

## Manish Kumar Poddar (FCA, CAAT)

Senior Partner | SDP & Associates | Chartered Accountants | Bangalore | Delhi (NCR) | Kolkata | Mumbai | Varanasi

**Office Addresses :** T-4, 189/44, 3rd Floor Shalimar Arcade, Opp. 10th Cross Bus Stop, Wilson Garden, Bangalore - 560027 | Office No. 306, Nipun Plaza, Sector4, Vaishali, Ghaziabad 201010, Delhi (NCR) | 3A, Rammohan Mullick Garden Lane, RAIKVA (E.M.Bypass- Beliaghata Crossing), 3rd Floor, 10B, Kolkata 700010 | C 1304, Kailas Business Park, Veer Sawarkar Marg, Park Site, Vikhroli (W), Mumbai - 400079 | D-35/22, Second Floor, Jangambari, above Karur Vyasa Bank, Varanasi 221001

### Relaxation in NPA provisioning norms on MSME loans given by banks and Non-banking Financial Companies :-

Currently, banks and Non-banking Financial Companies (NBFC) are required to classify loan accounts as Non Performing Assets (NPAs) as per below provisions :

Type of loan	Identification
Term loan	Interest and/ or instalment of principal remain overdue for a period of more than 90 days
Overdraft/CC Limit	Account is treated as NPA if it remains out of order for a period of more than 90 days. An account is treated as out of order if, NPA – <ul style="list-style-type: none"><li>•The outstanding balance remains continuously in excess of sanctioned/drawing power limit or</li><li>•Though the outstanding balance is less than the sanctioned limit/drawing power.</li><li>•There are no credits continuously for more than 90 days in the account i.e. the account is non-operative.</li><li>•The credits during the aforesaid period in accounts are not sufficient to cover the interest debited during the same period.</li></ul>
Bill Purchased/ Discounted	Bill remains over due for a Discounted period of more than 90 days
Agricultural Advances	In case of Short duration crops, the instalment of principle or interest thereon remains overdue for two crop seasons. In case of long duration crops, the instalment of principle or interest thereon remains overdue for one crop seasons.
Liquidity facility	Remains outstanding for more than 90 days in respect of securitization transaction.
Derivative Transactions	Overdue receivables representing positive mark to market value of a derivative contract remaining unpaid for a period of 90 days from specified due date
Interest Payment	An account is classified as NPA only if interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter

**Other Provision :** A working capital borrowal account will become NPA if \*irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.

\*Irregular drawings : The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular.

## **Relief for MSME Borrower :**

Considering the representations received by Reserve Bank of India (RBI) highlighting the impact on cash flow of small entities during the Goods and Services Tax (GST) transition phase, the RBI has issued a notification dated 07 February, 2017. The notification liberalises the NPA recognition criterion for banks and NBFCs vis-à-vis borrowers classified as micro, small and medium enterprises (MSME) under the MSME Development Act, 2006.

Loans given to the above borrowers can continue to be classified as standard assets in the books of banks and NBFCs subject to following conditions:

- The borrower is registered under the GST regime as on 31 January, 2018.
- The aggregate exposure, including non-fund based facilities of NBFCs to the borrower does not exceed INR 250 million as on 31 January, 2018.
- The borrower's account was standard as on 31 August, 2017.
- The amount from the borrower overdue as on 01 September, 2017 and payments from the borrower due between 01 September, 2017 and 31 January, 2018 are paid within 180 days from their respective original due dates.

### **Provisioning by banks/ NBFCs**

- The Notification states that a provision of 5% shall be made by NBFCs against the exposures not classified as NPA.
- The above provision of 5% can be reversed as and when no amount is overdue beyond the 90/ 120 day norm.
- Further, if the interest from the borrower is overdue for more than 90/ 120 days, the same shall not be recognised on accrual basis.

This is a welcome move from RBI, recognising the business exigencies faced by MSME in the current economic environment.: