KSFC/HO/ED(F)/81 Date: 24.06.2011

CIRCULAR NO.937

Sub: 1. Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to advances – Projects under implementation
2. Enhancement of rates of provisioning for Non-Performing Assets and Restructured Advances
3. Refinance / LOC Scheme – Exposure to Real Estate Sector – assessment of Group Risk.

Ref: 1. Circular No.FI.09/2011-12
2. Circular No.FI.10/2011-12
3. Circular No.FI.11/2011-12

Circulars under reference above on the subject received from SIDBI are enclosed for the information of all concerned.

Sd/-
EXECUTIVE DIRECTOR
(FINANCE)

All the Principal Officers / Section Heads in HO
All ZMs / DGMs / AGMs / BMs of ZOs / BOs / IA cells

All the GMs

ED(O) – for infn.
MD – for kind infn.

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

SIDBI No.9584 / DFID June 14, 2011

The CMDs / MDs of MoU SFCs

Circular No.FI.09/2011-12

Madam / Dear Sir,

Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances – Projects under Implementation

SIDBI has been issuing prudential norms guidelines of SFCs, in line with, the guidelines being issued by Reserve Bank of India to Banks on income recognitions, assets classification and provisioning norms in terms of which, a grace period of two years for Infrastructure Projects, and six months for Industrial projects, is available for commencement of commercial operations after the original date of completion of the project, for the purpose of retaining the standard asset classification, provided the account **is serviced regularly**.

2. It is learnt that there are occasions when the completion of projects is delayed for legal and other extraneous reasons like delays in Government approvals etc. All these factors, which are beyond the control of the promoters, may lead to delay in project implementation and involve restructuring / reschedulement of loans by SFCs. Accordingly, it has been decided to modify the asset classification norms for project loans before commencement of commercial operations as per the guidelines given in paragraph 4 below. These revised guidelines will, however, not be applicable to restructuring of advances covered to Advances classified as Commercial Real Estate exposures; Advances classified as Capital Market exposure; and consumer and Personal Advances.

3. For this purpose, all project loans have been divided into the following two categories:

(i) Project Loans for infrastructure sector
(ii) Project Loans for non-infrastructure sector

'Project Loan' would mean any term loan which has been extended for the purpose of setting up of an economic venture, SFCs must fix a Date of Commencement of Commercial Operations (DCCO) for all project loans at the time of sanction of the loan/financial closure.

4. Revised Guidelines on Asset Classification of Projects under Implementation

4. Project Loans for Infrastructure Sector

4.1.1 A loan for an infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras **4.1.3 to 4.1.5** below.

4.1.2 A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from the original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras **4.1.3 to 4.1.5** below.

4.1.3 If a project loan classified as 'standard asset' is restructured any time during the period up to two years from the original date of commencement of commercial operations (DCCO), it can be retained as a standard asset if the fresh DCCO is fixed within the **following limits**, and further provided the account continues to be serviced as per the restructured terms.

(a) **Infrastructure Projects involving court cases**
Up to another 2 years (beyond the existing extended period of 2 years i.e., total extension of 4 years), in case the reason for extension of date of commencement of production is arbitration proceedings or a court case.

(b) **Infrastructure Projects delayed for other reasons beyond the control of promoters**

Up to another 1 year (beyond the existing extended period of 2 years i.e., total extension of 3 years), in other than court cases.

4.1.4 It is re-iterated that the dispensation in para 4.1.3 is subject to adherence to the provisions regarding restructuring of accounts in terms of extant IRAC norms which would, *inter alia,* require that the application for restructuring should be received before the expiry of period of two years from the original DCCO and when the account is still standard as per record of recovery. The other conditions applicable would be:

a. In cases where there is moratorium for payment of interest, SFCs **should not** book income on accrual basis beyond two years from the original DCCO, considering the high risk involved in such restructured accounts.

b. SFCs should maintain provisions on such accounts as long as these are classified as standard assets as under:

Until two years from the original DCCO	0.40%
During the third and the fourth years after the original DCCO	1.00%

4.1.5 For the purpose of these guidelines, mere extension of DCCO will also be treated as restructuring even if all other items and conditions remain the same.

4.2 Project Loans for Non-Infrastructure Sector

4.2.1 A loan for a non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras **4.2.3 to 4.2.5** below.

4.2.2 A loan for a non-infrastructure project will be classified as NPA if it fails to commence commercial operations within six months from the original DCCO, even it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras **4.2.3 to 4.2.4** below.

