

<b>Product Name</b>	<b>MSME LEARNING</b>
<b>Course</b>	<b>MSME Rehabilitation</b>
<b>No. of Screens</b>	<b>11</b>
<b>Author</b>	<b>Bhavani Ganti</b>
<b>Supervision:</b>	<b>Dr Yerram Raju Behera, DV Suresh Kumar</b>

<b>Welcome page</b>	<b>Page No.</b>
<b><u>Course name:</u> MSME</b>	
<b>Course group: MSME Rehabilitation</b>	
Unit 1: Sickness and Symptoms	
Unit 2: SMA Status	
Unit 3: Rehabilitation Process	
Unit 4: ATMA	
Unit 5: Case Study	

<b>Unit: Objectives</b>	<b>Page No 01</b>
<p><b>Objectives</b> This course explains the sickness of the MSMEs and the symptoms of sickness; Revival and rehabilitation of the MSMEs; ATMA and its key features.</p> <p><b>On completion of this course, you will be able to:</b></p> <ul style="list-style-type: none"><li>✓ Understand when the unit is becoming sick and the symptoms to identify the sickness.</li><li>✓ Types of revival and rehabilitations measures available</li><li>✓ ATMA measures</li></ul> <p><b>Course Level: Basic</b></p>	
<b>Special features</b>	
Case Study	

Unit : MSME Rehabilitation		Page No. 02
<b>MSME Sickness and Causes</b>		
<b>RBI Definition of Sick Unit:</b>		
A MSE is considered 'sick' when –		
a) any of the borrowed 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.		
The causes of sickness of a unit can be classified into two divisions:		
INTERNAL CAUSES:		
<ul style="list-style-type: none"><li>• Management issues in the unit like disputes between partners</li><li>• Excessive dependence on unsecured creditors</li><li>• Poor use of available finance</li><li>• Issues in production due to labor distress, outdated technology, poor quality of raw materials</li><li>• Personal issues running the family of the entrepreneur</li><li>• Dependence only on few markets and buyers</li><li>• <b>Product Process Packaging – Inadequacies</b></li></ul>		
EXTERNAL CAUSES:		
<ul style="list-style-type: none"><li>• Power shortage and frequent power cuts.</li><li>• Statutory policies amendments</li><li>• Concentrated markets leading to lack of anticipated demand</li><li>• Delay in receiving the finance and lack of adequate funds</li><li>• Supply chain failure to delay in receiving of the raw material inputs</li><li>• Natural calamities</li></ul>		
<b>Interactivity / Animation</b>		
<b>Special features</b>		

**Unit: MSME Rehabilitation**

**Page No. 03**

**Identifying the sickness:**

Sickness can grow inside the unit slowly like a tumor and can kill the enterprise from inside, hence the entrepreneur must be alert at all the times and recheck the operational levels of the unit.

Some of the symptoms that an enterprise can fall sick are:

- Continuous decline in the profits of the enterprise.
- Anticipating losses in the future operations
- Nonpayment of statutory dues.
- Sale of fixed assets.
- Downward trend in sales and turnover.
- Nonmoving stock always lying in the godown.
- Lack of orders and inadequate orders position.
- Giving large discount on sales.
- Frequent complaints from suppliers and nonpayment of bills.
- Frequent closure of unit
- Low capacity utilization of labor and machinery.
- Diverting of receivables through non-lending banks
- Steep decline in production figures
- Excess of drawings by promoters and directors
- Increase in sundry debtors and creditors
- Decrease in net profit and sales.
- **Lack of transparency due to use of non-digital means of data collection**

The entrepreneur must be always prudent in carrying out the business and must always diagnose the reason behind any fluctuations in the business.

Early detection and diagnosis will help the unit to survive and continue the business activity.

