



MSME Credit and Framework for Revival & Rehabilitation of MSMEs Policy

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Part A – Policy of MSME Credit

1. Introduction:

Government of India and the Reserve Bank of India are giving thrust for Micro, Small and Medium Enterprises (MSMEs) lending. Government of India has enacted Micro, Small and Medium Enterprises Development Act in the year 2006 to have a focused and balanced growth of Micro, Small and Medium Enterprises. Hence, a specialized focus on lending to MSME acquires importance. This Policy is formulated to give focus to MSME lending. Except for the provisions mentioned hereunder, all other Bank Credit Policy norms are *mutatis mutandis* applicable for MSME lending.

Credit Guarantee Schemes:

- a) Bank has entered MoU with Credit Guarantee Fund Trust for Micro and Small Enterprises (**CGTMSE**) to avail credit guarantee cover in respect of the credit facility sanctioned **up to Rs.10 Crore** to Micro and Small Enterprises [MSEs] and without collateral security & third part Guarantee. And Bank is also providing Credit Guarantee under Hybrid Security Model.
- b) Bank has entered into MoU with NCGTC for "Credit Guarantee Fund for Micro Units (**CGFMU**)", to avail Credit Guarantee Cover for loans up to Rs.20 lakh under Pradhan Mantri MUDRA Yojana (PMMY) scheme.
- c) Bank has entered MoU with NCGTC for "Mutual Credit Guarantee Scheme for MSMEs (**MCGS-MSME**) scheme". It provides credit guarantee cover for term loans up to ₹100 crore for eligible MSMEs to purchase equipment or machinery.

Government Sponsored Programs:

The Bank is actively implementing all Government Sponsored Programs with a focused approach toward MSME sector lending. A few key schemes being implemented are listed below:

1. Pradhan Mantri MUDRA Yojana (PMMY) Scheme:

- PMMY loans are extended for income-generating activities in manufacturing, trading, services, and allied agriculture sectors.
- Loans are considered under the following three categories based on amount:
 - ✓ **Shishu** – Loans up to ₹50,000
 - ✓ **Kishore** – Loans above ₹50,000 and up to ₹5 lakh
 - ✓ **Tarun** – Loans above ₹5 lakh and up to ₹10 lakh

- As per Gazette Notification No. 4282 dated **24th October 2024**, the loan limit under **Tarun** category is enhanced:
 - **Tarun Plus** – Loans above ₹10 lakh and up to ₹20 lakh is eligible for borrowers with successful repayment history under the Tarun category and continuing the activity.
- No collateral security is required for PMMY loans.
- Loans up to ₹20 lakh are eligible for Credit Guarantee coverage under the Credit Guarantee Fund for Micro Units (CGFMU).

2. Prime Minister's Employment Generation Program (PMEGP):

- The scheme aims to create sustainable employment in rural and urban areas by supporting new micro enterprises.
- Minimum educational qualification of 8th standard pass is required for projects above ₹10 lakh (manufacturing) or ₹5 lakh (services).
- Only new units are eligible; existing units or those already availed government subsidies are not eligible.
- Maximum project cost is ₹50 lakh for manufacturing and ₹20 lakh for service sector.
- For the upgradation of existing PMEGP units, a second loan can be availed. The maximum eligible project cost is ₹100 lakh for manufacturing units, with a subsidy of up to ₹15 lakh (₹20 lakh for units located in the North Eastern Region and Hill States). For the service sector, the maximum project cost is ₹25 lakh, with a subsidy limit of ₹3.75 lakh (₹5 lakh for NER and Hill States).
- Margin money subsidy ranges from 15% to 35% based on location and applicant category, with 5%-10% beneficiary own contribution.
- The scheme is implemented through KVIC, KVIB, and DIC.

3. PM Vishwakarma Scheme:

- This scheme is introduced by Government of India on 13th Sep 2023 with Ministry of MSME (MoMSME) as Nodal Ministry for the scheme.
- The scheme is launched with objective to uplift the socio-economic status of the Artisans and Craftspeople who are either self-employed or intend to setup their own small-scale ventures.
- Under the scheme, first tranche credit support up to Rs.1.00 lakh and second tranche credit support up to Rs.2.00 lakh is provided under CGTMSE Credit Guarantee Scheme for PM Vishwakarma.

- The beneficiaries will be charged effective interest at a fixed rate of 5%. The benefit of entire interest subvention of up to 8% shall be passed on upfront to the beneficiary by MoMSME through Banks.
- The scheme is initially implemented for five years up to 2027-28.
- Udyam Assist Certificate to be issued to the beneficiaries of PM Vishwakarma Scheme by Ministry of MSME.

