



TELANGANA GRAMEENA BANK

(Sponsored by State Bank of Hyderabad)
Head Office, # 2-1-520, 2nd Floor, Vijayasri Sai Celestia, Street No.9
Shankermutt Road, Nallakunta, Hyderabad, Telangana. -500 044.

Website : www.tgbhyd.com

Phone: 040-27605361
FAX: 040-27662623

POLICY ON REHABILITATION OF MICRO AND SMALL ENTERPRISES

1. BACK GROUND :

Micro and Small Enterprises (MSE) sector is of vital importance in any developing economy. In India it constitutes an important and crucial segment of the industrial sector in increasing employment opportunities and laying strong foundation for medium and large Industry. This has been recognized and acknowledged by Government of India and accorded high priority to this sector. Majority of these enterprises are floated by, first generation entrepreneurs with or without experience and relatively small capital. Several internal and external factors like competition from other market players, requirement of additional capital, industrial down trend, etc. have put considerable pressure on the performance of these units. These factors have resulted in a number of them became sick.

The recent global slowdown has also adversely impacted the Indian economy in general and more specifically the Micro and Small Enterprises (MSEs). The MSEs suffer the most in such adverse situations and are unable to bear the brunt and become sick quickly. With the increase in number of sick units over the last few years, the rehabilitation of these units has now become a major challenge for banks. Reserve Bank of India analyzed the situation and concluded that the identification of sickness in MSE enterprises is so late that the possibilities of revival recede. In recognition of the problems being faced by the Micro and Small Enterprises (MSE) particularly with respect to rehabilitation of potentially viable sick units, the RBI constituted a Working Group under the chairmanship of Dr. K.C. Chakrabarty with a view to hasten the process of identification of unit as sick. The working group recommended a change in the definition of sickness and procedure for

assessing the viability of sick MSE Units. Based on the recommendations of the group and RBI Guidelines in this regard, our bank has framed a policy on rehabilitation of Micro and Small Enterprises

2. ELIGIBILITY CRITERIA:

These guidelines would be applicable for the following entities, which are viable or potentially viable MSE units.

2.1 All MSE enterprises which are enjoying credit facilities as defined in terms of investment in Plant & Machinery and Equipment under MSMED Act. 2006, irrespective of their loan amount under sole / multiple / consortium banking arrangement

2.2 Borrowers/Units ineligible for Rehabilitation.

- i. Deliberate non-payment of the dues despite adequate cash flow and good net worth.
- ii. Siphoning off of funds to the detriment of the defaulting unit
- iii. Assets financed have either not been purchased or have been sold and proceeds have been misused
- iv. Misrepresentation / falsification of records / false declarations etc.
- v. Disposal/removal of securities without bank's knowledge
- vi. Fraudulent transactions by the borrower and
- vii. Accounts classified as loss assets by the Bank
- viii. Diverting funds / Capital to Associates and Sister Concerns

3. IDENTIFICATION OF POTENTIALLY VIABLE SICK UNITS.

3.1 Definition of "incipient Sickness" or "Hand Holding Stage"

An account may be treated to have reached the 'handholding stage'; if any of the following events are triggered:

- a. There is delay in commencement of commercial production by more than six months for reasons beyond the control of the promoters.
- b. The company incurs losses for two years or cash loss for one year, beyond

the accepted timeframe as per the project economics.

- c. The capacity utilization is less than 50% of the projected level in terms of quantity or the sales are less than 50% of the projected level in terms of value during a year.

3.2 DEFINITION OF SICK UNIT.

A Micro or Small Enterprise (as defined in the MSMED Act 2006) may be said to have become Sick, if,

- a. Any of the borrowal account of the enterprise remains NPA for three months or more

OR

- b. 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

3.3 POTENTIAL VIABILITY ASSESSMENT

More detailed Techno Economic Viability (TEV) study of the unit may be undertaken in respect of units with limits of Rs. 25.00 lacs and above which shall form the basis of any rehabilitation plan. In respect of units with less than Rs. 25.00lacs limits, the detailed TEV study is not required and a simple rehabilitation plan may be worked out with justification, by the Branch / Controlling office in consultation with the borrower.

3.4 PROCEDURE TO BE FOLLOWED AFTER IDENTIFYING THE UNIT AS NON-VIABLE.

The declaration of the unit as non-viable, as evidenced by the viability study, should have the approval of the next higher authority/ present sanctioning authority (not less than the level of Chief Manager) for both micro and small units. In case such a unit is declared non-viable, an opportunity should be given to the unit to present the case before the next higher authority. The next higher authority should take such decision only after giving an opportunity to the promoters of the unit to present their case. For sick units declared non-viable, with exposure of Rs.1 crore and above, a Committee approach may be adopted. The Committee approach will improve the quality of decision as collective wisdom of the members shall be utilized, especially while taking decision on rehabilitation proposals. Decision of the above higher authority should be informed to the promoters in writing.

