

**Guidelines for rehabilitation of sick
small scale industrial units**

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All Primary (urban) Co-operative Banks

Dear Sir/Madam,

Guidelines for rehabilitation of sick
small scale industrial units

The Reserve Bank of India, in November 2000, had constituted the Working Group on Rehabilitation of Sick SSI units, under the Chairmanship of Shri S.S. Kohli, Chairman, Indian Banks' Association, to review the existing guidelines in regard to rehabilitation of sick Small Scale units and to recommend the revision of the guidelines for rehabilitation of current sick and potentially viable SSI units, making them transparent and non-discretionary. Reserve Bank of India has accepted all the major recommendations of the Group.

2. Enclosed is a complete set of revised guidelines, with regard to rehabilitation of sick units in the SSI sector with specific reference to definition of sick SSI units, its monitoring, viability norms, incipient sickness, as also, reliefs and concessions from banks/financial institutions in the case of potentially viable units. The emphasis of the rehabilitation effort in case of SSI units is on early detection of signs of incipient sickness, adequate and intensive relief measures and their speedy application rather than giving a long span of time to the units for rehabilitation. Accordingly, revised guidelines and important changes vis-a-vis existing guidelines are detailed in Annexures [I](#) and [II](#) respectively. This set of revised guidelines will supersede all our earlier circulars and guidelines laid down in connection with rehabilitation of SSI units.

3. We need hardly emphasize that timely and adequate assistance to potentially viable SSI units which have already become sick or are likely to become sick is of the utmost importance not only from the point of view of the financing banks but also for the improvement of the national economy, in view of the sector's contribution to the overall industrial production, exports and employment generation. The banks should, therefore, take a sympathetic attitude and strive for rehabilitation, in respect of units in the SSI sector,

particularly wherever the sickness is on account of circumstances beyond the control of the entrepreneurs. Banks are also advised to take a pro-active stance in providing timely assistance for rehabilitation of small scale units, which are affected by the industrial down turn and delays in payments against supplies made by them to large scale and other units.

4. In the case of units which are not capable of revival, banks should try for a settlement and/or resort to other recovery measures expeditiously.

5. It may be noted that the enclosed guidelines are applicable to industrial units which were being financed by the bank before they turned into sick units. We reiterate that UCBs are not expected to take over financing of sick industrial units, particularly, those financed by commercial banks earlier, in view of the risks involved.

6. Please acknowledge receipt to the concerned Regional Office.

Yours faithfully,

(Sudarshan Sen)
General Manager

**GENERAL GUIDELINES FOR
REHABILITATION OF SICK SSI UNITS**

Incipient Sickness

1. It is of utmost importance to take measures to ensure that sickness is arrested at the incipient stage itself. The branch/bank officials should keep a close watch on the operations in the account and take adequate measures to achieve this objective. The managements of the units financed should be advised about their primary responsibility to inform the banks if they face problems which could lead to sickness and to restore the units to normal health. The organizational arrangements at branch level should also be fully geared for early detection of sickness and prompt remedial action. Banks/Financial Institutions will have to identify the units showing symptoms of sickness by effective monitoring and provide additional finance, if warranted, so as to bring back the units to a healthy track. An illustrative list of warning signals of incipient sickness that are thrown up during the scrutiny of borrowal accounts and other related records e.g. periodical financial data, stock statements, reports on inspection of factory premises and godowns, etc. is given in [Appendix-I](#) which will serve as a useful guide to the operating personnel. Further, the system of asset classification introduced in banks will be useful for detecting advances, which are deteriorating in quality, well in time. When an advance slips into the sub-standard category, as per norms, the branch/bank should make full enquiry into the financial health of the unit, its operations, etc. and take remedial action. The bank/branch officials who are familiar with the day-to-day operations in the borrowal accounts should be under obligation to identify the early warning signals and initiate corrective steps promptly. Such steps may include providing timely financial assistance depending on established need, if it is within the powers of the branch manager, and an early reference to the controlling office where the relief required are beyond his delegated powers. The branch/bank manager may also help the unit, in sorting out difficulties which are non-financial in nature and require assistance from outside agencies like Government departments / undertakings, Electricity Boards, etc. He should also keep the term lending institutions informed about the position of the units wherever they are also involved.

2. **Definition of Sick SSI Unit**

An SSI unit should be considered 'Sick' if

a) any of the borrowal accounts of the unit remains substandard for more than six months i.e. principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding one year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as sub-standard, is reduced in due course;

or

b) there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent of its net worth during the previous accounting year;

and

c) the unit has been in commercial production for at least two years.