4. MSE GIFT Scheme:

- The MSE Green Investment and Financing for Transformation Scheme (MSE GIFT Scheme) intends to help MSEs to adopt green technology with interest subvention and credit guarantee support.
- All the MSEs certified under Udyam Registration (both in manufacturing and service sector) will be eligible for Interest Subvention component of the MSE- GIFT scheme.
- The scheme involves an Interest Subvention of 2% for maximum up to 5 years period and Risk sharing facility with credit guarantee coverage of 75% with SIDBI for loan amount up to ₹ 2 Crore.
- Term Loan sanctioned and disbursed by banks / PLIs for acquiring new plant & machinery for technology and process up-grade shall qualify for the interest subvention under the scheme. The Term loan sanctioned for second-hand / fabricated machines will not be considered under the scheme.
- The Scheme will be operational up to Mar 2026.
- The term loan sanctioned to MSEs for availing the benefit of the scheme should not be less than three years including moratorium period.
- The project will cover sectors impacting climate change, including renewable energy, water management, pollution control, green buildings, waste management, cleaner fuels, innovative high-impact projects, and other related activities.
- A stack of 890 technologies maintained by MoMSME, SIDBI and BEE shall be used as reference for financing under the program.

5. MSE SPICE Scheme:

- This "Scheme for Promotion and Investment in Circular Economy" (SPICE) is the first scheme of the Government of India to support circular economy projects. The primary goal of the scheme is to promote resource efficiency, reduce environmental impact regarding of waste and enhance the competitiveness of MSEs in India.

- Brown Field Project in MSE: This component is for upgrading/expanding the existing Circular Economy (CE) projects for promoting/facilitating CE principles across the MSEs.
- The maximum project cost admissible under the Scheme would be INR 50 Lakh with a 25% subsidy on the cost of Plant and Machinery only. However, projects costing more than ₹ 50 Lakh would also be admissible under the Scheme, but subsidy shall be limited to a maximum of ₹12.5 Lakh.
- The Scheme will be operational up to Mar 2027.
- All Udyam registered MSEs are eligible.
- The projects in line with the CE principles would be eligible for the subsidy.
- Term Loan sanctioned and disbursed by Banks / PLIs for acquiring new plant and machinery for technology and process up-grade shall qualify for a subsidy under the scheme. The second-hand / fabricated machines will not be considered under the scheme.

6. TReDS:

The Bank extends funding to MSMEs through the TReDS (Trade Receivables Discounting System), an RBI-regulated digital marketplace that facilitates quick realization of trade receivables by enabling MSMEs to sell them to Banks and NBFCs through a transparent & competitive bidding process.

2. Definition of Micro, Small and Medium Enterprises:

The MSMED Act, 2006 and its subsequent amendment guidelines defines the Micro, Small and Medium Enterprises based (i) on the investment in Plant and Machinery & Turnover for enterprises engaged in Manufacturing or production, processing or preservation of goods and (ii) on the investment in Equipment & Turnover for enterprises engaged in providing or rendering services or changes from time to time. The criteria for MSME classification of Manufacturing and Service sectors are the same.

The MSME classification guidelines (w.e.f 01.04.2025) are:

- ❖ **Micro Enterprises:** Investment in Plant and Machinery or Equipment does not exceed **₹2.5 crore** and Turnover does not exceed **₹10 crore**.
- ❖ **Small Enterprises:** Investment in Plant and Machinery or Equipment does not exceed **₹25 crore** and Turnover does not exceed **₹100 crore**.

- ❖ **Medium Enterprises:** Investment in Plant and Machinery or Equipment does not exceed **₹125 crore** and Turnover does not exceed **₹500 crore**.

Manufacturing Enterprises:

The Micro, Small and Medium Enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the industries (Development and Regulation) Act, 1951 and as notified by the Government from time to time.

Service Enterprises:

MSMEs, engaged in providing or rendering of services as defined in terms of investment in equipment & turnover under MSMED Act, 2006 and its subsequent amendment guidelines shall qualify under service enterprises.

Addition of Retail and Wholesale Trade:

Ministry of MSME vide Office Memorandum (OM) No. 5/2(2)/2021-E/P & G/Policy dated 2nd July 2021 & RBI vide Circular dated 7th July 2021 has included Retail and Wholesale trade as MSMEs for the limited purpose of Priority Sector Lending and they would be allowed to be registered on Udyam Registration Portal for the following NIC Codes and activities mentioned against them:

NIC Code	Description
45	Wholesale and retail trade and repair of motor vehicles and motorcycles
46	Wholesale trade except of motor vehicles and motorcycles
47	Retail trade except of motor vehicles and motorcycles

3. Classification of Enterprises as per New Definition:

Enterprises are required to register online in Udyam registration portal (<https://udyamregistration.gov.in/>) and to submit 'Udyam Registration Certificate' (URC) for evidencing MSME classification.

For Priority Sector Lending (PSL) purposes banks shall be guided by the classification recorded in the Udyam Registration Certificate (URC).

Udyam Registration Number (URN) is mandatory for getting CGTMSE Credit Guarantee coverage.

4. Formalization of Informal Micro Enterprises on Udyam Assist Platform:

Ministry of MSME, Government of India has launched the Udyam Assist Platform (UAP) to facilitate formalisation of Informal Micro Enterprises (IMEs) through online generation of Udyam Assist Certificate. Registration on the platform is done with the assistance of Designated Agencies which are RBI regulated entities (including scheduled commercial banks, non-banking financial companies, etc.).

