ANNEXURE

FRAMEWORK FOR REVIVAL AND REHABILITATION OF MICRO, SMALL AND MEDIUM ENTERPRISES

1. Objective

Timely detection of stress is critical for any enterprise, as any delay in action may impinge on the revival prospects of the potentially viable enterprise. This framework is being laid down to ensure that the Bank follows a speedy process of **revival and rehabilitation of MSMEs having loan limits up to Rs.25 crore*** and to facilitate the promotion and development of MSMEs. Non-MSME accounts will be governed by the standard stipulations as contained in the LP and CCRP. This framework specifies the treatment of MSME accounts in the local books (DBS India books). For group books, group guidelines in this respect will apply.

2. Definitions

2.1 Micro & Small Enterprises

2.1.1 Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

- A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakhs;
- A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakhs but does not exceed Rs. 5 crores
- A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs. 5 crores but does not exceed Rs. 10 crores

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O. 1722(E) dated October 5, 2006.

2.1.2 Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below.

- A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakhs;
- A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crores
- A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crores but does not exceed Rs. 5 crores

3. Framework for Revival/Rehabilitation

3.1 Eligibility:

MSMEs having loan limits up to Rs.25 crore (total banking exposure), including accounts under consortium or multiple banking arrangement (MBA).

3.2 Identification of Incipient Stress:

An account can be identified as 'stressed' by any of the following:

3.2.1 Identification by our Bank's internal monitoring mechanism – Accounts are identified as stressed in accordance with the Board approved note on RBI's framework on early recognition of distressed assets by classifying them in to three sub-categories under the Special Mention Account (SMA) category.

Accounts may also be identified as stressed by our Bank's Early Warning team using the various assessment/monitoring tools.

3.2.2 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 our Bank;

Based on the identification of incipient stress in any account, the account will be placed before the Committee (as defined in point c below) for a suitable corrective action plan (CAP).

3.3 Committee for Stressed MSMEs

In order to enable faster resolution of stress in an MSME account, a standard committee is proposed to be set up.

3.3.1 The Committee shall constitute the following as members:

- **SME India Business Head** shall be the Chairperson of the Committee;
- **SME India Risk Head/**Head Underwriter, shall be the member and convener of the Committee;
- One independent external expert with expertise in MSME related matters (to be identified/nominated by the bank)

In case of accounts under consortium / MBA, the consortium leader, or the bank having the largest exposure to the borrower under MBA, 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. Lead lender on behalf of its committee will also coordinate between the different lenders. Lenders should sign an Inter-Creditor Agreement (ICA) on the lines of Joint Lenders' Forum (JLF) Agreement. For accounts under consortium or MBA, Credit Head Underwriter or CRM (at VP level) or SAM (upon transfer of the account to SAM as set out in this policy) to represent our Bank.

3.3.2 The EW team will be a part of the committee meetings and their responsibilities under this framework include:

- Ensuring timely action prescribed under this framework (specified under point 'd' below) is adhered to.
- Ensuring minutes of the Committee meetings are maintained and circulated.

3.4 Rehab Process

3.4.1 Identify incipient sickness (as mentioned in point 3.2 above)

3.4.2 On the basis of the early warning signals and the information available, a resolution plan or suggested recovery measures will be placed before the Committee as a corrective action plan (CAP).

An application for corrective action plan tabled at the Committee needs to include the following details:

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

3.4.3 Where an application for CAP is filed by a bank / lender, the Committee shall notify the concerned enterprise about such application within five working days. The enterprise is required 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.

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

3.4.4 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 CAP and notify the enterprise about such a decision, within five working days from the date of such decision.

3.4.5 If the CAP decided by the Committee envisages restructuring of the debt of the enterprise, the Committee shall conduct the detailed Techno-Economic Viability (TEV) study and finalise the terms of such a restructuring in line with the Bank's internal policies and guidelines, 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**.

3.4.6 Upon finalisation of the terms of the CAP, the implementation of that plan shall be completed 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 and the account to be transferred to SAM team.

3.5 The options under CAP by the Committee may include:

3.5.1 Rectification: **–** It includes obtaining a commitment, specifying actions and timelines, from the borrower to regularise the account so that the account comes out of Special Mention Account status or does not slip into the NPL category. The commitment should be supported with identifiable cash flows within the required time period and without involving any loss for our Bank. The rectification process should primarily be borrower driven.

As part of the rectification, need based additional finance for working capital may be extended. The decision on additional funding to the enterprises will be decided based on our assessment of their business viability and only if the Bank is of the view that this additional funding will help revive/strengthen the business and in effect will improve the Banks' recovery prospects.

The following points to be noted when additional finance is provided:

- In all cases of additional finance for working capital, any diversion of funds will render the account as NPA.
- Additional finance should ordinarily be an ad-hoc facility to be repaid or regularised 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 tantamount to restructuring.
- 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.

3.5.2 Restructuring: – An account may be considered for restructuring if:

- The account is found viable and if the borrower is not a wilful defaulter.
- The promoters are willing to extending their personal guarantee along with their net worth statement supported by copies of legal titles to assets
- The promoters provide a declaration that they would not undertake any transaction that would alienate assets without the permission of the Committee

The lenders in the Committee may sign an Inter-Creditor Agreement and also require the borrower to sign the Debtor-Creditor Agreement which would provide the legal basis for 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

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.

In case of restructuring, the account may be categorized as sub-standard and provisions to be made as per IRAC norms. In such cases, as per DBS India policy, the account will be transferred to SAM team.

3.5.3 Recovery: – If either rectification or restructuring of an account is not feasible, due recovery process may be resorted to in line with our Bank's NPL Policy.

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. If the rehabilitation fails, the Bank may offer a one-time settlement to the borrower, in accordance with our Bank's NPL policy.
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.

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

3.5.4 One Time Settlement*:* If the Committee decides to offer a One Time Settlement, DBS India NPL policy guidelines are to be followed.

The banks will take decision in cases where units have done a fraud or malfeasance, without following the above procedure. The justification for such act will need to be recorded properly.

3.5.5 Monitoring:

Identification of an account requiring 'rectification/restructuring' will be the responsibility of the RM/CRM/EW Manager. Once an account is identified as above, it will be overseen by the SME Early Warning team. This team will be responsible for monitoring of the units / conducting viability study, follow-up action, etc. for timely rehabilitation of viable / potentially viable MSME units. The progress will be monitored on a quarterly basis.

Note: Other issues and aspects not covered in this policy will be governed by IRAC norms and RBI circulars issued from time to time and DBS Internal Group Policies like CCRP, Watchlist Credits Identification and Review Standards.