4. IMPLEMENTATION OF REHABILITATION PACKAGE.

4.1 Accounts identified at “incipient sickness” or “handholding stage”, the branches should take timely remedial action which includes an enquiry into the operations of the unit and proper scrutiny of accounts, providing guidance/counseling services, timely financial assistance as per established need and also helping the unit in sorting out difficulties which are non-financial in nature or requiring assistance from other agencies.

4.2 Potentially viable sick units may be assisted with rescheduling / rephasing of terms of payment with regard to the interest rate / margin / security etc., depending up on the merits in each case. However, such rescheduling /rephasing can upgrade the assets only after one year of satisfactory compliance of the revised terms of payment and subject to RBI guidelines from time to time. The accounts must be tracked right from SMA - I stage and efforts should be to implement the rehabilitation measures during SMA stage in deserving cases. Such approach will assist in avoiding slippage of accounts in NPA category.

4.3 The rehabilitation / restructuring option will be examined in cases where there is a “*prima facie*” scope for restoring viability of the business. No rehabilitation proposals may ordinarily be considered while outlook for the concerned industry has been advised as Negative / Moderately Negative Outlook, by Risk Management Dept. For MSE Units with borrowing facilities as defined in terms of investment in Plant & Machinery and Equipment under MSMED Act. 2006, irrespective of their loan amount, restructuring / rehabilitation is to be done as per Bank’s laid down procedure. The procedure for restructuring / rehabilitation is in tune with the “Loan recovery policy” of the Bank and subject to RBI guidelines from time to time.

5. TIME NORMS FOR IMPLEMENTATION OF REHABILITATION PACKAGE.

5.1 In order to ensure timeliness for banks for taking remedial action/measures in ‘hand holding stage’, the handholding support to such units should be undertaken within a maximum period of two months of identification of such units. This has to be planned simultaneously or preferably within 7 days from the date of identifying the account as SMA.

5.2 The decision on viability of the unit should be taken at the earliest but not later than 3 months of becoming sick under any circumstances.

5.3 The rehabilitation package should be implemented speedily in a time bound manner. The rehabilitation package should be fully implemented within six months from the date the unit is declared as 'potentially viable' / 'viable'.

5.4 The declaration of the unit as unviable, as evidenced by the viability study, should have the approval of the next higher authority/ present sanctioning authority for both micro and small units. The next higher authority should take such decision only after giving an opportunity to the promoters of the unit to present their case. Decision of the above higher authority should be informed to the promoters in writing. The above process should be completed in a time bound manner not later than 3 months.

6. DOCUMENTS TO BE SUBMITTED BY THE BORROWER FOR REHABILITATION

- i. Copies of the audited balance sheet and profit and loss account of the borrower for the last three years and projected financials for next 3 to 5 years.
- ii. Provisional data for current year
- 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 period
- v. TEV study reports for limits more than Rs. 25.00 lacs
- vi. Statement showing identification of the sources in case of additional capital in requirement.
- vii. Application by the proprietor / Managing Partner / promoter / Director for rehabilitation of the unit.

7. RESPONSIBILITIES OF BORROWERS

The borrower has some basic responsibilities for making the rehabilitation successful,

- i. Intimate the branch immediately on facing funds crunch, pile up of finished goods or non availability of raw material or any other problem, so that corrective action is taken immediately.
- ii. Be transparent while compiling financial statements or reporting to the Bank / General Public.
- iii. Willingness to implement action / corrective measures strictly and invest additional capital if necessary, energy and time in the process of rehabilitation.
- iv. Borrower (Promoter) has to bring additional funds of minimum of 25% of bank's sacrifice.

8. DOCUMENTATION TO BE OBTAINED BY BRANCH IN CASE OF REPHASEMENT:

Where the repayment schedule stipulated for a Term loan as per the original sanction is rephrased subsequently, no further documents will be required to be obtained in as much as the documents already obtained will cover in themselves such rephasing of repayment schedule. It will be only necessary to address a Letter of Arrangement, in duplicate as per SME - 1 (suitably modified) advising the Borrower(s) of the rephasing of the repayment schedule, with a copy thereof endorsed to the Guarantor(s) (Where the Term Loan is additionally secured by a Third Party Guarantee), and the originals of the Letter of Arrangement and the endorsement duly signed respectively by the Borrower(s) and Guarantor(s) should be received back and kept along with the original documents. The rephasing of the repayment schedule, elongating the repayment period and adding to the ultimate amount repayable to the bank on account of the additional interest liability, will amount to a material change in the original Agreement of Loan-cum-Hypothecation. Where the Borrower(s) is a Limited Company, the particulars of the modification of charge should be filed with the Registrar of Companies in Form No. 8 and 13 (as prescribed by the Companies Act) along with a copy of the Letter of arrangement, within 30 days from the date of modification of charge i.e., from the date of signing of the Letter of Arrangement by the Borrower(s), without fail, even though the endorsement of the Letter from the Guarantor(s) is not received in time.