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November 1, 2012

**The Chairman/Managing Director/  
Chief Executive Officer  
All Scheduled Commercial Banks  
(excluding Regional Rural Banks)**

Dear Sir / Madam

**Guidelines for Rehabilitation of Sick Micro and Small Enterprises**

The recent global slowdown has adversely impacted the Indian economy in general and more specifically the Micro and Small Enterprises (MSEs). The MSEs suffer the most in such situations especially from discontinuity of business, which they normally are not in a position to bear and become sick immediately. The feedback received by us at various fora on MSEs and our analysis shows that the identification of sickness in MSE enterprises is so late that the possibilities of revival recede. This necessitates a need for change in the definition of sickness in order to remove the delay factor.

2. In recognition of the problems being faced by the Micro and Small Enterprises (MSE) particularly with respect to rehabilitation of potentially viable sick units, the Reserve Bank had constituted a Working Group under the Chairmanship of Dr. K. C. Chakrabarty, then Chairman & Managing Director, Punjab National Bank. The Working Group, among others, recommended a change in the definition of sickness and a procedure for assessing the viability of sick MSE units, with a view to hasten the process of identification of a MSE unit as sick. The proposal to revise the existing definition of sickness and procedure for assessing the viability of sick MSE units was placed in the 13th Standing Advisory Committee on MSMEs wherein it was decided that the Ministry of MSME, Government of India would constitute a Committee to examine the proposal. Consequently, a Committee was set up by the Ministry of MSME and following the

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हिंदी आसान है, इसका प्रयोग

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submission of the report of the Committee it was proposed in [Paragraph 83](#) of the Second Quarter Review of Monetary Policy 2012-13, to modify the existing definition of sickness of micro and small enterprises (as defined in the MSMED Act 2006) and lay down a procedure for assessing the viability of sick units in the sector in supersession of guidelines mentioned in our [circular RPCD. No. PLNFS.BC.57/06.04.01/2001-2002 dated January 16, 2002](#).

**3.** The emphasis of the revised guidelines is to hasten the process of identification of a unit as sick, early detection of incipient sickness, and to lay down a procedure to be adopted by banks before declaring a unit as unviable. Accordingly, the revised guidelines are issued for rehabilitation of sick units in the MSE sector as given in **Annex - I**.

**4.** The important changes brought out in guidelines based on the recommendations of the Working Group vis-à-vis the existing guidelines on rehabilitation of sick MSE units are furnished in **Annex - II** for ready reference.

**5.** We need hardly emphasize that timely and adequate assistance to potentially viable MSE 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 MSE sector, particularly wherever the sickness is on account of circumstances beyond the control of the entrepreneurs. However, in cases of units, which are not capable of revival, banks should try for a settlement and / or resort to other recovery measures, expeditiously.

**6.** Please acknowledge receipt.

Yours faithfully,

**(C D Srinivasan)**  
Chief General Manager

**GENERAL GUIDELINES FOR  
REHABILITATION OF SICK MSEs**

**A. Handholding stage**

1. Timely and adequate assistance to MSEs and rehabilitation effort should begin on a proactive basis when early signs of sickness are detected. This stage would be termed as '**handholding stage**' as defined below. This will ensure intervention by banks immediately after detecting early symptoms of sickness so that sickness can be arrested at an early stage. 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.

2. The bank branches should take timely remedial action which includes an enquiry into the operations of the unit and proper scrutiny of accounts, providing guidance/counselling 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. In order to ensure timeliness for banks for taking remedial action/measures in 'handholding stage', the handholding support to such units should be undertaken within a maximum period of two months of identification of such units.

**B. Definition of Sickness**

3. A Micro or Small Enterprise (as defined in the MSMED Act 2006) may be said to have become **Sick**, if

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

**OR**

- b. There is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year.

4. This would enable banks to take timely action in identification of sick units for their revival. The MSE units which could not be revived after intervention by banks at the 'handholding stage' need to be classified as sick subject to complying with any one of the two conditions as laid down above and based on a viability study the viable/potentially viable units be provided rehabilitation package. The rehabilitation package should be implemented speedily in a time bound manner. 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 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'.

