

1 BACKGROUND

Micro and Small Enterprises (MSE) constitute an important and crucial segment of the industrial sector. This has been acknowledged by the Government of India by the high priority it has accorded to this sector. Several internal and external factors have put considerable pressure on the performance of these units, resulting in a number of them becoming sick. RBI set up two working groups, the first under the leadership of Shri SS Kohli to study the rehabilitation of sick SSI, and the second under the leadership of Shri KC Chakrabarty for reviewing the flow of credit to SME Sector. Based on the recommendations of these groups, guidelines were issued and Banks have adopted most of the recommendations and framed their policies on lending to / rehabilitation of Micro and Small Enterprises / SSI units. This document outlines the Policy of Saurashtra Gramin Bank (SGB) on rehabilitation of sick Micro and Small Enterprise units.

The objectives of the Bank through the Rehabilitation Policy is to identify “sickness” at an early stage, initiate remedial measures with a pro-active approach, and to formulate and implement rehabilitation packages for Sick but potentially viable MSE units.

2 ELIGIBILITY CRITERIA

These guidelines would be applicable to the following entities, which are viable or potentially viable SME units:

- All MSME borrowers which are enjoying banking facilities from SGB with funded and non-funded outstanding up to Rs.10.00crore under sole/ multiple/ consortium banking arrangement.
 - Borrowers/ Units ineligible for rehabilitation
- ✓ Deliberate non-payment of the dues despite adequate cash flow and good net worth;
 - ✓ Siphoning off of funds to the detriment of the defaulting unit;
 - ✓ Assets financed have either not been purchased or have been sold and proceeds have been misused;
 - ✓ Misrepresentation/ falsification of records;
 - ✓ Disposal/ removal of securities without bank's knowledge;
 - ✓ Fraudulent transactions by the borrower; and
 - ✓ Accounts classified as loss assets by the Bank.

3 POTENTIAL VIABILITY ASSESSMENT

- a. A unit would be regarded as potentially viable if it is in a position to service its repayment obligations without the help of reliefs/ concessions:
 - After implementing a relief package spread over a period not exceeding five years from the commencement of the package from banks, financial institutions, Government (Central / State) and other concerned agencies
 - The repayment period for restructured (past) debts should not exceed seven years from the date of implementation of the package.
 - In the case of tiny/ decentralised sector units, the maximum period of reliefs/concessions and repayment period of restructured debts is 5 years and 7 years respectively, in line with other SSI/ MSE units.
- b. The rehabilitation package would be fully implemented within six months from the date the unit is declared as 'potentially viable' / 'viable'. The Bank would offer “holding operation” for a maximum period of 6 months (i.e. permitting operations in the CC account) while identifying and implementing the rehabilitation package.
- c. RBI has given freedom to banks to decide whether a sick MSE/SSI unit is potentially viable or not. The decision on viability would be taken by the Bank within 3 months of the unit becoming sick.
- d. The decision to classify an account as potentially viable would be taken only after a viability study has been conducted and the same would be informed to the Borrower.
- e. A unit would be declared unviable only if the viability status is evidenced by a viability study. The promoters would be informed in writing about the reasons for declaring the unit as unviable. The promoter would be given an opportunity to present his case before confirmation of the status of viability. In spite of the representation of the case, if the unit is found to be unviable, the Bank would inform the same to the borrower within a period of 3 months from the date of viability study.
- f. Parameters used for satisfying viability are :
 - ability to service debts on time, improved liquidity, decrease in the gearing ratio, etc.
 - possibility of repayment of restructure debts within a maximum period of 7 years including moratorium period.
 - Interest concessions would be available for a maximum period of 5 years
 - Assessment of viability for small loans would be done “in-house” whereas for large value loans, if required, the help of external agencies would be taken the cost of which has to be borne by the borrower .
 - Coverage of the viability study
 - i. Causes for sickness;
 - ii. Future market for products/services;
 - iii. Managerial competence of the borrowers to implement the rehabilitation;
 - iv. Technical Viability – any technology up-gradation required;

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- v. Financial Viability – whether the projections are acceptable and the probability of the projected cash flows materializing;
- vi. Any concessions available from the State Government as per the rehabilitation policy of the State concerned;
- vii. Ability of the promoter(s) to bring in his/their contribution.