This would enable banks to take action at an early stage for revival of the units. For the purpose of formulating nursing programme, banks should go by the above definition with immediate effect.

3. **Viability of Sick SSI Units**

A unit may be regarded as potentially viable if it would be in a position, after implementing a relief package spread over a period not exceeding five years from the commencement of the package from banks, financial institutions, Government (Central / State) and other concerned agencies, as may be necessary, to continue to service its repayment obligations as agreed upon

including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period for restructured (past) debts should not exceed seven years from the date of implementation of the package. In the case of tiny/decentralised sector units, the period of reliefs/concessions and repayment period of restructured debts which were hitherto, two years and three years respectively have been revised, so as not to exceed five and seven years respectively, as in the case of other SSI units. Based on the norms specified above, it will be for the banks/financial institutions to decide whether a sick SSI unit is potentially viable or not. Viability of a unit identified as sick, should be decided quickly and made known to the unit and others concerned at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as 'potentially viable' / 'viable'. While identifying and implementing the rehabilitation package, banks/FIs are advised to do 'holding operation' for a period of six months. This will allow

small-scale units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during the period of such 'holding operation'.

4. Reliefs and Concessions for Rehabilitation of Potentially Viable Units

It is emphasised that only those units which are considered to be potentially viable should be taken up for rehabilitation. The reliefs and concessions specified are not to be given in a routine manner and have to be decided by concerned bank/financial institution based on the commercial judgment and merits of each case. Banks have also the freedom to extend reliefs and concessions beyond the parameters in deserving cases. Only in exceptional cases, concessions/ reliefs beyond the parameters should be considered. In fact, the viability study itself should contain a sensitivity analysis in respect of the risks involved that in turn will enable firming up of the corrective action matrix. Norms for grant of reliefs and concessions by banks/financial institutions to potentially viable sick SSI units for rehabilitation are furnished in [Appendix-II](#).

5. Units becoming sick on account of wilful mismanagement, wilful default, unauthorized diversion of funds, disputes among partners / promoters, etc. should not be considered for rehabilitation and steps should be taken for recovery of bank's dues. The definition of wilful default, will broadly cover the following:

- a) Deliberate non-payment of the dues despite adequate cash flow and good networth.
- b) Siphoning off of funds to the detriment of the defaulting unit.
- c) Assets financed have either not been purchased or have been sold and proceeds have been misutilised.
- d) Misrepresentation/falsification of records.
- e) Disposal/removal of securities without bank's knowledge.
- f) Fraudulent transactions by the borrower.

The views of the lending banks in regard to wilful mismanagement of funds/defaults will be treated as final.

6. Delegation of Powers

The delay in the implementation of agreed rehabilitation packages should be reduced. One of the factors contributing to such delay was found to be the time taken by banks having

multiple branches for obtaining clearance from the Head Office for the relief and concessions. As it is essential to accelerate the process of clearance, the banks may delegate sufficient powers to senior officers at various levels to sanction the bank's rehabilitation package drawn up in conformity with the prescribed guidelines.

APPENDIX-I

Illustrative list of warning signals of incipient sickness that are thrown up during the Scrutiny of Borrowal Accounts and other Related Records (e.g. Periodical Financial Data, Statements, Report on Inspection of Factory Premises and Godowns, etc.)

- a) Continuous irregularities in cash credit/overdraft accounts such as inability to maintain stipulated margin on continuous basis or drawings frequently exceeding sanctioned limits, periodical interest debited remaining unrealised;
- b) Outstanding balance in cash credit account remaining continuously at the maximum;
- c) Failure to make timely payment of instalments of principal and interest on term loans;
- d) Complaints from suppliers of raw materials, water, power, etc. about non- payment of bills;
- e) Non-submission or undue delay in submission or submission of incorrect stock statements and other control statements;
- f) Attempts to divert sale proceeds through accounts with other banks;
- g) Downward trend in credit summations;
- h) Frequent return of cheques or bills;
- i) Steep decline in production figures;
- j) Downward trends in sales and fall in profits;
- k) Rising level of inventories, which may include large proportion of slow or non-moving items;
- l) Larger and longer outstandings in bill accounts;
- m) Longer period of credit allowed on sale documents negotiated through the bank and frequent return by the customers of the same as also allowing large discount on sales;
- n) Failure to pay statutory liabilities;
- o) Utilization of funds for purposes other than running the units.
- p) Not furnishing the required information/data on operations in time.
- q) Unreasonable/wide variations in sales/receivables levels vis-à-vis level of operation of the unit.
- r) Non co-operation for stock inspections, etc.