Informal Micro Enterprises (IMEs) are those enterprises which are unable to get registered on the Udyam Registration Portal (URP) due to lack of mandatory required documents such as Permanent Account Number (PAN) or Goods and Services Tax Identification Number (GSTIN). IMEs are those enterprises that are not covered in the Goods and Services Tax regime.

IMEs with an Udyam Assist Certificate shall be treated as Micro Enterprises under MSME for the purposes of PSL classification.

5. Priority Sector Lending Classification:

Bank loans to MSMEs, engaged in manufacturing or providing or rendering of services as defined in terms of investment in plant and machinery or equipment and turnover under MSMED Act, 2006 and its subsequent amendment guidelines shall qualify under priority sector without any credit cap.

6. Credit Acquisition:

The Bank shall continue to give additional thrust to financing MSME sector. Bank shall follow the strategy of increasing its business in the MSME space by offering excellent service at reasonable rates but with a strong focus on the right selection of borrowers.

Bank is offering various loan facilities for MSME sector viz.,

Fund Based:

- i. Working Capital – OCC, SOD, CCBD, Dropline OD, Export Credit, Bill Discounting, etc.,
- ii. Term Loan – Machinery Loan, Building, Vehicle Loan, Commercial Mortgage Loan, Rentfin, etc.,

Non-Fund Based:

1. Letter of Credit
2. Bank Guarantee

These products with specified parameters are designed for easy understanding by the customers and to serve as marketing platform for the Bank officials. Features / parameter details of the above products / schemes are also available in Bank's website.

7. Concessions to MSMEs:

- 1) Processing fee for loans up to Rs.5 lakh is waived.
- 2) MSME customers are provided interest rate based on rating of the entity & other parameters.
- 3) It is mandated not to accept collateral security for exposure up to Rs.10 lakh extended to units in the MSE sector. Collateral-free loan is provided up to Rs.10 lakh to all enterprises financed under the Prime Minister Employment Generation Programme (PMEGP) which is administered by KVIC. Therefore, Loans to MSE up to Rs.10 lakh shall be extended without insisting for / taking any collateral security by covering with Credit Guarantee under CGTMSE Scheme, as applicable.
- 4) Loans sanctioned by Banks against voluntary pledge of Gold and Silver as collateral, up to the prescribed collateral-free limit to MSEs up to Rs.10 lakh, shall not be treated as a violation of the Collateral free loan guidelines for MSEs.
- 5) Bank shall encourage financing viable Micro and Small Enterprises for fund-based and non-fund-based limits up to Rs.10 Crore under CGTMSE Credit Guarantee Scheme without collateral security and / or third-party guarantees.
- 6) CGTMSE has introduced a "Hybrid Security" product w.e.f 01.04.2018 allowing guarantee cover for the portion of credit facility not covered by collateral security. In the partial collateral security model, the Bank will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, up to a maximum of Rs.10 Crore, can be covered under CGTMSE Credit Guarantee Scheme. CGTMSE will have notional second charge on the collateral security provided by the borrower for the credit facility.

- 7) The lack of financial literacy, operational skills, including accounting and finance, business planning etc. represent formidable challenge for MSE borrowers underscoring the need for facilitation by banks in these critical financial areas. To effectively and decisively address these handicaps, bank branch staffs are trained through customized training programs to meet the specific needs of the sector.

8. Timelines for MSME Credit:

The Time norms for disposal of MSE loan applications:

Facility	Time Frame
i) Sanction of fresh /enhanced Credit limits	
a) Loans upto Rs.25 lakh	Within 14 Working days
b) Loans over Rs.25 lakh	Within 6 weeks
ii)Renewal of existing credit limits	Within 2 weeks
iii)Sanction of adhoc credit limits	Within 1 week

The time limit shall be reckoned from the date on which all documents as per check list, clarifications / information required for processing the loan proposals are received by respective sanctioning authorities.

9. Method of assessment of MSME Credit:

Credit requirement of MSME borrowers shall be assessed, as per Banks Credit Policy guidelines, as below.

Term Loans:

The following critical factors shall be looked into in-depth:

1. Managerial competence of the promoters.
2. Technical feasibility of the Unit.
3. Financial viability of the Unit.
4. Socio – Economic importance of the project.
5. Availability of approvals from competent statutory authorities.

Working Capital Limits:

Bank normally provides working capital finance by way of advance against stocks and receivables. The borrower should have his own stake / contribution in the business by way of margin for working capital requirements. The working capital requirements shall be assessed by adopting following

methods, depending on the type of the business activity / categories of borrowers:

Activity	Fund based Working Capital Limit	Method of assessment
MSE	Up to Rs. 500 lakh	Turnover Method
	Above Rs. 500 lakh	MPBF Second Method
Medium Enterprises & Traders	Up to Rs. 200 lakh	Turnover Method
	Above Rs. 200 lakh and up to Rs.500 lakh	MPBF First Method
	Above Rs. 500 lakh	MPBF Second Method

Cash budget method for Seasonal Industries, Construction activity shall be followed based on requirement. Margin, pricing, repayment period, etc. are fixed as per the product specifications and or Bank's Credit Policy from time to time.

