Restructuring/Rehabilitation Policy for revival of viable/potentially viable sick MSE Units/ enterprises for YES BANK customers

1. **Background**

1.1. MSE restructuring/rehabilitation policy of the Bank aims at a timely and transparent mechanism for restructuring the debts of potentially viable Micro & Small Enterprise (MSE) units facing problems and to maintain the economic value of assets. In particular, the framework would aim at preserving viable MSEs that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring/rehabilitation programme

1.2. Restructuring process would involve modification of terms of the advance/securities, which would generally include among others, alteration of repayment period/repayable amount/rate of interest (due to reasons other than competitive reasons) etc keeping in line with RBI communications on the said subject.

1.3. Rehabilitation would involve process to ensure that the Sick MSME Units become Viable. A unit would be considered as Sick, if

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

OR

2. There is erosion in the net worth due to accumulated losses to the extent of 50 per cent of its net worth during the previous accounting year

2. **Eligibility for Restructuring:**

2.1. The policy would be applicable to all MSE entities that are either viable or potentially viable

2.2. Accounts not eligible for Restructuring/Rehabilitation

a) Accounts involving **wilful default, fraud and malfeasance** will not be eligible for restructuring under the Policy

b) Accounts classified as "**Loss Assets**" will not be eligible for restructuring

3. **Broad Principles for Restructuring Advance**

3.1. The policy would be applicable to the MSE entities that are either viable or potentially viable:

3.2. The Bank would generally not reschedule / restructure / renegotiate the borrowal accounts with retrospective effect. Funding of unpaid interest will not be considered as retrospective restructuring

3.3. While a restructuring proposal is under consideration, the asset classification norms as per the extant RBI guidelines would continue to apply

3.4. Restructuring would be carried out with the formal consent or on the basis of request submitted by the Borrower.

3.5. Restructuring of advances can be permitted at the following stages:

a) Before commencement of commercial production/operation;

b) After commencement of commercial production/operation but before the asset has been classified as 'sub-standard'

c) After commencement of commercial production/operation and the asset has been classified as 'sub-standard' or 'doubtful'

3.6. Restructuring would be taken up only when the financial viability of the unit is established and there is a reasonable certainty of repayment from the borrower, as per the terms of the restructuring package.

4. **General Principles for Rehabilitation of sick MSEs**

4.1. The rehabilitation process would start when early sign of sickness are detected. This stage will be termed as Handholding Stage

4.2. 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;

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.

4.3. The Bank would undertake 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. The remedial action/measures will be undertaken within a maximum period of two months of identification of such units

4.4. The MSE units which could not be revived after intervention by bank at the 'handholding stage' will be classified as sick subject to complying with any one of the two conditions as laid down in Para 1.3 above and based on a viability study, the viable/potentially viable units will be provided rehabilitation package

4.5. The decision on viability of the unit will be taken at the earliest but normally not later than 3 months of becoming sick/receipt of application for restructuring. The viability study of the borrower will be assessed as per the delegation matrix provided in the extant Credit Policy of the Bank

4.6. A unit will be declared unviable only after the viability of the unit is ascertained by a suitable viability study.

4.7. If a unit is declared unviable, an opportunity will be given to the unit to present its case before the Bank's competent authority within one month from receiving Bank's communication to this effect.

4.8. A decision on the unit's representation as above will normally be taken within two months.

5. **<u>Restructuring/Rehabilitation Proposal Implementation Time Lines</u>**

5.1. The Restructuring package will be implemented within 90 days from the date of receipt of request for restructuring from the borrower, while the rehabilitation package will be fully implemented within six months from the date of unit being declared as viable/potentially viable.

6. Asset Classification after Restructuring

6.1. Income recognition, asset classification and provisioning in respect of restructured accounts shall be in line with applicable RBI guidelines issued from time to time.

7. Relief and Concessions

7.1. The reliefs and concessions that may be extended under the restructuring/ rehabilitation package will depend the viability of the individual account and might vary from case to case. The Relief and Concessions provided will be in line with the RBI circular dated RPCD.SME & BFS.BC.No.19/06.02.31/2011-12 dated September 12, 2011

8. Restructuring Fee :
As per the Bank Norms

9. **Approach to Rehabilitation / Restructuring**
The Bank would consider the restructuring/rehabilitation package depending on the viability of the unit and would, inter alia, have the following rights

a) Right to seek strategic investors/co- promoters
b) Right to appoint special concurrent auditor
c) Change of Statutory auditors
d) Right to appoint lenders engineer/monitoring agency
e) Right to accelerate repayment /revoke package
f) Right of recompense
g) Right to appoint nominee directors
h) Right of conversion of Banks dues in to equity in case of default
i) Right to obtain additional security including pledge of shares of the promoters, personal guarantees etc.