4 RESPONSIBILITIES OF BORROWER

The Borrower has some basic responsibilities like those listed below, which are mandatory for making the rehabilitation successful:

- o Intimate the banks immediately on facing funds crunch or pile up of finished goods or any other problem, so that corrective action is taken immediately and valuable time is not lost;
- o Be transparent while compiling financial statements or reporting to the Bank/ general public;
- o Willingness to implement action/ strict measures and invest time, energy and time in the process of rehabilitation

5 RELIEFS & CONCESSIONS FOR REHABILITATION

The reliefs and concessions offered at the time of rehabilitation would depend on the ability of the Borrower to service the liabilities on time. The various reliefs and Concessions offered could cover one or more of these areas based on merits and viability:

- i. Interest dues on Cash Credit & Term Loan
 - Partial / full waiver of penal interest or damages charged during the period it started incurring cash losses continuously
 - Funding of interest on term Loan/Cash Credit with no further interest to be charged on such Funded Interest Loan.
 - Repayment of Funded Interest Loan to be made within a period not exceeding three years from the date of commencement of implementation of the rehabilitation program.
- ii. Funding of Unadjusted interest dues such as interest charged between the date up to which rehabilitation package was prepared and the date from which it was actually implemented
- iii. The Head Office Management Committee (HOMC) can permit reduction in rate of interest in really deserving cases.
- iv. After segregation of interest overdues and funding it, the outstanding which is in excess of the drawing power (DP) will be funded and made into a Working Capital Term/ Demand Loan (WCTL/DL) with a suitable repayment period based on merits.
- v. “Future cash losses” representing losses incurred from the time of implementation of the Rehabilitation Package up to the point of cash break-even as projected should be

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financed by the Financial Institution if it is one of the financiers of the unit. The FI should not be asked to provide for interest due to the Bank in the computation of future cash losses and this should be taken care of by future cash accruals.

The interest due to the Bank should be funded by it separately. However, where SGB alone is the financier, the future cash losses including interest will be financed by us.

- vi. For meeting escalations in capital expenditure to be incurred under the rehabilitation program, Bank will provide, where considered necessary, appropriate additional financial assistance up to 15% of the estimated cost of rehabilitation by way of contingency loan assistance.
- vii. Start-up expenses or margin money for working capital in the form of long-term loans will be provided for units under rehabilitation, where a financial institution is not involved, The Bank will provide the loan for start-up expenses, while margin money assistance may either come from SIDBI (Small Industries Development Bank of India) under its Refinance Scheme for Rehabilitation of Sick Industrial Units (**RSR**), or should be provided by State Government where it is operating a Margin Money Scheme.
- viii. The minimum Promoters 'Contribution that has to be brought in varies, depending on the size of the unit. 50 % of promoter's contribution has to be brought in immediately and the remaining within 6 months as per requirement of rehabilitation package.
 - Tiny sector unit – 10% of the additional long term requirements
 - Micro and Small Enterprises – 20% of the additional long term requirements
 - Medium Enterprises- 30% of long-term requirements of funds including monetary value of sacrifice from banks / financial institutions/ Government under rehabilitation package.
 - For units having technocrats/ professional management or packages involving change of management, 30% of long-term requirements of funds excluding monetary value of sacrifice has to be brought in by way of Promoter's contribution.

6 DOCUMENTS REQUIRED FOR REHABILITATION

The Borrower who is eligible for rehabilitation can approach the branch with the following papers:

- i. Copies of the audited balance sheet and profit and loss account of the borrower for the last three years.
- ii. Unaudited data for the current year certified by chartered Accountant.
- iii. For projects under implementation, details of sources and use of funds since inception.
- iv. Projected Profitability statement covering the period of repayment proposed for the restructured debt along with the Debt Service Coverage computations, Projected Balance sheet and Profit and Loss account covering the period of repayment proposed for the restructured debt.

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- v. Projected cash flow statements covering the period of repayment proposed for the restructured debt.
- vi. Techno-economic viability study report to be obtained for exposure of Rs. 5.00 crore and above.
- vii. Statement showing identification of the sources of margin money.
- viii. Statement showing the annual working capital requirement
- ix. Application for rehabilitation under the MSME Debt Rehabilitation Scheme.

7 IMPLEMENTATION OF REHABILITATION PACKAGE

The nursing package worked out as per the above guidelines will be implemented within 60 days of approval. Borrower has to provide his consent in writing before implementation. The implementation shall be stringently monitored at the level at which it was approved, to ensure that the unit is nursed back to good health. If any irregularities are noticed, discussions will be conducted with the borrower and corrective action would be initiated.

- i. The Bank will have the “Right to Recompense” the quantum of which will be limited to waiver (excluding penal interest and liquidated damages) plus present value of economic loss on account of reduction in interest rate. The “Right to Recompense” will be available at any time after 3 years of implementation of the package and up to 2 years after complete repayment of the restructured term loan/ working capital term loan/ funded interest from loan, etc. Further, the Bank will also invoke “Right to Recompense” when (i) the borrower declares dividend/ withdraws profits more than 10% of the average capital, or (ii) approaches the Bank for prepayment of the borrowings.
- ii. Working Capital Term Loan shall be secured by first charge on the fixed assets of the borrowing units. If the fixed assets are under charge to State Finance Corporation/Term Lending Institution, the Bank at its discretion may insist for first pari-passu charge with these institutions. Wherever felt necessary, additional collateral may be sought.
- iii. In the event of default in servicing of restructured debts for a period exceeding six months at any given point of time during the nursing period, the restructuring package may be withdrawn, at the discretion of the Bank.
- iv. The Bank reserves the right to exercise conversion of Debt to Equity as also to see change of management of the unit/company.