10. Digital Processing Platform:

Bank is successfully utilizing Digital Processing platform (SME-LOS) for Processing, Sanction and disbursement of both Working Capital Loans & Term Loans. Under this platform the applicant / entities viability are assessed based on scoring method by studying Audited Financial Statements & account statements. For eligible entities the limits are assessed based on studying the performance and cash flow, based on GST and account statement. The digital processing platform has improved the credit delivery by reducing the TAT through automated workflow.

11. Flow of credit to MSEs:

a.) In order to provide timely financial support to Micro and Small enterprises facing financial difficulties during their 'Life Cycle', the following provisions so as to facilitate timely and adequate availability of credit to viable MSE borrowers especially during the need of funds in unforeseen circumstances shall be considered:

1. To extend standby credit facility in case of term loans.
2. Additional/Adhoc working capital to meet with emergent needs of MSE units.
3. Mid-term review of the regular working capital limits, where banks are convinced that changes in the demand pattern of MSE borrowers

require increasing the existing credit limits of the MSMEs, every year based on the actual sales of the previous year.

4. Timelines for Credit Decisions.

b.) Performance Review of MSME Sector:

The performance of the MSME sector shall be critically evaluated and reviewed by the Board at Quarterly intervals in each Financial Year.

12. Rejection of Applications:

Rejection of applications for fresh limits shall be done by the sanctioning authority and Vertical Head for CO proposals. Branch should communicate in writing, the reasons for rejection to the applicant and it should be conveyed within sanction time-norms as stipulated in the policy.

13. Disbursement:

The Branch shall disburse loans to MSMEs within maximum 2 working days after complying with all sanction terms and creation of charge over the securities.

14. Issuance of Copy of the documents executed to the MSMEs:

Branch shall provide copies of all the loan documents executed along with enclosures to the borrowers at the Bank cost wherever required.

15. Exceeding / Adhoc:

Exceeding / adhoc facility shall be normally considered for a period of 3 months, for meeting genuine short term credit requirements. Adhoc facility may be considered, in selective cases, for longer periods, not exceeding 6 months if there are specific requirements.

16. Standby Credit:

Banks shall offer, at the time of sanction of project loans, to sanction a 'standby credit facility' to fund unforeseen project cost overruns, if needed. Further, at the discretion of banks, such 'standby credit facility' may also be sanctioned to fund periodic capital expenditure.

17. Review/Renewal of working capital:

The broad guidelines as per Credit Policy document, may be adhered to, but in case of emergency and where branch is convinced that changes in the demand pattern of MSME borrowers requires a short review cum renewal, they may do so. Such short review cum renewal may be based on an assessment of sales performance of the unit since last review without waiting for audited financial statement. The same shall be revalidated during the subsequent regular renewals based on the provisional / audited financial statements by the concerned sanctioning authorities.

18. Tracking system:

Digital lending system enables the customers to apply for loan through online / offline through Branches. The stage of application is communicated to customer through SMS and they can also track their application status through online portal. The status of the proposal shall be tracked at various levels in Bank till credit delivery. All loan applications submitted under digital lending platform are acknowledged and loan application number is sent to customers via SMS / E-Mail for their reference and for easy tracking.

19. Banking Codes and Standards Board of India (BCSBI):

- ✚ RBI vide its circular on Master Direction - Lending to Micro, Small & Medium Enterprises (MSME) Sector vide reference no. FIDD.MSME & NFS.12/06.02.31/2017-18 updated as on 29th Jul 2022 has informed that, the Banks may continue to follow their commitments as hitherto under Code of Bank's Commitment to Micro and Small Enterprises.
- ✚ BCSBI sets minimum standards of banking practices for member banks to follow when they are dealing with Micro and Small Enterprises.
- ✚ The objective of the Code is to promote good banking practices, setting minimum standards for the adherents, increasing transparency, achieving higher operating standards and above all, promoting a cordial banker-customer relationship which would foster confidence in the banking system.
- ✚ The Code lays great emphasis on transparency and providing full information to the customer before a product or service is sold to him/her.

Part B - Framework for Revival and Rehabilitation of MSMEs

20. Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises:

Eligibility:

The provisions made in this framework shall be applicable to MSMEs having loan limits up to Rs.25 crore, including accounts under consortium or multiple banking arrangements (MBA).

Identification of incipient stress:

Identification by banks or creditors – Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the table below:

SMA categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

On the basis of the above early warning signals, the branch maintaining the account should consider forwarding the stressed accounts with aggregate loan limits above Rs.10 lakh to the Committee within five working days for a suitable Corrective Action Plan (CAP). Forwarding the account to the Committee for CAP will be mandatory in cases of accounts reported as SMA2.

As regards accounts with aggregate loan limits up to Rs.10 lakh identified as SMA-2, the account should be mandatorily examined for CAP by the branch itself under the authority of the Branch Manager as decided by the bank in terms of their Board approved policy. **Other terms and conditions, such as time limits, procedures to be followed, etc., as applicable to the cases referred to the Committee as referred, should be followed by the Branch Manager.** However, the cases, where the Branch Manager has decided the option of recovery under CAP instead of rectification or restructuring should be referred to the Committee for their concurrence. The Branch Manager should also examine the accounts reported as SMA-0 and SMA-1, if it is deemed necessary.

