

All Members,

RBI allows for one-time restructuring of existing loans to MSMEs

Micro, Small and Medium Enterprises (MSMEs) form an important component of the Indian economy and contribute significantly to the country's GDP, exports, industrial output, employment generation, etc. Considering the importance of MSMEs in the Indian economy and to facilitate meaningful restructuring of MSME accounts that have become stressed, **RBI has decided to permit a one-time restructuring of existing loans to MSMEs that are in default but 'standard' as on January 1, 2019, without an asset classification downgrade.**

To be eligible for the scheme, the aggregate exposure, including non-fund based facilities of banks and NBFCs, to a borrower should not exceed ₹250 million as on January 1, 2019. The restructuring has to be implemented by March 31, 2020. A provision of 5% in addition to the provisions already held, shall be made in respect of accounts restructured under this scheme. As directed by RBI, each bank/NBFC should formulate a policy for this scheme with Board approval which shall, inter alia, include framework for viability assessment of the stressed accounts and regular monitoring of the restructured accounts.

Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances (Guidelines)

This is in reference to the circulars DBR.No.BP.BC.100/21.04.048/2017-18 dated February 07, 2018 and DBR.No.BP.BC.108/21.04.048/2017-18 dated June 6, 2018. In this regard, with a view to facilitate meaningful restructuring of MSME accounts {MSME as defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006} that have become stressed, it has been decided by RBI to permit a one-time restructuring of existing loans to MSMEs classified as 'standard' without a downgrade in the asset classification, subject to the following conditions:

- i. The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹250 million as on January 1, 2019.
- ii. The borrower's account is in default but is a 'standard asset' as on January 1, 2019 and continues to be classified as a 'standard asset' till the date of implementation of the restructuring.
- iii. The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration.

iv. The restructuring of the borrower account is implemented on or before March 31, 2020. A restructuring would be treated as implemented if the following conditions are met:

- all related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities are completed by all lenders; and
- the new capital structure and / or changes in the terms and conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.

v. A provision of 5% in addition to the provisions already held, shall be made in respect of accounts restructured under these instructions. Banks will, however, have the option of reversing such provisions at the end of the specified period, subject to the account demonstrating satisfactory performance during the specified period as defined at paragraph 5 below.

vi. Post-restructuring, NPA classification of these accounts shall be as per the extant IRAC norms. All other instructions applicable to restructuring of loans to MSME borrowers shall continue to be applicable.

- Banks and NBFCs desirous of adopting this scheme shall put in place a Board approved policy on restructuring of MSME advances under these instructions within a month from the date of this circular. The policy shall, inter alia, include framework for viability assessment of the stressed accounts and regular monitoring of the restructured accounts.
- It is clarified that accounts classified as NPA can be restructured; however, the extant asset classification norms governing restructuring of NPAs will continue to apply.
- As a general rule, barring the above one-time exception, any MSME account which is restructured must be downgraded to NPA upon restructuring and will slip into progressively lower asset classification and higher provisioning requirements as per extant IRAC norms. Such an account may be considered for upgradation to 'standard' only if it demonstrates satisfactory performance during the specified period.
- 'Specified Period' means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package. 'Satisfactory Performance' means no payment (interest and/or principal) shall remain overdue for a period of more than 30 days. In case of cash credit / overdraft account, satisfactory performance means that the outstanding in the account shall not be more than the sanctioned limit or drawing power, whichever is lower, for a period of more than 30 days.

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Warm Regards,
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