**Interactivity / Animation**

**Special features**

<b>Unit: MSME Rehabilitation</b>		<b>Page No. 04</b>
<b>Status of the Accounts</b>		
Every enterprise which borrows from any financial institution will be categorized under the following accounts:		
<b>STANDARD ACCOUNT</b>		
When the enterprise is paying its dues regularly to the borrowed financial institution, the account of such will be treated as standard. All accounts which have submitted the mandatory information to the financial institutions on a regular basis.		
<b>SPECIAL MENTION ACCOUNT (SMA)</b>		
An account which is exhibiting signs of incipient stress resulting in the borrower defaulting in timely servicing of her debt obligations, though the account has not yet been classified as NPA as per the RBI guidelines. As early recognition of such accounts will enable banks to initiate timely remedial actions to prevent their potential slippages into NPAs.		
<b>NON-PERFORMING ASSET (NPA)</b>		
An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank.		
A non performing asset (NPA) is a loan or an advance where;		
<ul style="list-style-type: none"><li>• interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,</li><li>• the account remains 'out of order' as indicated at paragraph 2.2 below, in respect of an Overdraft/Cash Credit (OD/CC),</li><li>• the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,</li><li>• the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,</li><li>• the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,</li><li>• the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.</li><li>• in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.</li></ul>		
In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter		
<b>Interactivity / Animation</b>		
<b>Special features</b>		
Source:	<a href="https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9908#4">https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9908#4</a>	

Unit: MSME Rehabilitation	Page No. 05
<p><b>MSME Rehabilitation:</b></p> <ul style="list-style-type: none"><li>▪ A unit can be regarded as potentially viable if it were in a position after implementing a relief package spread over a period not exceeding five years from the commencement of the package from Banks.</li><li>▪ Financial Institutions to decide whether a sick unit is potentially viable or not.</li><li>▪ Viability of a unit identified as sick should be decided quickly and made known to the units and others concerned at the earliest.</li><li>▪ The rehabilitation package should be fully implemented within 6 months from the date the units is declared as potentially viable/viable.</li></ul> <p><b>Entrepreneurial responsibility:</b></p> <p>Entrepreneurial responsibility is of great significance in any rehabilitation effort. The entrepreneur should do the soul searching as to where he has faltered in the management and put in efforts to set right. It is important this effort is visible to the financing agency. The confidence that the financing agency gets regarding the abilities of the unit to implement the rehabilitation package is of great importance. Some of the steps that the unit should take in this regard:</p> <ol style="list-style-type: none"><li>1. Maintain transparency in all the transactions.</li><li>2. Keep the Bank informed of all the steps being taken</li><li>3. Mobilize as much low-cost resources as possible from friends and relatives who could be having confidence in your abilities to run the enterprise successfully</li><li>4. Look at the market; how it is moving; is it price sensitive; or brand sensitive; is it spatial in character; then measure up the requirements for rehabilitation and present before the financing institution.</li><li>5. Revalue your securities</li><li>6. Invest on recovery of dues from all sundry debtors to nearly 100 percent.</li><li>7. Go the financing institution with a package of your own contribution in rehabilitation.</li><li>8. Seek professional guidance or guidance from the banker himself on designing a rational cash flow projection for the next five years.</li><li>9. If required, as in most cases, induct new management; induct new partners; or even go for reorganization of the business structure so that investor confidence would increase</li></ol>	
<b>Interactivity / Animation</b>	
<b>Special features</b>	