Identification by the Borrower Enterprise - Any MSME borrower may voluntarily initiate proceedings under this Framework, if the enterprise reasonably apprehends failure of its business or its inability or likely inability to pay debts or 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, by making an application to the branch or directly to the Committee, wherever applicable. When such a request is received by branch, the account with aggregate loan limits above Rs.10 lakh should be referred to the Committee. The Committee should convene its meeting at the earliest **but not later than five working days** from the receipt of the application, to examine the account for a suitable CAP. The accounts with aggregate loan limit up to Rs.10 lakh is to be dealt with by the Branch Manager for a suitable CAP.

21. Committees for Stressed Micro, Small and Medium Enterprises:

In order to enable faster resolution of stress in an MSME account, Bank formed Committees for Stressed Micro, Small and Medium Enterprises as per the following arrangements:

At Division level committees are formed to address the stress in MSME accounts. These Committees will be Standing Committees and will resolve the reported stress of MSME accounts of the branches falling under their jurisdiction.

For MSME borrowers having credit facilities under a consortium of banks or multiple banking arrangement (MBA), the consortium leader, or the bank having the largest exposure to the borrower under MBA, as the case may be, shall refer the case to its Committee, if the account is reported as stressed either by the borrower or any of the lenders under this Framework. This Committee will also coordinate between the different lenders.

The Composition of the Committee is as under:

- (a) The Divisional Manager of the Bank is the Chairperson of the Committee.
- (b) Officer-in-charge of the Micro, Small and Medium Enterprises Credit Department of the Division / convener bank at the regional or zonal office level, is the member and convener of the Committee.
- (c) One independent external expert with expertise in Micro, Small and Medium Enterprises related matters as nominated by bank.

(d) One representative from the concerned State Government. Endeavour should be made to bring representative from the respective State Government in the Committee. In case State Government does not nominate any member, then the convening bank should proceed to include an independent expert in the Committee, namely a retired executive of another bank of the rank of AGM and above.

(e) When handling accounts under consortium or MBA, senior representatives of all banks / lenders having exposure to the borrower.

Based on these instructions Bank framed the MSME policy, on the composition of the Committee, the terms of appointment of its members, the manner of filling vacancies, and the procedure to be followed in the discharge of the Committee's functions. While decisions of the Committee will be by simple majority, the Chairperson shall have the casting vote, in case of a tie. In case of accounts under consortium / MBA, lenders should sign an Inter-Creditor Agreement (ICA) on the lines of Joint Lenders' Forum (JLF) Agreement. Banks will put in place suitable arrangements, including dedicated manpower, to ensure smooth functioning of the Committee and adherence to the stipulated timelines.

All eligible stressed MSMEs shall have access to the Committee for resolving the stress in these accounts in accordance with regulations prescribed in this Framework.

Provided that where the Committee decides that recovery is to be made as part of the CAP, the manner and method of recovery shall be in accordance with the existing policies approved by the board of directors of the bank which has extended credit facilities to the enterprise, subject to any regulations prescribed by the Reserve Bank of India and extant statutory requirements.

22. Application to the Committee for a Corrective Action Plan:

Bank on identifying an MSME account as SMA-2 or suitable for consideration under the Framework or on receipt of an application from the stressed enterprise, that shall be having aggregate loan limits above Rs.10 lakh to be forwarded to the Committee for immediate convening of meeting and deciding on a CAP. Stressed enterprises having aggregate loan limits above Rs.10 lakh can also directly file an application for CAP to the Committee or to the largest lender for onward submission under advice to all its lenders. The Indian Banks' Association (IBA) prescribed application formats for aggregate loan limits above Rs.10 lakh, for this purpose, which, inter-alia, should include the following:

- (a) Latest audited accounts of the Enterprise including its Net worth.
- (b) Details of all liabilities of the enterprise, including the liabilities owed to the State or Central Government and unsecured creditors, if any.
- (c) Nature of stress faced by the Enterprise.
- (d) Suggested remedial actions.

The Indian Banks' Association (IBA) prescribed formats are to be used for aggregate loan limits up to Rs.10 lakh.

Where an application is filed by a bank and admitted by the Committee, the Committee shall notify the concerned enterprise about such application within five working days and require the enterprise to:

- (a) Respond to the application or make a representation before the Committee.
- (b) Disclose the details of all its liabilities, including the liabilities owed to the State or Central Government and unsecured creditors, if any, within fifteen working days of receipt of such notice.

Provided that if the enterprise does not respond within the above period, the Committee may proceed ex-parte.

On receipt of information relating to the liabilities of the enterprise, the Committee may send notice to such statutory creditors as disclosed by the enterprise as it may deem fit, informing them about the application under the Framework and permit them to make a representation regarding their claims before the Committee within **fifteen working days** of receipt of such notice. It is mentioned here that this information are required for determining the total liability of the Enterprise in order to arrive at a suitable CAP and not for payments of the same by the lenders.

Within **30 days** of convening its first meeting for a specific enterprise, the Committee shall take a decision on the option to be adopted under the corrective action plan as given in subsequent paragraphs and notify the enterprise about such a decision, within **five working days** from the date of such decision.

