

**Bank Branch Statutory Audit
OTS and Restructuring of Advances
Pune Branch of WIRC of ICAI – 27 March 2022**



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Agenda

- One Time Settlement (OTS)
- Sale of NPAs to Asset Reconstruction Companies
- Restructuring of advances
- Case Studies



Important RBI circulars

- RBI/2018-19/ 203
DBR.No.BP.BC.45/21.04.048/2018-19
June 7, 2019 on **Prudential Framework for Resolution of Stressed Assets**
- RBI/DOR/2021-22/86
DOR.STR.REC.51/21.04.048/2021-22
September 24, 2021 **Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021**



Important RBI circulars

- RBI/2020-21/17
DOR.No.BP .BC/4/21.04.048/2020-21
dated August 6, 2020 **Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances**
- RBI/2020-21/16
DOR.No.BP .BC/3/21.04.048/2020-21
dated August 6, 2020 **Resolution Framework for COVID-19 related Stress**



Important RBI circulars

- RBI/2021-22/32
DOR.STR.REC.12/21.04.048/2021-22 dated May 5, 2021 **Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)**
- RBI/2021-22/31
DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2021 **Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses**



Important RBI circulars

- **RBI/2021-22/47 DOR.STR.REC.21/21.04.048/2021-22 dated June 4, 2021 Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs) – Revision in the threshold for aggregate exposure**
- **RBI/2021-22/46 DOR.STR.REC.20/21.04.048/2021-22 dated June 4, 2021 Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses - Revision in the threshold for aggregate exposure**



Different types of Restructuring

- ❖ One Time Settlements
- ❖ Insolvency and Bankruptcy Code, 2016
- ❖ Internal restructuring under the RBI framework – COVID relief
- ❖ MSME Restructuring
- ❖ Individual and Small Business Loans
- ❖ Projects Under Implementation
- ❖ Sale of NPA to ARCs



Different types of Restructuring

- ❖ National Asset Reconstruction Company Limited (NARCL/ Bad Bank) and India Debt Resolution Company Limited (IDRCL) – going forward – Rs. 30,600 crores SRs issued by it will be guaranteed by GOI for 5 years
- ❖ To avoid delay in the resolutions it will have to pay guarantee fee which will keep increasing over passage of time.
- ❖ Intends to resolve Rs. 500 crores of each loans amounting to Rs. 2 lakhs crores – 90,000 crores in Phase I and remaining in Phase II



Different types of Restructuring

- ❖ Pre - packaged Insolvency Resolution Process (PPIRP) for MSMEs
- ❖ IBC (Amendment) Ordinance, 2021 on 4th April 2021
- ❖ Mainly to help the MSMEs in stress due to COVID
- ❖ Quicker, cost effective and value maximizing outcomes for the stakeholders with least disruption to business and which preserves jobs.
- ❖ Built on trust and honors the honest MSME owners by enabling resolution when the ***Company remains with them.***
- ❖ Defaults at least 1 crores for which CIRP available
- ❖ Also, for defaults at least 10 lakhs and defaults arose between 25/3/2020 to 24/3/2021



Different types of Restructuring

- ❖ Eligibility:
 - i. Committed default of at least 10 lakhs
 - ii. Eligible to submit plan u/s 29A of the code
 - iii. Not undergone under PPIRP in previous 3 years
 - iv. Not completed CIRP in previous 3 years
 - v. In not undergoing CIRP
 - vi. Not required to be liquidated u/s 33 of the code
- ❖ Copy of Udyam Regn Certificate to be attached/ proof of investment in Plant and machinery/ equipment for confirming MSME status
- ❖ CD will initiate the process by conducting the meeting of the UFC and appointing the RP – Mutual understanding – List of creditors – Consent of UFC 66% - Application to AA for admission – update list of claims - CD will submit the Base Resolution Plan (BRP)



Different types of Restructuring

- ❖ BRP impairs operational creditors – then RP invites alternate RP – Best alternate plan (BAP) is selected
- ❖ BAP not significantly better than BRP
- ❖ BAP significantly better than BRP
- ❖ No alternative plan received
- ❖ COC to approve the best plan by comparing the BAP and BRP and approve it
- ❖ Plan to be submitted to AA by 90 days
- ❖ If AA approves the plan, then the PPIRP closes with resolution or else it closes without resolution



One Time Settlement (OTS)

OTS is an effective tool for speedy recovery of Bank's dues. Through negotiated settlements Bank agrees to part with certain concessions in terms of sacrifice in total dues payable, rate of interest etc so that the recovery can take place immediately, without undergoing the legal process. NPA's have following effects on the Banks:

- a) The NPAs do not generate any income even though they are part of assets portfolio.
- b) Provision requirement on NPAs is a drain on profits of the Bank.
- c) Additional expenses by way of legal charges, security charges etc., are required to be incurred till the actual recovery of the dues.
- d) It requires additional capital to attain Capital Adequacy Ratio.