5. Units becoming sick on account of willful mismanagement, willful default, unauthorized diversion of funds, disputes among partners / promoters, etc. should not be classified as sick units and accordingly should not be eligible for any relief and concessions. In such cases steps should be taken for recovery of bank's dues. The declaration of a borrower as a willful defaulter should be done strictly in accordance with the extant RBI guidelines.

6. The above definition may be adopted for the purpose of reporting the data for the year ending 31 March 2013, while for the purpose of formulating nursing programme; banks should go by the above definition with immediate effect.

### **C. Viability**

7. The decision on viability of the unit should be taken at the earliest but not later than 3 months of becoming sick under any circumstances.

The following procedure should be adopted by the banks before declaring any unit as unviable:

a. A unit should be declared unviable only if the viability status is evidenced by a viability study. However, it may not be feasible to conduct viability study in very small units and will only increase paperwork. As such for micro (manufacturing) enterprises, having investment in plant and machinery up to Rs.5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2 lakh, the Branch Manager may take a decision on viability and record the same, along with the justification.

**b.** The declaration of the unit as unviable, as evidenced by the viability study, should have the approval of the next higher authority/ present sanctioning authority for both micro and small units. In case such a unit is declared unviable, an opportunity should be given to the unit to present the case before the next higher authority. The modalities for presenting the case to the next higher authority may be worked out by the banks in terms of their Board approved policies in this regard.

**c.** The next higher authority should take such decision only after giving an opportunity to the promoters of the unit to present their case.

**d.** For sick units declared unviable, with credit facilities of Rs.1 crore and above, a Committee approach may be adopted. A Committee comprising of senior official of the bank may examine such proposals. A Committee approach will improve the quality of decision as collective wisdom of the members shall be utilized, especially while taking decision on rehabilitation proposals.

**e.** Decision of the above higher authority should be informed to the promoters in writing. The above process should be completed in a time bound manner not later than 3 months.

**8.** The banks may, however, take decision in cases of malfeasance or fraud without following the above procedure.

#### **D. Reliefs and Concessions for Rehabilitation of Potentially Viable Units**

**9.** Banks may decide on the reliefs and concessions for rehabilitation of viable/potentially viable units based on their own Board approved policies as conveyed in our [circular RPCD.SME & NFS.BC.No.19/06.02.31/2011-12 dated September 12, 2011](#).

#### **E. One Time Settlement**

**10.** The banks are to put in place a Non-discretionary One Time Settlement scheme for recovery of non-performing loans for the MSE sector, duly approved by the Board of Directors as conveyed in [circular No.RPCD.SME&NFS.BC.No.102/06.04.01/2008-09 dated May 4, 2009](#). It is also reiterated that the One Time Settlement scheme implemented by the bank is given wide publicity by placing it on their bank's website and through other possible modes of dissemination. You may also allow reasonable time to the MSE borrowers to submit the

application and make payment of the dues in order to extend benefits of the scheme to the eligible borrowers.

**F. Delegation of Powers**

**11.** 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 for obtaining clearance from the Controlling 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 such as district, divisional, regional, zonal and also at head office to sanction the rehabilitation package drawn up in conformity with the prescribed guidelines.

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

<b>Sr. No.</b>	<b>Existing Guidelines</b>	<b>New Guidelines</b>
<b>1</b>	<p>A MSE unit is considered sick when:</p> <p><b>a)</b> 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;"><b>OR</b></p> <p><b>b)</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;"><b>AND</b></p> <p><b>c)</b> The unit has been in commercial production for at least 2 years.</p>	<p>A MSE is considered 'sick' when –</p> <p><b>a)</b> any of the borrowal account of the enterprise remains NPA for three months or more</p> <p style="text-align: center;"><b>OR</b></p> <p><b>b)</b> There is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth.</p> <p>The stipulation that the unit should have been in commercial production for at least two years has been removed.</p>
<b>2</b>	No stipulated time frame for deciding the viability of a unit.	The decision on viability of the unit should be taken at the earliest but not later than 3 months of becoming sick under any circumstances.
<b>3</b>	The procedure for declaring a unit as unviable not specified.	The procedure for declaring a unit as unviable has been laid down
<b>4</b>	While the concept of incipient sickness was there was no definition of incipient sickness	Incipient sickness or 'handholding stage defined.