

CIRCULAR No.69/2021/BC/CD - 20
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**Policy on Resolution Framework 2.0 – Resolution of Covid-19 related stress of
Micro, Small and Medium Enterprises (MSMEs)**

(Ref: HO Cir. No. 18/2019 dt. 25.02.2019; No. 102/2020 dt.07.08.2020)

In order to alleviate the problems of MSME units arisen in the wake of COVID 19, RBI had come out with guidelines on one-time restructuring of MSME units. With the approval of the Board, our Bank has implemented these guidelines and it was in vogue till 31st December 2020. Several deserving MSME borrowers have taken advantage of these guidelines and gone in for restructuring of their accounts. With the resurgence of COVID 19 and consequent to declaration of lockouts by various state governments, RBI has since extended these guidelines till 30th September 2021 with few changes in the eligibility criteria. As advised by RBI, we have since formulated a revised policy with the due concurrence of the board on Resolution of COVID 19 related stress of MSMEs.

The Policy on Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs) in line with RBI guidelines and approved by the Board, is enclosed with this circular.

Benefit of these guidelines is not automatic and shall be extended to deserving and needy cases only after fully establishing the long-term viability of the project. Hence, Relationship Managers/ Cluster Heads are requested to go through the desirability of resolution under the scheme and the viability thereof.

All concerned are advised to adhere to the policy guidelines and extend the benefit in all the deserving cases



(B K Divakara)
CFO & CCO (Additional Charge)

Authority: B-CR- 04 of the Financial Year 2021-22

Encl: Policy on Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

To: All Offices

CSB Bank Ltd

Policy on Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

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1. Introduction

Reserve Bank of India has issued a framework for one-time restructuring of MSME borrowers vide their Circular No. DOR.STR.REC.12/21.04.048/2021-22 dt. 05.05.2021. This framework is an extension of the one time restructuring framework introduced earlier in 2019. The scheme is extended in view of the uncertainties created by the resurgence of the Covid-19 pandemic in India in the recent weeks and is applicable to existing loans to MSME borrowers classified as Standard without a downgrade in the asset classification. The scheme is named Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs).

2. Eligibility Criteria

- 2.1. The borrower should be classified as micro, small or medium enterprise as on 31.03.2021 in terms of revised definition of MSME as advised by RBI
- 2.2. 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 31.03.2021.
- 2.3. The aggregate exposure to the borrower, including non-fund based facilities, from all lending institutions does not exceed Rs 25 crore as on 31.03.2021.
- 2.4. The borrower's account was a 'standard asset' as on 31.03.2021.
- 2.5. Accounts which have already been restructured under the scheme introduced in 2019 are not eligible for restructuring under the revised guidelines.
- 2.6. The restructuring of the borrower account is invoked by 30.09.2021. For this purpose, the restructuring shall be treated as invoked when the Bank and the borrower agree to proceed with the efforts towards finalizing a restructuring plan to be implemented in respect of such borrower. Date of invocation will be the date on which the application submitted by the borrower is accepted by the bank for consideration. The decisions on applications received 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 independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- 2.7. The restructuring of the borrower account is implemented within 90 days from the date of invocation. A restructuring would be treated as implemented if the following conditions are met:
 - 2.7.1. 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

- 2.7.2. 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.
- 2.8. 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
- 2.9. Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between 01.04.2021 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan
- 2.10. In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, it can be permitted, as a one-time measure, to review the working capital limits sanctioned and/or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as repeated restructuring. The decision with regard to above shall be taken by 30.09.2021.

As part of the reassessment, margin stipulation as specified in loan policy can be reduced as below.

Margin on stock : 15 % (against policy requirement of 25%)

Margin on book debts : 25 % (against policy requirement of 40%)

The reassessed sanctioned limit/ drawing power shall be subject to review at least on a half yearly basis and the renewal/ reassessment at least on an annual basis. This half yearly review shall be undertaken by the cluster head/ equivalent functionary of respective business vertical. The annual renewal/ reassessment shall be undertaken by the same sanctioning authority who has restructured the account under scheme and expected to suitably modulate the limits as per the then prevailing business conditions.

3. Designated authority for Approval of Restructuring

The sanctioning authority of the credit facility concerned can undertake the restructuring exercise under its respective authority provided that no element of economic sacrifice is involved.

Bank's Credit Monitoring Policy specifies guidelines on Revival and Rehabilitation of Micro, Small and Medium Enterprises. If the eligible MSME account is classified as SMA 2 the restructuring shall be sanctioned after perusal of resolution plan (Corrective Action Plan) approved by the designated authority/ Committee for Stressed Micro, Small and Medium Enterprises constituted for this purpose as below.

