

MSME OTS POLICY

Recovery Department:

One Time Settlement Scheme -

Specially for MSME Sector NPAs.

(Approved by Board Meeting dated 23/02/2010)

1. A Working Group for examining the problems being faced by the Micro & Small Enterprises (MSME) Sector was constituted under the Chairmanship of Dr. K.C. Chakraborty, by Reserve Bank of India. Among several other recommendations one of the recommendation made by the said Group was to have a One Time Settlement (OTS) Scheme for MSME Sector. Accordingly, the Reserve Bank of India has advised Banks to draw up an OTS Scheme duly approved by Bank's Board of Directors.

2. In compliance with the directives of Reserve bank of India and to get the NPAs in the aforesaid sector recovered, we have drafted a non-discretionary and non-discriminatory One Time Settlement Scheme for MSME Sector. After approval by the Board of Directors, Scheme will be made operative with immediate effect.

3. Details of the Scheme are given herein under.

3.1 Eligibility:

3.1.1 All accounts under MSME sector classified as NPA as on 31/03/2009 are eligible for settlement under the scheme.

3.1.2 Account identified and covered under Low Value NPA Settlement Scheme are not eligible.

3.1.3 All suit filed cases including decreed cases where execution proceedings have not yet started are eligible under the scheme.

3.1.4 OTS approved earlier shall not be generally covered under the Scheme, if part payment has been received and proposal in under implementation.

3.1.5 Cases of Willful Default, fraud and malfeasance are not covered under the scheme.

3.2 MSME Definition:

The MSMED Act 2006, which came into effect from 02/10/2006, has modified the definition of Micro, Small & Medium Enterprises engaged in manufacturing of production and providing or rendering of services. The following chart indicates the threshold investment levels for both manufacturing sector (Investment in Plant & Machinery) and Services sector. (Investment in Equipment) to be eligible for inclusion under MSME segment:

Enterprise	Engaged in Manufacturing / Preservation of Goods (Incl. /Processing Units)	Engaged in Providing or Rendering of Services
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(1)	(2)	(3)
Micro Enterprise	Investment in plant & machinery Not exceeding Rs. 25.00 Lakhs	Investment in Equipment not exceeding Rs.10.00 Lakhs
Small Enterprise	Investment in Plant & Machinery is more than Rs.25.00 Lakhs but not exceeding Rs. 5.00 Crore	Investment in Equipment is more than Rs.10.00 Lakhs but does not exceed Rs. 2.00 Crores
Medium Enterprise	Investment in Plant & Machinery is more than Rs. 5.00 Crores but does not exceed Rs.10.00 Crore.	Investment in Equipment is more than Rs. 2.00 Crores but does not exceed Rs. 5.00 Crores.

In terms of RBI Master Circular dated July 1, 2009 on Lending to Priority Sector, credit to Small Enterprises includes loans granted to Micro and Small (Manufacturing & service) Enterprises, provided investment in Plant and Machinery / Equipment is as above. Further Retail Trade, forms a separate category under priority sector.

The Government of India vide communication No. 5(6)/2/2009-MSME POL dated June 12, 2009 has indicated the categorization of activities under services under the Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006. Now it is decided to include loans granted by banks in respect of following activities under Micro and Small (Service) Enterprises within the priority sector, provided such enterprises satisfy the definition of Micro and Small (service) Enterprises in respect of investment in equipment ,

- 1 Consultancy Services including Manufacturing Services
- 2 Composite Broker Services in Risk and Insurance Management.
- 3 Third Party Administration (TPA) Services for Medical Insurance Claims of Policy Holders.
- 4 Seed Grading Services.
- 5 Training -cum-lubricator Centre.
- 6 Educational Institutions.
- 7 Training Institutes.
- 8 Retail Trade.
- 9 Practice of Law, i.e. Legal Services.
- 10 Trading in Medical instruments (Brand New),
- 11 Placement and Management Consultancy Services; and
- 12 Advertising Agency and Training Centers.

Loans granted by banks for Retail Trade (i.e. advances granted to retail traders dealing in essential commodities (fair price shops), consumer co-operative stores; and advances granted to private retail traders with credit limits not exceeding Rs. 20.00 lakhs) would henceforth be part of the Small (Service) Enterprise.

4. Settlement Amount:

4.1 Following four factors have been taken into consideration while deciding the quantum of Settlement amount: -

- Outstanding balance in Running Ledger-(Principal)
- Asset Classification
- Value of available securities
- Assets attached through DRT/Courts.

4.2 All NPA/Technically Written off accounts are to be grouped into following two categories for the purpose of arriving at settlement amount:

Category	Group
I	Account with outstanding up to Rs.1.00 lakh
II	Account with outstanding above Rs.1.00 lakh

4.3 Category I - Settlement Amount for Accounts with Outstanding up to Rs.1.00 lakh.
OTS amount recoverable in this category would be worked out as under:

classification	Calculation
Sub Standard	Running Ledger Balance + 9% simple interest from the date of NPA on reducing balance.
Doubtful	Running Ledger balance + 6% simple interest from the date of NPAS on reducing balance.
Loss Assets	Outstanding in running ledger

4.4 Category II - Settlement Amount for Accounts with outstanding above Rs. 1.00 Lakh.
OTS amount recoverable under this category would be worked out as under:

classification	Calculation
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Sub Standard & Doubtful	Running Ledger balance + 9% simple interest from the date of NPA on reducing balance. OR NPV on available securities including attached assets calculated with 3 years realization period discounted at prevailing BPLR @ settlement shall be higher of (1) or (2) above.
Loss Assets	Outstanding in running ledger. (Principal)

4.5 In case of outstanding in non-fund based limits, borrower to either get the BGs / LCs (Bank Guarantees/Letters of Credit) or to provide for 100% margin against such outstanding exposure.

1. **Technically Written Off Accounts:**

The settlement of Write off /Technically Written off accounts will be at par with settlement of outstanding NPA accounts as mentioned herein above under Category I & II.

5. **Terms of Payment:**

OTS amount has to be preferably paid in lump sum in 3 months. In exceptional cases 25 % can be paid upfront and balance in 6 equal monthly installments with BPLR interest on reducing balance.

6. **Delegated Authority:**

The Managing Director & CEO shall be the competent authority to approve the proposals irrespective of the sacrifice amount.

7. **Time Limit:**

Scheme will come into operation with immediate effect and remains valid up to 30/06/2010.

We therefore, recommend for approval of the One Time Settlement Scheme Specially for MSME Sector NPAs.