

CAB Training Cards



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Salient Features of the Framework for Revival and Rehabilitation of MSMEs

A Gazette Notification issued by the Ministry of MSME, GOI dated May 2015 is the Framework's foundation. The objectives of the framework are (i) to provide a simpler and faster mechanism to address incipient stress in MSME accounts; and (ii) to facilitate the promotion and development of MSMEs.

MSME accounts with loan limits up to ₹ 25 crore are covered under the framework. Both sole banking and multiple banking arrangements are covered.

Salient Features of the Framework

Identification of Incipient Stress

Objective: to identify MSMEs in stress even before they become NPA. This can be done by the bank/ the entrepreneur. An enterprise is stressed when

- Failure in the business is anticipated; or
- Inability to pay debts – actual or likely; or
- Accumulated losses erode at least 50% of the Net Worth

Banks can identify such an account if a scheduled payment does not come through. There are 3 categories:

- Overdue for up to 30 days (SMA – 0)
- Overdue between 31-60 days (SMA – 1)
- Overdue between 61-90 days (SMA – 2)

Additionally, an indicative list of 'signs of stress' has been provided in the Framework.

(a) Committee Approach

Banks were asked to set up Committees at district/divisional/Regional Office level for deciding on

the course of action for the stressed MSMEs. Committees are headed by the regional/zonal head of the concerned bank. The member secretary is the MSME credit dept. head for the region/zone of the bank. An independent external expert, someone well-versed in MSME matters, and state government representative or, a retired executive of another bank (rank of AGM or above) are also members of the Committee. In multiple banking arrangements, senior representatives from all the lending banks must be members.

(b) Corrective Action Plan (CAP)

The committee decides on CAP. Small accounts (up to ₹10 lakh) need not be referred to the Committee - the Branch Manager can decide of CAP, but if the CAP decided is recovery, then the cases must be referred to the Committee, even if the amount is less than ₹10 lakh. There are three options under CAP.

1. *Rectification*: Borrower must come up with a detailed, credible plan for rejuvenation. No sacrifice from the bank.
2. *Restructuring*: Involves changes in the structure of the loan (repayment schedule, margin, moratorium period, etc.). Only for *prima-facie* viable accounts, where the entrepreneur is not suspected of diversion/frauds/wilful default etc.
3. *Recovery*: Statutory and other methods may be pursued.

(c) Appeal

An entrepreneur can appeal to the Committee for reconsideration of its decision.

(e) Timelines

For each stage, there are definite timelines, to guard against delay.

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