The accounts with aggregate loan limit up to Rs 10 lakh should be dealt by the respective monitoring authority. For loan limit of Rs 10 lakh and above upto Rs 50 lakh, the cases are to be referred to the committee with RCH Head as the Chair person and for loan limit of Rs 50

lakh and above, the same shall be referred to the committee with cluster head or equivalent authority as the Chair person, as stipulated by Credit monitoring Policy for a suitable CAP by respective monitoring authority / equivalent functionary. The Restructuring Proposal shall be submitted to the sanctioning authority along with recommendation of the above-referred Committee.

In the case of MSME borrowers under consortium or Multiple Banking Arrangement (MBA) the decisions agreed upon by majority of the creditors (75% by value and 50% by number) shall be considered as the basis for proceeding with restructuring of the account, and will be binding on all lenders under the terms of the inter-creditor agreement.

4. Viability assessment of the stressed accounts

4.1. Restructuring in all cases shall be based on viability parameters. Projected cash flows of the borrower unit shall be carefully examined in order to ensure adequate repaying capacity as per the revised terms, before sanctioning the restructuring proposal. One or more of the following viability bench marks shall be applied in order to ascertain feasibility of the restructuring programme, on a case to case basis:

4.1.1. Financial ratios

4.1.1.1. Working Capital: - Debt equity ratio and current ratio shall be within the benchmarks as specified in the loan policy, with upto 25 % deviation.

4.1.1.2. Term loan: - Debt equity ratio and Debt service coverage ratio shall be within the benchmarks as specified in the loan policy, with upto 25 % deviation.

4.1.2. Return on Capital Employed (RoCE) shall not be less than the lowest rate of interest on various credit facilities sanctioned by the Bank, as on the date of restructuring.

4.1.3. Gap between Internal Rate of Return (IRR) and cost of funds shall not be less than 4 (four). Cost of funds, for this purpose, shall be reckoned as the weighted average cost of various credit facilities in percentage terms.

4.1.4. Head office Credit Committee may allow further relaxations in the financial ratios in exceptional situations and on a case to case basis.

5. General Guidelines

5.1. Techno Economic Viability (TEV) Study/ Due diligence study has to be conducted for accounts with aggregate limits of Rs 5 core and above/ as desired by the designated authority for sanctioning restructuring proposal. Such study shall be conducted by an external agency.

5.2. The unit should become viable preferably in 5 years or within a reasonable time period based on cash flow and Techno Economic Viability (TEV) study, as decided by the sanctioning authority.

- 5.3. Repayment period of the restructured advance including the moratorium, if any, shall not exceed 10 years.
- 5.4. An independent unit visit shall be conducted by the Bank Official as follows and report of the same shall form part of proposal.
 - (a) For all credit exposure of more than Rs 5 crore per single borrower: by the Cluster Head / Equivalent Functionary of the respective business vertical.
 - (b) For exposure upto and including Rs 5 crore, the unit shall be visited by Branch Head/BOM/ Relationship Manager of the respective business vertical as the case may be.
- 5.5. Loan granted to units related to Agriculture and food processing, which are registered as MSMEs will be eligible for the scheme.
- 5.6. Borrowers indulging in frauds and malfeasance will be treated as ineligible for restructuring.
- 5.7. Wilful defaulters are not eligible for restructuring.
- 5.8. Restructuring under this framework shall be completed within the specified time periods.
- 5.9. The general principle of restructuring shall be that the stakeholders bear the first loss of the enterprise rather than the lenders.
- 5.10. In case a borrower has undertaken diversification or expansion of the activities which has resulted in the stress on the core - business of the group, a clause for sale of non-core assets or other assets may be stipulated as a condition for restructuring the account, if under the TEV study, the account is likely to become viable on hiving off non-core activities and other assets.
- 5.11. A provision of 10% of the residual debt of the borrower in addition to the provisions already held, shall be made in respect of accounts restructured under these instructions. Bank will, however, have the option of reversing such provisions at the end of the specified period (as defined in para.5.13), subject to the account demonstrating satisfactory performance during the specified period (as defined in para.5.13).
- 5.12. As a general rule, barring the above one-time exception, any MSME account which is restructured must be downgraded to NPA upon restructuring and will slip into progressively lower asset classification and higher provisioning requirements as per extant IRAC norms. Such an account may be considered for up gradation to 'standard' only if it demonstrates satisfactory performance during the specified period.
- 5.13. '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.

6. Other Guidelines

- 6.1. Post-restructuring, NPA classification of these accounts shall be as per the extant IRAC norms.
- 6.2. It shall be ensured that the restructuring under the scheme is necessitated on account of the economic fallout from Covid-19 and accounts provided relief under these instructions shall be subject to subsequent supervisory review.
- 6.3. Bank shall make appropriate disclosures in their financial statements, under 'Notes on Accounts', details of accounts restructured as per the following format:

No. of accounts restructured	Amount (₹ in million)