If the corrective action plan decided by the Committee envisages restructuring of the debt of the enterprise, the Committee shall conduct the detailed Techno-

Economic Viability (TEV) study and finalize the terms of such a restructuring in accordance with the extant prudential norms for restructuring, within **20 working days** (for accounts having aggregate exposure up to Rs.10 crore) and within **30 working days** (for accounts having aggregate exposure above Rs.10 crore and up to Rs.25 crore) and notify the enterprise about such terms, within **five working days**.

Upon finalization of the terms of the corrective action plan, the implementation of that plan shall be completed by the concerned bank within 30 days (if the CAP is Rectification) and within 90 days (if the CAP is restructuring). In case recovery is considered as CAP, the recovery measures should be initiated at the earliest.

Where an application has been admitted by the Committee in respect of an MSME, the enterprise shall continue to perform contracts essential to its survival, but the Committee may impose such restrictions, as it may deem fit, for future revival of the enterprise.

The Committee shall make suitable provisions for payment of tax or any other statutory dues in the corrective action plan and the enterprise shall take necessary steps to submit such plan to the concerned taxation or statutory authority and obtain approval of such payment plan.

23. Corrective Action Plan by the Committee:

The Committee may explore various options to resolve the stress in the account. The Committee shall not endeavor to encourage a particular resolution option and may decide the CAP as per the specific requirements and position of each case. While Techno-Economic viability of each account is to be decided by the concerned lender/s before considering restructuring as CAPs, for accounts with aggregate exposure of Rs.10 crore and above, the Committee should conduct a detailed Techno-Economic Viability study before finalizing the CAP.

During the period of operation of CAP, the enterprise shall be allowed to avail both secured and unsecured credit for its business operations as envisaged under the terms of CAP.

The options under CAP by the Committee may include:

(a) Rectification:

Obtaining a commitment, specifying actions and timelines, from the borrower to regularize the account so that the account comes out of Special Mention

Account status or does not slip into the Non-Performing Asset category and the commitment should be supported with identifiable cash flows within the required time period and without involving any loss or sacrifice on the part of the existing lenders. The rectification process should primarily be borrower driven. However, the Committee may also consider providing need based additional finance to the borrower, if considered necessary, as part of the rectification process. It should however be ensured that this need based additional finance is intended only for meeting, in exceptional cases, unavoidable increased working capital requirement. In all cases of additional finance for working capital, any diversion of funds will render the account as NPA. Further, such additional finance should ordinarily be an ad-hoc facility to be repaid or regularized within a maximum period of six months. Additional finance for any other purpose, as also any roll-over of existing facilities, or funding not in compliance with the above conditions, will be tantamount to restructuring. Further, repeated rectification with funding, within the space of one year, will be treated as a restructuring and no additional finance should be sanctioned under CAP, in cases where the account has been reported as fraud by any lender.

(b) Restructuring:

Consider the possibility of restructuring the account, if it is prima facie viable and the borrower is not a wilful defaulter, i.e., there is no diversion of funds, fraud or malfeasance, etc. Commitment from promoters for extending their personal guarantee along with their net worth statement supported by copies of legal titles to assets may be obtained along with a declaration that they would not undertake any transaction that would alienate assets without the permission of the Committee. Any deviation from the commitment by the borrowers affecting the security or recoverability of the loan may be treated as a valid factor for initiating recovery process. The lenders in the Committee may sign an Inter-Creditor Agreement and require the borrower to sign the Debtor-Creditor Agreement which would provide the legal basis for any restructuring process. Further, a stand-still clause (as defined in extant guidelines on Restructuring of Advances) may be stipulated in the Debtor-Creditor Agreement to enable a smooth process of restructuring. The stand-still clause does not mean that the borrower is precluded from making payments to the lenders. The Inter-Creditor Agreement may also stipulate that both secured and unsecured creditors need to agree to the final resolution.

(c) Recovery:

Once the first two options at (a) and (b) above are seen as not feasible, due recovery process may be resorted to. The Committee may decide the best

recovery process to be followed, among the various legal and other recovery options available, with a view to optimizing the efforts and results.

The decisions agreed upon by a majority of the creditors (75% by value and 50% by number) in the Committee would be considered as the basis for proceeding with the restructuring of the account and will be binding on all lenders under the terms of the Inter-Creditor Agreement. If the Committee decides to proceed with recovery, the minimum criteria for binding decision, if any, under any relevant laws or Acts shall be applicable.

24. Timelines:

Detailed timelines are given for carrying out various activities under the Framework. If the Committee is not able to decide on CAP and restructuring package due to non-availability of information on statutory dues of the borrower, the Committee may take additional time not exceeding 30 days for deciding CAP and preparing the restructuring package. However, they should not wait beyond this period and proceed with CAP.

25. Additional Finance:

If the Committee decides that the enterprise requires financial resources to restructure or revive, it may draw up a plan for provision of such finance. Any additional finance should be matched by contribution by the promoters in appropriate proportion, and this should not be less than the proportion at the time of original sanction of loans. Additional funding provided under restructuring / rectification as part of the CAP will have priority in repayment over repayment of existing debts. Therefore, installments of the additional funding which fall due for repayment will have priority over the repayment obligations of the existing debt.