- s) Delay in meeting commitments towards payments of installments due, crystallized liabilities under LC/BGs, etc.
- t) Diverting/routing of receivables through non-lending banks.

APPENDIX –II

Relief and concessions which can be extended by banks/financial institutions to potentially viable sick SSI units under rehabilitation

The viability and the rehabilitation of a sick SSI unit would depend primarily on the unit's ability to continue to service its repayment obligations including the past restructured debts. It is, therefore, essential to ensure that ordinarily there is no write-off or scaling down of debt such as by reduction in rate of interest with retrospective effect except to the extent indicated in the guidelines. The guidelines on various parameters on reliefs and concessions are given below.

i) **Interest Dues on Cash Credit and Term Loan**

If penal rates of interest or damages have been charged, such charges should be waived from the accounting year of the unit in which it started incurring cash losses continuously. After this is done, the unpaid interest on term loans and cash credit during this period should be segregated from the total liability and funded. No interest may be charged on funded interest and repayment of such funded interest should be made within a period not exceeding three years from the date of commencement of implementation of the rehabilitation programme.

ii) **Unadjusted Interest Dues**

Unadjusted interest dues such as interest charged between the date up to which rehabilitation package was prepared and the date from which actually implemented, may also be funded on the same terms as at (i) above.

iii) **Term Loans**

The rate of interest on term loans may be reduced, where considered necessary, by not more than three per cent in the case of tiny/decentralised sector units and by not more than two per cent for other SSI units, below the document rate.

iv) **Working Capital Term Loan (WCTL)**

After the unadjusted interest portion of the cash credit account is segregated as indicated at (i) and (ii) above, the balance representing principal dues may be treated as irregular to the extent it exceeds drawing power. This amount may be funded as Working Capital Term Loan

(WCTL) with a repayment schedule not exceeding 5 years. The rate of interest applicable may be 1.5 % to 3% points below the prevailing fixed rate / minimum lending rate of the bank, wherever applicable, to all sick SSI units including tiny and decentralized units.

v) **Cash Losses**

Cash losses are likely to be incurred in the initial stages of the rehabilitation programme till the unit reaches the break-even level. Such cash losses excluding interest as may be incurred during the nursing programme may also be financed by the bank or the financial institution, if only one of them is the financier. But if both are involved in the rehabilitation package, the financial institution concerned should finance such cash losses. Interest may be charged on the funded amount at the rates prescribed by SIDBI under its scheme for rehabilitation assistance.

Future cash losses in this context will refer to losses from the time of implementation of the package up to the point of cash break-even as projected. Future cash losses as above, should be worked out before interest

(i.e., after excluding interest) on working capital etc., due to the banks and should be financed by the financial institutions if it is one of the financiers of the unit. In other words, the financial institutions should not be asked to provide for interest due to the banks in the computation of future cash losses and this should be taken care of by future cash accruals.

The interest due to the bank should be funded by it separately. Where, however, a commercial bank alone is the financier, the future cash losses including interest will be financed by it.

The interest on the funded amounts of cash losses/interest will be at the rates prescribed by Small Industries Development Bank of India under its scheme for rehabilitation assistance.

vi) **Working Capital**

Interest on working capital may be charged at 1.5% below the prevailing fixed / minimum lending rate charged by the bank wherever applicable. Additional working capital limits may be extended at a rate not exceeding the minimum lending rate chargeable by the bank.

vii) **Contingency Loan Assistance**

For meeting escalations in capital expenditure to be incurred under the rehabilitation programme, banks / financial institutions may provide, where considered necessary, appropriate additional financial assistance upto 15 per cent of the estimated cost of rehabilitation by way of contingency loan assistance. Interest on this contingency assistance may be charged at the concessional rate allowed for working capital assistance.

viii) **Funds for Start-up Expenses and Margin for Working Capital**

There will be need to provide the unit under rehabilitation with funds for start-up expenses (including payment of pressing creditors) or margin money for working capital in the form of long-term loans. Where a financial institution is not involved, banks may provide the loan for start-up expenses, while margin money assistance may either come from SIDBI under its Refinance Scheme for Rehabilitation or should be provided by State Government where it is operating a Margin Money Scheme. Interest on fresh rehabilitation term loan may be charged at a rate 1.5% below the prevailing fixed / minimum lending rate chargeable by the bank wherever applicable or as prescribed by SIDBI / NABARD where refinance is obtained from it for the purpose.