4.2.3 In case of non-infrastructure projects, if the delay in commencement of commercial operations extends beyond the period of six months from the date of completion as determined at the time of financial closure, SFCs can prescribe a fresh DCCO, and retain the "standard" classification by undertaking restructuring of accounts in accordance with the provisions of extant IRAC norms, provided the fresh DCCO does not extend beyond a period of twelve months from the original DCCO. This would among others also imply that the restructuring application is received before the expiry of six months from the original DCCO, and when the account is still "standard" as per the record of recovery.

The other conditions applicable would be:

a. In cases where there is moratorium for payment of interest, SFCs **should not** book income on accrual basis beyond six months from the original DCCO, considering the high risk involved in such restructured accounts.

b. SFCs should maintain provisions on such accounts as long as these are classified as standard assets as under:

Until the first months from the original DCCO	0.40%
During the next six months	1.00%

4.2.4 For this purpose, mere extension of DCCO will also be treated as restructuring even if all other terms and conditions remain the same.

4.3 Other Issues

4.3.1 All other aspects of restructuring of project loans before commencement of commercial operations would be governed by the provisions of extant guidelines on Prudential norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances. Restructuring of project loans after commencement of commercial operations will also be governed by these instructions.

4.3.2 Any change in the repayment schedule of a project loan caused due to an increase in the project outlay on account of increase in scope and size of the project, would not be treated as restructuring if:

(i) The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.

(ii) The rise in cost excluding any cost-overrun in respect of the original project is 25% or more of the original outlay.

(iii) The SFC re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCP.

(iv) On re-rating, (if already rated) the new rating is not below the previous rating by more than one noth.

5. These guidelines would apply to those cases where the modifications to terms of existing loans, as indicated above, are approved by SFCs from the date of this circular.

6. SFCs are advised to place this circular at the next meeting of the Board of Directors, for their information.

Please acknowledge receipt.

Yours faithfully,

Sd/-
[K.Sathianandan]
General Manager

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

SIDBI No.9585 / DFID June 14, 2011

The CMDs / MDs of MoU SFCs

Circular No.FI.10/2011-12

Madam / Dear Sir,

Enhancement of Rates of Provisioning for
Non-Performing Assets and Restructured Advances

Please refer to paragraph 110 of the RBI Monetary Policy Statement for the year 2011-12 (extract enclosed) wherein, it was proposed to enhance provisioning requirements on certain categories of non-performing advances and restructured advances. Accordingly, it has been decided to enhance the rates of provisioning requirements on certain categories of Non-Performing Assets and Restructured Advances of SFCs as well, as under:

1. **Sub-Standard Advances**:

Advances classified as **"sub-standard"** will attract a provision of 15 per cent as against the existing 10 per cent. The "unsecured exposures" classified as sub-standard assets will attract an additional provision of 10 percent *i.e.,* a total of 25 percent as against the existing 20 per cent. However, "unsecured exposures" in respect of infrastructure loan accounts classified as sub-standard, in case of which certain safeguards such as escrow accounts are available, will attract an additional provision of 5 per cent only i.e., a total of 20 per cent as against the existing 15 per cent.

2. **Doubtful Advances**:

Doubtful Advances will continue to attract 100% provision to the extent of advance is not covered by the realisable value of the security to which the SFC has a valid recourse and the realisable value is estimated on a realistic basis. However, in respect of the secured portion, following provisioning requirements will be applicable:

i. The secured portion of advances which have remained in “doubtful” category up to one year will attract a provision of 25 per cent (as against the existing 20 per cent)

ii. The secured portion of advances which have remained in “doubtful” category for more than one year but upto 3 years will attract a provision of 40 per cent (as against the existing 30 per cent); and

iii. The secured portion of advances which have remained in “doubtful” category for more than 3 years will continue to attract a provision of 100%.

3. Restructured Advances:

i. **Restructured accounts classified as standard advances** will attract a provision of 2 per cent in the first two years from the date of restructuring. In cases of moratorium on payment of interest / principal after restructuring, such advances will attract a provision of 2 per cent for the period covering moratorium and two years thereafter (as against existing provision of 0.25 – 1.00 per cent, depending upon the category of advances); and

ii. Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a provision of 2 per cent in the first year from the date of upgradation (as against existing provision of 0.25–1.00 per cent, depending upon the category of advances).

4. All other instructions on provisioning will remain unchanged. The revised provisioning norms vis-a-vis the existing norms are also summarized in the **Annexure**.