If the existing promoters are not in a position to bring in additional funds the Committee may allow the enterprise to raise secured or unsecured loans.

Provided further, that the Committee may, with the consent of all creditors recognized, provide such loans higher priority than any existing debt.

If the Committee decides on options of either 'Rectification' or 'Restructuring', but the account fails to perform as per the agreed terms under these options, the Committee shall initiate recovery.

26. Restructuring by the Committee:

Eligibility:

(a) Restructuring cases shall be taken up by the Committee only in respect of assets reported as Standard, Special Mention Account or Sub-Standard by one or more lenders of the Committee.

(b) However, the Committee may consider restructuring of the debt, where the account is doubtful with one or two lender/s but it is Standard or Sub-Standard in the books of majority of other lenders (by value).

(c) Wilful defaulters shall not be eligible for restructuring. However, the Committee may review the reasons for classification of the borrower as a wilful defaulter and satisfy itself that the borrower is in a position to rectify the wilful default. The decision to restructure such cases shall be considered on a merit basis by the committee.

(d) Cases of Frauds and Malfeasance remain ineligible for restructuring. However, in cases of fraud / malfeasance where the existing promoters are replaced by new promoters and the borrower company is totally delinked from such erstwhile promoters / management, banks and the Committee may take a view on restructuring of such accounts based on their viability, without prejudice to the continuance of criminal action against the erstwhile promoters / management. Further, such accounts may also be eligible for asset classification benefits available on refinancing after change in ownership, if such change in ownership is carried out under guidelines contained in circular DBR.BP.BC.No.41/21.04.048/2015-16 dated September 24, 2015 on "Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)".

Viability:

a) The viability of the account shall be determined by the Committee based on acceptable viability benchmarks determined by them.

b) The parameters may, inter-alia, include the Debt Equity Ratio, Debt Service Coverage Ratio, Liquidity or Current Ratio, etc.

Conditions relating to Restructuring under the Framework:

1. Under this Framework, the restructuring package shall stipulate the timeline during which certain viability milestones such as improvement in certain financial ratios after a period of **6 months** may be achieved.
2. The Committee shall periodically review the account for achievement / non-achievement of milestones and shall consider initiating suitable measures including recovery measures as deemed appropriate.
3. Any restructuring under this Framework shall be completed within the specified time periods.
4. The Committee shall optimally utilize the specified time periods so that the aggregate time limit is not breached under any mode of restructuring.
5. If the Committee takes a shorter time for an activity as against the prescribed limit, then it can have the discretion to utilize the saved time for other activities provided the aggregate time limit is not breached.
6. The general principle of restructuring shall be that the stakeholders bear the first loss of the enterprise rather than the lenders. In the case of a company, the Committee may consider the following options, when a loan is restructured:
 - (a) Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices.
 - (b) Promoters infusing more equity into their companies.
 - (c) Transfer of the promoters' holdings to a security trustee or an escrow arrangement till turnaround of enterprise to enable a change in management control, if lenders favor it.
7. 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 Techno-Economic Viability study, the account is likely to become viable on hiving off of non-core activities and other assets.
8. For restructuring of dues in respect of listed companies, lenders may be, ab-initio, compensated for their loss or sacrifice (diminution in fair value of account in net present value terms) by way of issuance of equities of the company upfront, subject to the extant regulations and statutory requirements.

9. If the lenders' sacrifice is not fully compensated by way of issuance of equities, the right of recompense clause may be incorporated to the extent of shortfall.
10. In order to distinguish the differential security interest available to secured lenders, partially secured lenders and unsecured lenders, the Committee may consider various options, such as:
 - (a) Prior agreement in the Inter-Creditor Agreement among the above classes of lenders regarding repayments.
 - (b) A structured agreement stipulating priority of secured creditors.
 - (c) Appropriation of repayment proceeds among secured, partially secured and unsecured lenders in certain pre-agreed proportion.
11. The Committee shall, on request by the enterprise or any creditor, provide information relating to the proceeding as requested by the enterprise or such creditor.

Prudential Norms on Asset Classification and Provisioning:

The extant asset classification and provisioning norms will be applicable for restructuring of accounts under this Framework.

Review:

- (1) In case the Committee decides that recovery action is to be initiated against an enterprise, such enterprise may request for a review of the decision by the Committee within a period of **ten working days** from the date of receipt of the decision of the Committee.
- (2) The request for review shall be on the following grounds:
 - (a) A mistake or error apparent on the face of the record or
 - (b) Discovery of new and relevant fact or information which could not be produced before the Committee earlier despite the exercise of due diligence by the enterprise.
- (3) A review application shall be decided by the Committee within a period of **thirty days** from the date of filing and if as a consequence of such review, the Committee decides to pursue a fresh corrective action plan, it may do so.