All interest rate concessions would be subject to annual review depending on the performance of the units.

ix) **Promoters' Contribution**

As per the extant RBI guidelines, promoter's contribution towards the rehabilitation package is fixed at a minimum of 10 per cent of the additional long-term requirements under the rehabilitation package in the case of tiny sector units and at 20 per cent of such requirements for other units. In the case of units in the decentralized sector, promoter's contribution may not be insisted upon. A need is felt for increasing the promoters' contribution towards rehabilitation from the present limits. It is, therefore, open to banks and financial institutions to stipulate a higher promoters' contribution where warranted. At least 50 per cent of the above promoters' contribution should be brought in immediately and the balance within six months. For arriving at promoters' contribution, the monetary value of the sacrifices from banks, financial institutions and Government may be taken into account, in addition to the long - term requirement of funds under the rehabilitation package.

While evolving packages, it should be made a precondition that the promoters should bring in their contribution within the stipulated time frame. Further, in regard to concessions and

relief made available to sick units, banks should incorporate a 'Right of Recompense' clause in the sanction letter and other documents to the effect that when such units turn the corner and rehabilitation is successfully completed, the sacrifices undertaken by the Fls and banks should be recouped from the units out of their future profits/ cash accruals.

**Important changes brought out in the revised guidelines
based on the recommendations of the Working Group on Rehabilitation of sick SSI
units vis-à-vis Existing Guidelines**

New Guidelines	Existing Guidelines
<p>1. The definition of a sick SSI unit may be changed as:</p> <p>a) If any of the borrowal accounts of the unit remains substandard for more than six months i.e. principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding 1 year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as sub-standard is reduced in due course;</p> <p style="text-align: center;">OR</p> <p>b) There is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent of its net worth during the previous accounting year; and</p> <p style="text-align: center;">AND</p> <p>c) The unit has been in commercial production for at least 2 years.</p> <p>2. In the case of tiny / decentralized sector units, the period of reliefs/concessions and repayment period of restructured debts, have been revised, so as not to exceed five and seven years respectively as in the case of other SSI units.</p> <p>(i) While the other existing norms for grant of relief and concessions which can be extended by banks to potentially viable sick SSI units may continue, additional working capital limits may be extended at a</p>	<p>An SSI is considered 'sick' when –</p> <p>(i) any of its borrowal accounts has become 'doubtful' advance i.e. principal or interest in respect of its borrowal accounts has remained overdue for a period exceeding 2½ years, and</p> <p>(ii) there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its peak net worth during the preceding two accounting years.</p> <p>In the case of tiny / decentralized sector units, the period of reliefs / concessions and repayment period of restructured debts will be two years and three years respectively.</p> <p>In the existing guidelines there was no mention about providing additional working capital.</p> <p>As per the extant guidelines, the banks are expected to take, as far as possible, a decision on the viability or otherwise of a</p>

rate not exceeding the PLR.

(ii) Viability of a unit should be decided quickly and made known to the unit and others concerned at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as 'potentially viable' / 'viable'. While identifying and implementing the rehabilitation package, banks/FIs may be asked to do 'holding operation' for period of six months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of the deposit of sale proceeds during the period of such 'holding operation'.

(iii) There is a need for increasing the promoters' contribution towards rehabilitation package from the present limits. It is open to the banks/financial Institutions to stipulate a higher promoters' contribution, where warranted.

Further, in regard to concessions and reliefs made available to sick units, banks should incorporate, "**Right of Re-compense**" clause in the sanction letter and other documents to the effect that when such units turn the corner and rehabilitation is successfully completed, the sacrifices undertaken by the FIs and banks should be recouped from the units out of their future profits/cash accruals.

unit identified as sick, within a period of three months, from the date of receipt of complete information on the relevant aspects from the management of the unit. Further, the finalization of the nursing programme should be completed within a period of three months from the date of such decisions.

As regards 'holding operation', it is a new concept/facility, which was not there in the existing guidelines.

Promoters' contribution towards rehabilitation may be fixed at a minimum of 5% of the additional long term requirements under the rehabilitation package in the case of tiny sector units and 10% of such requirements for other units.

Banks have been advised to incorporate the "**Right of Re-compense**" clause in cases where the concessions/reliefs were beyond the parameters laid down by RBI.