

Resolution Framework 2.0 : Resolution of COVID 19 Related Stress of Micro , Small & Medium Enterprises (MSMEs)

The following are the Policy guidelines adopted by the Bank with regard to implementation of the Resolution Framework as per the Board Approved Policy of the Bank.

Introduction

The Bank with a view to facilitate meaningful restructuring of MSME Accounts (MSME as defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006} that have become stressed had facilitated a One Time restructuring of existing loans to MSMEs classified as "Standard" without a downgrade in the asset classification as per RBI Circular Ref. No. DBR.No.BP.BC.18/21.04.048/2018-19 dated 01.01.2019 which was extended as per RBI Circular ref. No. DOR.No.BP.BC.34/21.04.048/2019-20 dated 11.02.2020 and further extended in view of the continued need to support the viable MSME entities on account of the fallout out of COVID -19 Pandemic and to align with the Resolution Framework for COVID – 19 related stress announced for other advances as per RBI Circular Ref. No. DOR.NO.BP. BC/4/21.04.048/2020-21 dated 06.08.2020 but in view of the uncertainties created by the resurgence of the COVID – 19 Pandemic and to align guidelines the facility for restructuring of existing loans has been extended as per RBI Circular Ref No. DOR.STR.REC.12/21.04.048/2021-22 dated 05.05.2021 (Resolution Framework 2.0 – Resolution of COVID 19 related stress of MSMEs) & Circular Ref. No. DOR.STR.REC.21/21.04.048/2021-22 dated 04.06.2021.

Restructuring of existing MSME Borrower Accounts under the Scheme.

1. Eligibility/Scope/Applicability

- a) 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.
- b) 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.
- c) The borrower's account was a 'standard asset' as on March 31, 2021.
- d) 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 06.08.2020 on Resolution Framework on COVID 19 related Stress.
- e) All other instructions specified in the RBI circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 shall remain applicable.

2. DATE OF INVOCATION

- The Restructuring should be invoked not later than **30.09.2021**.
- The restructuring shall be treated as invoked when.....
 - The bank and the borrower agree to proceed with the efforts towards finalising a restructuring plan to be implemented in respect of such borrower.
 - The decisions on applications received by the bank from borrower for invoking restructuring under this facility shall be communicated in writing to the applicant within 30 days of receipt of such applications.
- The decision to invoke the restructuring under this facility shall be taken by bank having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.

3. DATE OF IMPLEMENTATION

The Restructuring of the borrower account shall be implemented **within 90 days** from the date of invocation.

4. GST REGISTRATION

The borrowing entity should be GST-registered as 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.

5. UDYAM REGISTRATION

The Borrower should be registered with Udyam Registration Portal. If the borrower is not registered with Udyam Registration portal, such registration shall be required 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.

6. ASSET CLASSIFICATION

- i. The Account should be **standard as on 31.03.2021**.
- ii. Asset Classification of Borrower's account which was classified as Standard as on March 31,2021 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.
- iii. It is clarified that the accounts classified as NPA on or before 31.03.2021 can also be restructured, however the extant asset classification norms shall be applicable i.e the account will continue to be classified as NPA and the same can be upgraded if its demonstrates satisfactory performance during “specified period”.
- iv. Specified period means a period of 12 months from the commencement of the first payment of interest or principal on the credit facility with longest period of moratorium under the restructuring package. Satisfactory performance means no payment (interest and/or principal) shall remain overdue for a period of more than 30 days.
- v. In case of Cash Credit account/Overdraft account satisfactory performance means that the outstanding in the account should not be more than the sanctioned limit or drawing power, whichever is lower for a period of more than 30 days.
- vi. Post – Restructuring NPA Classification of these Accounts shall be as per the extant IRAC Norms

7. PROVISION

Upon implementation of the restructuring plan under this framework, Bank shall keep provision of 10 percent of the residual debt of the borrower.

8. RESTRUCTURING PROCESS

The Resolution Plan Consists of the following..

- Rephasing/Rescheduling the repayment in case of an outstanding term loan with or without change in balance repayment period/installments
- Conversion of irregularities or a portion in outstanding working capital limits into WCTL (Working Capital Term Loan)/FITL (Funded Interest Term Loan) payable over a period.
- Rescheduling the payment of interest outstanding/accruing on term loans into FITL/deferment or conversion into FITL/debentures/equity.

9. WORKING CAPITAL SUPPORT / RE-ASSESSMENT

In respect accounts of borrowers which were restructured in terms of the MSME restructuring circulars as one time measure Bank shall...

- 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 by September 30, 2021.
- In respect of working capital facilities sanctioned in the form of Cash Credit/Overdraft (CC/OD) to borrowers facing stress on account of the economic fallout of the pandemic, Bank shall re-calculate the "drawing power " by reducing the margins/re-assessing the limits as a one time measure.
- The re-assessed sanctioned Limit/drawing power shall be subject to review by the lending institution on a half yearly basis and the renewal/reassessment on annual basis.
- During Annual renewal/ Reassessment based on the prevailing business conditions the limits should be suitably modulated.
- Bank may consider additional funding in terms of working capital facilities as per re-assessed limits based on relaxed norms. Relaxed norms on stipulation of margin and arrival of drawing power on the working capital facilities.
- Branches shall ensure that the same is necessitated on account of the economic fallout from COVID-19 and shall keep a record of all such accounts where the working capital facilities has been re-assessed and the margin has been reduced/relaxed for calculation of drawing power for future supervisory review.

10. DISCLOSURE

Bank shall make appropriate disclosures in their financial statements, under "Notes on Accounts", relating to the MSME Accounts restructures under these instructions

11. PROCEDURE

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. Borrower should submit the following documents along with the application form.

- i. Last Audited Balance Sheet/Financial Statements as for F.Y 2019- 2020
- ii. Provisional Balance Sheet & P & L A/c for F.Y 2020-2021 & Projections

- iii. GST Returns (as applicable)
- iv. Statement of Bank Accounts for the period from 01.04.2020 till date (if operating with other banks)

Resolution Plan submitted by the borrower should factor financial parameters as per the bank's credit policy

Bank shall call for additional information, documents and/or additional collateral on case to case basis and borrower to also provide the remedial measures proposed for reinstatement of business and the timelines during which the viability milestones such as improvement in financial ratios shall be achieved, introduction of additional funds in the business by the promoters, sale of non core assets among others

TEV study from the banks empanelled consultant may be conducted on case to case basis if found necessary.

12. 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 the bank's website.

Final Response to the grievances raised by the borrower shall be provided within 10 working days.

Financial Parameters: In view of the resurgence of Covid-19 pandemic in 2021 and recognising the difficulties face by the borrowers in meeting the operational parameters, RBI vide Circular Ref No. DOR.STR.REC.38/21.04.048/2021-22 August 6, 2021 has deferred the target date for meeting the specified thresholds in respect of the four operational parameters, viz. Total Debt / EBIDTA, Current Ratio, DSCR and ADSCR, to October 1, 2022.

The target date for achieving the ratio TOL/ATNW, as crystallised in terms of the resolution plan, shall remain unchanged as March 31, 2022.

Note : Above Information is a gist of the Resolution Framework 2.0 implemented by Bank for MSMES which are subject to RBI/Bank's guidelines in the matter. Customers are requested to contact their branch for further details.