DEBT RESTRUCTURING POLICY FOR SMALL & MEDIUM ENTERPRISES (SMEs)

THE CATHOLIC SYRIAN BANK LIMITED
CREDIT MONITORING DEPARTMENT
HEAD OFFICE, THRISSUR

Debt Restructuring Policy for
Small and Medium Enterprises (SMEs)

1. Introduction

As part of announcement made by the Honourable Finance Minister for improving flow of credit to Small and Medium Enterprises, Reserve Bank of India has come out with detailed guidelines for establishing a debt restructuring mechanism for units in SME sector. These detailed guidelines are intended to ensure restructuring of debts of all eligible SMEs similar in lines to the Corporate Debt Restructuring (CDR) mechanism in the banking sector.

Accordingly the following policy guidelines are issued for compliance of all concerned in the matter of Debt Restructuring of SME sector in our Bank.

2. Definition of Small and Medium Enterprises (SMEs)

a) 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 crore. This definition is retained for **Small Enterprises.**

b) Units with investment in plant and machinery in excess of SSI limit and up to Rs. 10 crore is to be treated as **Medium Enterprises**

3. Eligibility criteria for Debt Restructuring

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 banks.

   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 crore under multiple/consortium banking arrangement.

ii. Accounts involving willful default, fraud and malfeasance will <u>not</u> be normally eligible for restructuring under these guidelines.

The procedure for identification of the willful defaulters has been made more transparent recently. While corporates indulging in frauds and malfeasance will continue to remain ineligible for restructuring under the Debt Restructuring Mechanism for SMEs, the Board of Directors may review the reasons for classification of the borrower as willful defaulter especially 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 may be admitted for restructuring with the approval of the Board of Directors. However, cases involving frauds or diversion of funds with malafide intention will not be eligible to be covered under the scheme. In other words, accounts involving fraud and malfeasance will continue to remain ineligible for restructuring.

iii. Accounts classified by banks as "Loss Assets" will not be eligible for restructuring.

iv. In respect of BIFR cases restructuring will be considered only after completion of all formalities in seeking approval from BIFR before implementing the package.

4. Viability criteria

a) Restructuring of SMEs will be considered only after conducting an independent viability study of the unit.

b) The acceptable viability benchmarks will be determined by the sanctioning authority on a case to case basis taking a holistic view of the proposal.

c) Only units becoming viable within a maximum period of seven (7) years will be considered for restructuring.

d) The repayment period for restructured debt shall not exceed 10 years.

5. 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 need 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 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 'Substandard' /'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 would continue to be treated as Sub-standard / 'Doubtful'.

iii. Treatment of Provision

a) Provision made towards interest sacrifice would be created by debit to Profit & Loss account and held under Interest Suspense account. For this purpose, the future interest due as per the current BPLR in respect of an account would 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.

b) Sacrifice would 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, the shortfall in provision will be made up or the excess provision held in the distinct account be reversed.

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

6. Additional finance

Additional finance, if any, would 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 up-gradation at the end of the above period, additional finance shall be placed in the same asset classification category as the restructured debt.

7. Up-gradation of restructured accounts

The sub-standard / doubtful accounts at para 5 (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.

8. 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 by the applicable prudential norms with reference to the pre-restructuring payment schedule.

Repeated restructuring

The special dispensation for asset classification as available in terms of paragraphs 5, 6 and 7 above, shall be available only when the account is restructured for the first time.

10. Procedure

i. The restructuring would be considered only on receipt of a request to that effect from the borrowing units.

ii. In case of eligible SMEs which are under consortium/multiple banking arrangements, the bank with the maximum outstanding has to work out the restructuring package, along with the bank having the second largest share. This norm would be applicable for our bank also.

11. Time frame

The decision on request received from the borrower for restructuring should be communicated in writing within 60 days from the date of receipt of the request. In other words, the restructuring packages would be worked out and implemented within a maximum period of 60 days from date of receipt of requests**.**

12. Review

The Zonal Offices shall submit a quarterly statement on the progress in rehabilitation and restructuring of SME accounts to the Head Office within 10^{th} of the month succeeding the quarter. Credit Monitoring Department, HO shall submit the consolidated statement about the progress in rehabilitation and restructuring of SME accounts within another 15 days.

13. Disclosure

The Debt Restructuring Scheme for SMEs would be displayed on the bank's website and also forwarded to SIDBI for placing on their web site.

The following information in respect of restructuring undertaken during the year for SME accounts shall be disclosed in the published annual Balance Sheet of the Bank 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.