assistance.

vi. Working Capital -

Interest on working capital may be charged at 1.5% below the prevailing fixed / floating rates wherever applicable. Additional working capital limits may be extended at a rate determined as per the viability of the unit to repay.

vii. Contingency Loan Assistance -

For meeting escalations in capital expenditure, Bank may provide financial assistance at concessional rate up to 15% of the estimated cost of rehabilitation or Bank may advise the borrower to bring additional capital.

viii. Funds for Start-up Expenses and Margin for Working Capital -

Where a financial institution is not involved, Bank 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 the prevailing fixed / floating wherever applicable or as prescribed by SIDBI / NABARD where refinance is obtained from it for the purpose.

E. Right of Recompense

The Bank will retain the Right of Recompense in all cases of restructuring /rehabilitation.

All restructuring packages must incorporate ‘Right to Recompense’ clause and it should be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount should be recovered by the lenders and in cases where some facility under restructuring has been extended below base rate, 100 per cent of the recompense amount should be recovered.

F. One Time Settlement

The Bank has prepared a separate One Time Settlement Scheme for recovery of NPA in MSE sector. The details are separately covered and placed before the Board.

G. Delegation of Powers

The Rehabilitation powers will be exercised, as per the authority matrix for sanctioning proposals laid down in Credit Policy but must have the recommendation of Head Recovery and additionally recommendations of Head Special Assets Group in case of Standard Assets.