DEBT RESTRUCTURING SCHEME (DRS) FOR SMALL AND MEDIUM ENTERPRISES (SMEs)

OBJECTIVE:

The objective of the DRS for SMEs is to ensure timely and transparent mechanism for restructuring the debts of potentially viable entities facing problems for the benefit of all concerned. In particular, the framework will aim at preserving viable SMEs that are affected by certain internal and external factors and minimise the losses to the creditors and other stakeholders through an orderly and coordinated restructuring program.

Default in a loan account occurs when interest or instalment payable is delayed and the repayment of principal is delayed or denied. In the event of default continuing beyond a specified period the accounts are to be treated as NPA and the IRAC norms apply. Default is a function of losses/other cash flow inefficiencies.

CASES WHICH CANNOT BE CONSIDERED UNDER SME-DRS:

This mechanism is applicable to all borrower who have funded and non-funded outstanding up to Rs. 10 crores under multiple/consortium banking arrangement. However cases involving frauds or diversion of funds with malafide intent will not be eligible for restructuring under this scheme. Accounts involving fraud and malfeasance will not be eligible for restructuring under this scheme. Accounts classified by banks as “Loss Assets” will not be eligible for restructuring.

TIME FRAME FOR APPROVAL OF PROPOSALS UNDER SME-DRS:

The Restructuring package will be worked out and implemented within 90 days from the date of receipt of request for restructuring from the borrower.

PROCEDURE:

Restructuring of the liabilities of the borrower by giving appropriate relief and concessions such as reduction in interest rate, funding of interest, conversion of interest / principal / other dues into equity/debentures or any other instruments, reschedulement of principal, waiver of dues etc., under RBI guidelines, would be used as a tool to improve the long-term viability of the borrower. Restructuring shall however be used selectively and without diluting the Bank’s focus on collections.

The following aspects would be taken into account while preparing a restructuring package:

1. The proposed restructuring would be based on the realistic projections for the borrower including the estimated cash flows in the future.
2. As far as possible, efforts would be made to ensure commensurate sacrifices from all the stakeholders including existing promoters.
3. Efforts would be made, wherever possible, to include the following covenants/conditions in the restructuring package:
    - Enhancement in security package and payment security mechanisms e.g., Trust & Retention (T&R)/escrow of cash flows of the borrower
    - Up-front trigger conditions, non-compliance of which would result into automatic change of management
    - Personal guarantees of the promoters
    - Appointment of professionals on the Board or as executives to strengthen the existing management

- Mechanism to capture the upside potential consequent to restructuring through equity, acceleration and recompense clauses
- Appointment of concurrent auditors
- Wherever considered necessary, the Bank would insist on
    - change of management and/or
    - pledge of promoter's stake subject to extant regulatory stipulations

4. Mechanism for monitoring the compliance of the conditions stipulated and the performance of the company post restructuring will be put in place. The milestones set will be reviewed quarterly. The report on restructuring will be placed to Board/Local Operating Committee quarterly.

REJECTION OF CASES UNDER SME-DRS:

If the restructuring were not found viable the bank would be free to take necessary steps for immediate recovery of dues.

Non-Discretionary One Time Settlement:

Bank does not encourage one time settlement. However for early recovery of small non performing loan one time settlement can be allowed by the Risk Manager with proper notification subject to total compromise being not more than Rs. 50 lakhs.