DEBT RESTRUCTURING SCHEME FOR SMALL AND MEDIUM ENTERPRISES (SMEs)

RBI has issued guidelines vide its circular no. DBOD:BP:BC.No.34/21.04.132/2005-06 dated September 6, 2005 for restructuring of debt of all eligible small and medium enterprises, at terms which are, at least as favorable as CDR mechanism in the banking sector. As per the said RBI guidelines, each bank is required to place its own debt restructuring scheme for SMEs to the Board. Accordingly, Exim Bank’s Board of Directors at its meeting held on January 21, 2006 has approved the following debt restructuring scheme for SMEs.

SME : DEFINITION

1. For the purpose of qualifying under the scheme, SMEs will be as defined in RBI Circular No.RPCD.PLFNS.BC.31/06.02.31/2005-06 dated August 19, 2005, which is reproduced below:

‘At present, 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 crores. A comprehensive legislation, which would enable the paradigm shift from small scale industry to small and medium enterprises is under consideration of the Parliament. Pending enactment of the above legislation, current SSI/tiny industries definition may continue. Units with investment in plant and machinery in excess of SSI limit and up to Rs. 10 crores may be treated as Medium Enterprises (ME).’
ELIGIBILITY CRITERIA

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

- All non-corporate SMEs irrespective of the level of dues to banks.

- All corporate SMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.

- All corporate SMEs, which have funded and non-funded outstanding upto Rs.10 crore under multiple/consortium banking arrangement.

- Accounts involving willful default, fraud and malfeasance will not be eligible for restructuring under these guidelines.

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

- In respect of BIFR cases, the Bank will ensure completion of all formalities in seeking approval from BIFR before implementation of the package.

VIABILITY CRITERIA

3. The unit must become viable in 7 years and the repayment period for restructured debt will not exceed 10 years. For this purpose, all eligible units will comply with the following subject to any relaxation that may be considered by Bank’s Committee of Executives (COE) or by Board/MC (if the original sanction was accorded by Board/MC) depending on the merits of the case:
i. Debt Service Coverage Ratio (DSCR): Should have average DSCR of more than 1.25, and more than 1.00 in any year of the projected period.

ii. The break-even analysis should be carried out, and operating and cash breakeven points should be worked out.

iii. The company’s past performance for 3-5 years and future projections for the period of proposed repayment would be examined.

iv. Promoters’ sacrifice and additional funds to be brought by them should be a minimum of 15% of creditors’ sacrifice.

**PRUDENTIAL NORMS FOR RESTRUCTURED ACCOUNTS**

4. Treatment of ‘standard’ accounts subjected to restructuring:

a) A rescheduling of the instalments 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 may not be made applicable in cases where outstanding is up to Rs.5.00 lakh, since the collateral requirement for loans upto Rs.5.00 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 sacrifice involved.

In cases 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.
5. Treatment of ‘sub-standard’ / ‘doubtful’ accounts subjected to restructuring:

a) A rescheduling of the instalments of principal alone, would render a ‘sub-standard’ / ‘doubtful’ asset eligible to continue in the ‘sub-standard’ / ‘doubtful’ category for 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.) 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 outstanding is upto Rs.5.00 lakh, since the collateral requirement for loans upto Rs.5.00 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 the ‘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 sacrifice involved.

c) Even in cases where the sacrifice is by way of write off of the past interest dues, the asset should continue to be treated as ‘sub-standard’ / ‘doubtful’.

6. The rehabilitation package will comprise restructuring of present dues to the Bank and sanction of additional credit facilities, if required. Such additional finance will be treated as ‘standard asset’ in all accounts 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 upgradation at the end of the above period, additional finance shall be placed in the same asset classification category as the restructured debt.
UPGRADATION OF RESTRUCTURED ACCOUNTS

7. The sub-standard/doubtful accounts at para 5 (a) & (b) above, which have been subjected to restructuring, whether in respect of principal instalment 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.

ASSET CLASSIFICATION STATUS

8. 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 as per the applicable prudential norms with reference to the pre-restructuring payment schedule. The asset classification would be bank-specific based on record of recovery of each bank, as per the existing prudential norms applicable to banks.

REPEATED RESTRUCTURING

9. The special dispensation for asset classification as available in terms of paragraphs 4, 5, 6 & 7 above, shall be available only when the account is restructured for the first time.

10. PROCEDURE

a) The borrowers shall submit a request to Exim Bank for restructuring his account in terms of RBI Debt Restructuring Scheme for Small and Medium Enterprises (SMEs).

b) In case of eligible SMEs which are under consortium / multiple banking arrangements, the borrower will submit his request to the bank having the maximum outstanding.
However, the restructuring package will be worked out with the consent of the bank having the second largest share.

c) All requests received by the Bank will be scrutinised to ensure that these are prima facie in order and are eligible for consideration as per the prescribed criteria.

d) All proposals for restructuring will be submitted to COE or to the Board/MC, if the original sanction was accorded by Board/MC.

e) After receipt of sanction, necessary documentation will be done for implementing the restructuring package.

f) The whole process will be completed within 60 days of the receipt of the application.

**RELIEFS & CONCESSIONS**

11. Exim Bank may at its own discretion consider concessionary interest rate for restructuring package subject to a minimum of 2% below Bank’s PLR(BPLR). However, additional finance, if any, will be given at BPLR.

**REVIEW**

12. COE will review the progress in rehabilitation and restructuring of SME accounts on a quarterly basis and the Board will be informed on half-yearly basis.

**DISCLOSURE**

13. The Debt Restructuring Scheme for SMEs is being displayed on the Bank’s website and a copy of scheme is also being forwarded to SIDBI for placing on their website. The necessary disclosures in the published annual Balance Sheet of the Bank, under “Notes on Accounts”, will be done, as under:
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.