5. SFCs are advised to place this circular at the next meeting of the Board of Directors, for their information.

Yours faithfully,

Sd/-
[K.Sathianandan]
General Manager

Encl: As above.

Annexure

Rates of Provisioning for Non-Performing assets and Restructured Advances

Category of Advances	***Existing Rate (%)***	***Revised Rate (%)***
Sub-standard advances • Secured Exposures • Unsecured Exposures • Unsecured Exposures in respect of Infrastructure loan accounts where certain safeguards such as escrow accounts are available	 10 20 15	 15 25 20
Doubtful Advances – Unsecured Portion	100	100
Doubtful Advances – Secured Portion • For Doubtful upto 1 year • For Doubtful > 1 year and upto 3 years • For Doubtful > 3 years	 20 30 100	 25 40 100
Loss advances	100	100
Restructured accounts classified as standard advances • in the first two years from the date of restructuring; and • in case of moratorium on payment of interest / principal after restructuring – period covering moratorium and two years thereafter.	0.25 to 1.00 (depending upon the category of advance)	2
Restructured accounts earlier classified as NPA and later upgraded to standard category • in the first year from the date of upgradation	0.25 to 1.00 (depending upon the category of advance)	2

Extract from Monetary Policy Statement 2011-12

Enhancement of Rates of Provisioning for Non-Performing Assets

110. In pursuance of the announcement made in the Second Quarter Review of October 2009, banks were advised in December 2009 to achieve a provisioning coverage ratio (PCR) of 70 per cent for their non-performing advances by end-September 2010. this coverage ratio was intended to achieve a counter-cyclical objective by ensuring that banks build up a good cushion of provisions to protect them from any macroeconomic shock in future. In April 2011, banks were advised to segregate the surplus of provisions under the PCR vis-a-vis as required as per prudential norms as on September 30, 2010, into an account styled as “counter cyclical buffer”. While the “counter cyclical buffer” so created would be available to banks for making specific provisions during economic downturns, there is a need for banks to make higher specific provisions also as part of the prudential provisioning framework. Accordingly, it is proposed to enhance the provisioning requirements on certain categories of non-performing advances and restructured advances as under:

- advances classified as “sub-standard” will attract a provision of 15 per cent as against the existing 10 per cent (the “unsecured exposures” classified as sub-standard assets will attract an additional provision of 10 per cent, i.e., a total of 25 per cent as against the existing 20 per cent);
- The secured portion of advance which have remained in “doubtful” category up to one year will attract a provision of 25 per cent (as against the existing 20 per cent);
- the secured portion of advances which have remained in “doubtful” category for more than one year but upto 3 years will attract a provision of 40 percent (as against the existing 30 per cent);
- restructured accounts classified as standard advances will attract a provision of 2 per cent in the first 2 years from the date of restructuring, or in cases of moratorium on payment of interest / principal after restructuring, for the period covering moratorium and 2 years thereafter (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances); and
- restructured accounts classified as non-performing advances, when upgraded to standard category will attract a provision of 2 per cent in the first year from the date of upgradation (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances).

111. Detailed guidelines in this regard will be issued separately.

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

SIDBI No.9586 / DFID / Ref(50) June 14, 2011

The CMDs / MDs of MoU SFCs

Circular No.FI.11/2011-12

Madam / Dear Sir,

Refinance / LOC Scheme – Exposure to real Estate Sector -
Assessment of Group Risk

Please refer to our circular FI No.07/2009-10 issued vide letter No.3689 /DFID/SFCs/CRE dated September 30, 2009 reiterating the need for the SFCs to put in place appropriate system for monitoring the Real Estate sector portfolio. We had also, inter alia, forwarded therewith the guidelines issued by RBI on classification of CRE Exposures.

It has been observed that some of the companies operating in the real estate sector have significant exposure in the form of advances, investments, etc., to their subsidiaries and other group or related entities. As a matter of prudence, SFCs may meticulously assess the inherent group risk of their borrowal accounts falling under the purview of real estate sector. Further, while assessing the loan requirements of large builders/land developers, they may carefully analyse the financial credentials / viability of the borrowers on a consolidated accounts / position of the group. They may also examine the financial credentials / viability of the relevant unconsolidated related entities such as Special Purpose Vehicles (SPVs).

You are requested to place this circular at the next meeting of the board of Directors of your corporation, for its information and necessary action.

Yours faithfully,

Sd/-
[K.Sathianandan]
General Manager