27. SMA-0 Signs of Stress:

The illustrative list of signs of stress for categorizing an account as SMA-0 is given below:

1. Delay of 90 days or more in (a) submission of stock statement / other stipulated operating control statements or (b) credit monitoring or financial statements or (c) non-renewal of facilities based on audited financials.
2. Actual sales / operating profits falling short of projections accepted for loan sanction by 40% or more; or a single event of non-cooperation / prevention from conduct of stock audits by banks; or reduction of Drawing Power (DP) by 20% or more after a stock audit; or evidence of diversion of funds for unapproved purpose; or drop in internal risk rating by 2 or more notches in a single review.
3. Return of 3 or more cheques (or electronic debit instructions) issued by borrowers in 30 days on grounds of non-availability of balance/DP in the account or return of 3 or more bills / cheques discounted or sent under collection by the borrower.
4. Devolvement of Deferred Payment Guarantee (DPG) installments or Letters of Credit (LCs) or invocation of Bank Guarantees (BGs) and its non-payment within 30 days.
5. Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other terms and conditions of sanction.
6. Increase in frequency of overdrafts in current accounts.
7. The borrower reporting stress in the business and financials.
8. Promoter(s) pledging/selling their shares in the borrower company due to financial stress.

Part C - Pre - Packed Corporate Insolvency (PPCI) for MSMEs

The Central Government has vide the Ordinance introduced a pre-packaged insolvency process for MSMEs. The Ordinance provides for a new Chapter III-A in the Insolvency and Bankruptcy Code, 2016 ("**IBC**") which provides for a pre-packaged insolvency resolution process. It is important to note that the pre-packaged insolvency process under Chapter III-A can only be availed off by corporate debtors falling within the ambit of the definition of "MSME" under the Micro, Small and Medium Enterprises Development Act, 2006.

28.Salient Features:

- a) Available only for MSME Company or Limited Liability Partnership (LLP) in default minimum of Rs.10 lakh.
- b) Available only if the MSME Company or LLP who have not undergone Pre-packed/ Regular Insolvency during the previous 3 years; not already undergoing Regular Insolvency and not already ordered to be liquidated.
- c) If application for regular insolvency is pending on 4.4.2021 then also application for PPCI could be filed and the application for PPCI so filed to be dealt with first by National Company Law Tribunal (NCLT).
- d) If application for regular insolvency is filed after 4.4.2021 then the application for PPCI could be filed within 14 days from and the application for PPCI so filed to be dealt with first by NCLT.
- e) MSME company or LLP can initiate by majority of directors/ partners with special resolution/ 3/4th partners majority resolution and approval of financial creditors (other than related parties) minimum 66% in value and minimum number as may be notified.
- f) A financial creditor before approving request of a MSME for PPCI, to see the declaration of directors/ partners, special resolution/ 3/4th partners majority resolution and Base Resolution Plan (BRP).
- g) Application for PPCI has to name a Resolution Professional (RP).
- h) Application for PPCI to be filed with the Adjudicating Authority (AA), with NCLT.
- i) Moratorium starts on AA admitting the application and declaring it (Commencement Date) and to continue till approval/ rejection of Resolution Plan by AA.
- j) MSME to provide a Base Resolution Plan to RP within 2 days from Commencement Date.
- k) RP to submit the Resolution Plan approved by Committee of Creditors (CoC) to AA within 90 days from the Commencement Date or inform AA to terminate the PPCI.
- l) If CoC does not approve BRP, then RP to invite Resolution Applicants (RA) to submit resolution plans and submit the same to CoC for approval.
- m) CoC can approve one of the resolution plans or reject all.
- n) If CoC approves a resolution plan, the RP to submit it to AA.

- o) If CoC does not approve any resolution plan/ nor finds BRP competitive, then RP to file with AA for termination of PPCI.
- p) CoC before approval of resolution plan by 66% voting majority can decide to go for regular insolvency if eligible.
- q) During PPIC the management of the MSME to continue with its Board/ Partners. However, CoC can in certain circumstances and with 66% voting shares resolve for management to be with RP.

The policy shall be reviewed on an annual basis or in the interim as and when there is a change in regulatory stance. The loan policy for MSME sector will operate as part of Credit Policy of the Bank and subject to guidelines / instructions issued by regulatory authorities / RBI / Government of India from time to time.

Part D - MSME Sustainable (ZED) Certification Scheme

29. MSME Sustainable (ZED) Certification Scheme:

Government of India through Ministry of Micro, Small & Medium Enterprises has envisioned Zero Defect & Zero Effect (ZED) initiative to enhance MSME competitiveness, make them sustainable and transform them as National and International Champions.

The Zero Defect Zero Effect (ZED) Certification Scheme is formulated to encourage and enable MSMEs for manufacturing of quality products using latest technology, tools & to constantly upgrade their processes for achievement of high quality and high productivity with the least effect on the environment.

MSME Sustainable (ZED) Certification can be attained in THREE Levels after registering with ZED digital platform (www.zed.msme.gov.in). There are 20 assessment parameters for obtaining ZED certification. The minimum parameters required is 5 for Bronze, 14 for Silver and 20 for Gold.

The financial support for ZED Certified MSMEs are as below:

S.No	Certification Level	Concession from Applicable Rate	
		ROI %	Processing Fee
1	Level 1: Bronze	0.20%	0.10
2	Level 2: Silver	0.30%	0.20
3	Level 3: Gold	0.40%	0.30