Unit: MSME Rehabilitation		Page No. 06
<b>MSME Rehabilitation:</b>		
<b>RBI Guidelines on Framework for Revival</b>		
<ul style="list-style-type: none"><li>▪ SMA2 – Rectification; borrower driven;</li><li>▪ Ad Hoc Facility initially</li><li>▪ Restructuring:<ul style="list-style-type: none"><li>▪ District Level Committee on Revival should decide</li><li>▪ Stand still clause</li><li>▪ Facilities to be considered:<ul style="list-style-type: none"><li>▪ Fixed Interest Term Loan;</li><li>▪ Additional Working Capital</li><li>▪ Additional Term Loan</li><li>▪ Unit should become standard Asset in a Year</li><li>▪ Revival program to last for 5 years.</li></ul></li></ul></li><li>▪ <b>The enterprise must move towards digitization, implementing ERP based accounting system to capture and store all the data.</b></li><li>▪ Corrective Action Plan on the basis of Committee Approach</li><li>▪ The committee includes a Govt. representative and SME along with Bankers</li><li>▪ Intent is to identify the identify and address the sickness at the incipient stage</li><li>▪ It involves two processes</li><li>▪ Rectification<ul style="list-style-type: none"><li>▪ Borrower driven;</li><li>▪ Provision of Ad Hoc Facility</li></ul></li><li>▪ Restructuring<ul style="list-style-type: none"><li>▪ Lender driven</li><li>▪ Additional Financing options</li><li>▪ Stand still clause</li></ul></li></ul>		
<b>Interactivity / Animation</b>		
<b>Special features</b>		

**ATMA- NIRBHAR BHARAT ABHIYAN**

**Objectives:**

- i. Interim measures such as liquidity infusion and direct cash transfers for the poor.
- ii. long-term reforms in growth-critical sectors to make them globally competitive and attractive.

**Decisions taken by Govt. for the growth of MSME Sector under the ATMA-NIRBHAR BHARAT ABHIYAN**

**Collateral Free Loans**

Rs. 3 Lakh crores to collateral free automatic working capital loans for businesses, including MSMEs

**FEATURES**

- Borrowers with upto Rs. 25 Cr. Outstanding and Rs. 100 Cr. Turnover eligible.
- Loans to have 4 year tenor.
- 12 months moratorium on principal repayment.
- Interest to be capped.
- Interest rate is Repo Rate 1% plus subject to a maximum of 9.25%
- Interest rate 14% from NBFCs.
- 100% credit guarantee cover to banks and NBFCs on principal.
- Scheme can be availed till 31st Oct, 2020.
- All businesses/MSMEs are eligible

**Interactivity / Animation**

**Special features**



<b>Unit 2: MSME Rehabilitation</b>		<b>Page No. 08</b>
<b>Atma Nirbhar Bharat AbhiyaN</b> Eligibility criteria for sub-ordinated debt		
<ul style="list-style-type: none"><li>▪ Sub Ordinated Debt in the form of Personal Loan to the Promoter</li><li>▪ Account shall be -<ul style="list-style-type: none"><li>➤ Standard as on 31.03.2018</li><li>➤ Must be operational during 2018-19/2019-20</li><li>➤ SMA2 later or NPA as on 30.04.2020 , and;</li><li>➤ Not Eligible – Wilful default or Fraud</li></ul></li><li>▪ Commercially viable enterprises post revival</li><li>▪ 7-yr moratorium for principal amount</li><li>▪ Interest payable every month</li><li>▪ Sub Debt amount up to 15% of promoter’s stake or Rs.75 lakh, whichever is lower</li><li>▪ Unit should revive in 5 years –RBI Guidelines</li><li>▪ Unit should be on growth path for 10 years</li><li>▪ Scheme Valid till 30<sup>th</sup> September 2020</li></ul>		
<b>How to Apply ?</b>		
Through Banks/NBFCs/FIs		
<b>Equity Infusion for MSMEs</b>		
<ul style="list-style-type: none"><li>• Rs. 50,000 crores equity infusion for MSMEs through Fund of Funds</li><li>• Will provide equity funding for MSMEs with growth potential and viability</li><li>• Funds of fund will be operated through a Mother Fund and few daughter funds</li><li>• Will help to expand MSME size &amp; capacity , encourage MSMEs to get listed on main board of Stock Exchanges.</li><li>• <b>GUIDELINES YET TO BE ISSUED</b></li></ul>		
<b>How to Apply?</b>		
Through investor funds on boarded and registered with proposed Fund of funds		
<b>Interactivity / Animation</b>		
<b>Special features</b>		
Source	<a href="https://taxguru.in/corporate-law/msme-benefits-atma-nirbhar-bharat-abhiyan.html">https://taxguru.in/corporate-law/msme-benefits-atma-nirbhar-bharat-abhiyan.html</a>	

## **CASE STUDY: Seeds failed to germinate**

### **M/s Myla Seed Corporation**

The entrepreneur, Mr. Mohan (name changed) with his wife engaged in Seed Processing Plant located at Warangal came crying to TIHCL office along with SARFAESI notice which was issued in the beginning of the year 2018, and since March 2018 bank is constantly threatening that the auction notice of collateral security will be published in the Newspapers. The entrepreneur is maintaining his account with same bank since the inception of his business. The industry operating for 20 years, noticed a decline in sales as there were no good Rabi & Kharif seasons due to draught & monsoon for the past 4 years. Their accounts became NPA on January 2018 due to insufficiency of funds.

The rate of interest currently charged by the bank is 18% p.a. which is very high for a small-scale industry. The enterprise approached other Bank for takeover of the loan with less interest rate for which the the Bank agreed. When approached the existing bank for permission to loan transfer, the Bank promised to reduce the interest rate but failed to do so. The enterprise provides employment to about 200+ individuals directly or indirectly every year.

The initial Cash Credit loan taken with existing bank was ₹ 4.5 crores as on 30-03-2009 and the enhancement of ₹ 2.5 crores was made on 17-04-2014 at 14.25% rate of interest. Due to the delay in payments made by the entrepreneur, the bank has increased the rate of interest to 18% pa. which is very high for a small-scale industry? The entrepreneur however could not repay the loan with high interest rate ultimately became NPA. Total outstanding amount to be paid under SARFAESI is ₹ 7,58,96,924.18 as on March 2018 and as per the latest valuation dated 2016, the value of the security is ₹ 9 Crore. TIHCL made a diagnostic study of the unit by conducting unit inspection and meeting with the bank's Chief Manager on 12-06-2018.

The observations of the unit visit are:

- No active production.
- Value of Idle stock is ₹ 6-7 lacs.
- Machinery condition is good.
- No business operations for the last 1 year.
- No power for the last 1 year.
- NPA dues to seasonal failure.

**After the diagnosis made on the unit, TIHCL came up with the following Suggestions for revival:**

As the entrepreneur is willing to repay the outstanding amount by way of Job works, TIHCL has come up with 2 options for the revival of the Unit.

1. Entrepreneur should be allowed waiver of penal interest/maximum reduction in the interest burden of Rs.58 lakhs. Entrepreneur would clear Rs.3cr from the existing outstanding in Cash Credit provided the balance is converted in to Secured Overdraft with permission to sell 2 out of 4 assets. The entrepreneur does not have any additional collateral security for the SOD.

(Or)

2. Conversion of Cash Credit to Working capital Term loan at 10 percent per annum with one year of Gestation period and 5 years in instalments payable during the season at maximum and off-season only interest payment on the reduced balances. Fresh working capital would be made available during season. Cash flows have to be worked out if this arrangement is agreeable prima facie by the Bank
3. The Bank that had shut its doors for discussion by the borrower is now actively considering providing the facility suggested.

**Interactivity / Animation**

**Special features**

**MULTIPLE CHOICE QUESTIONS:**

**1. Which of the following is not an external cause of sickness:**

- Concentrated markets leading to lack of anticipated demand
- Delay in receiving the finance and lack of adequate funds
- Poor use of available finance
- Supply chain failure to delay in receiving of the raw material inputs

**2. Which is not a symptom of sickness**

- Low capacity utilization of labor and machinery.
- Sale of fixed assets.
- Consistent sales
- Frequent complaints from suppliers and nonpayment of bills.

**3. Non submission of mandatory documents to the bank results in declaring of the account as NPA. TRUE /FALSE**

**4. Lack of digitization leads to \_\_\_\_\_.**

**Interactivity / Animation**

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**Special features**

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