One Time Settlement (OTS)

BENEFITS:

- a) Bank can recycle the funds recovered through compromise settlement;
- b) Bank can save on man power, time and expenses involved in the legal process;
- c) The gross level of Non-Performing Assets of the bank is reduced through the recovery affected;
- d) Provision held against the NPA will be released on recovery, which can be utilized to meet additional provision requirement in respect of fresh NPAs;



One Time Settlement (OTS)

SELECTION OF CASES FOR OTS:

- a) Accounts classified as NPAs and activities are closed or on the verge of closure.
- b) Where activities are running in losses and there is inadequate security / deterioration in the quality of security;
- c) The net worth of the borrowers/guarantors is meagre;
- d) There is difficulty in disposal of security;
- e) Chances of recovery through legal process are time consuming due to certain legal procedures and time involved in actual recovery through execution proceeding would be long.
- f) The borrower has sincere desire to settle the dues.
- g) The cases where field functionaries are satisfied that the OTS / settlement is a better option in the given circumstances.



One Time Settlement (OTS)

AUDIT ISSUES:

1. Check the delegation of powers as per the recovery policy of Bank.
2. Cases of Wilful Default, Fraud and Malfeasance.
3. Reasons for NPA.
4. Repayment Capacity of Borrower.
5. Usually the OTS amount should not be less than the NPV of the available security net of cost realisation.
6. Upfront amount and Deposit in No Lien Account



One Time Settlement (OTS)

AUDIT ISSUES:

7. Accounting of processing income
8. Withdrawal of counter claims by the borrowers against the Bank
9. The time required to make payment under OTS should be such that it has linkage with the sources available e.g., sale of property, raising loans from other FIS/Banks or friends and relatives.
10. Total dues = **Ledger Balance as on NPA date + unapplied interest + other charges.** Non fund based exposures also to be considered.



Case Study 1

- XYZ Pvt Ltd is a real estate developer which turned NPA on 28.11.2016 – environment issues/ litigations
- Borrower approached Bank with proposal for OTS of Rs. 25 crores against ledger balances of Rs. 33 crores and unapplied interest of Rs. 12 crores.
- He deposited 25% of offer in No Lien account amounting to Rs. 6.25 crores.
- NPV of the security was Rs. 183.54 crores and the distress value was Rs. 153.44 crores.
- No adverse comments in Forensic audit report/ No lapses under staff accountability
- Bank has second charge on the project land and around 600 Home Buyers interests already created on the constructed flats.
- Suit filed and symbolic possession obtained by the Bank



Case Study 1 (Contd)

- Sources of funds – borrowings from friends, relatives and associates and from own sources
- Deferred period interest to be charged @ RLLR+2% on amount paid after 90 days from date of acceptance to actual date of payment
- Securities will be released upon full OTS payment
- In case of default in payment/ non-compliance with terms and conditions the OTS will be declared as failed.
- Justifications for the OTS:
 - High security value but recovery prolonged and difficult as Bank has second charge, first charge being with the Local Municipal Body and Home buyers' interest already created on flats constructed
 - Legal opinion
- Legal expenses and processing fees to be recovered
- Borrower to withdraw all suits against the Bank
- Bank finalized OTS at Rs. 33 crores without any sacrifice of ledger balance.



Case Study 2

- ABC Ltd is a steel trader and declared NPA on 31.12.2006 due to devolvement of LCs.
- Forensic audit report classified the account as Fraud.
- O/s was Rs. 15 crores and unapplied interest of Rs. 6 crores
- OTS offered by party of Rs. 5 crores
- Security value was Rs. 3.30 crores and distress value Rs. 2.50 crores.
- Upfront amount of Rs. 0.60 crores held in no lien account to be adjusted upon acceptance of sanction
- Rs. 1.25 crores to be paid by 31.12.2021 and Rs. 3.15 crores to be paid by 31.3.22
- Interest @ RLLR+2% to be recovered on delayed payment beyond 90 days
- Ledger balance of Rs. 10 crores and unapplied interest of Rs. 6 crores waived off.



Case Study 2

- Bank did not get any buyers under auction.
- Borrower was a litigant and had filed several cases against Bank.
- Bank declared him as willful defaulter and filed case in CBI.
- Recovery under DRT will take 2 to 3 years
- Net worth of guarantors is meagre.
- Letter informing the compromise settlement to IO of CBI thereby giving 30 days time for no objection and upon receipt of NOC from CBI, the OTS was implemented by the Bank.
- The borrower was also informed that OTS is a commercial decision by Bank and it will not have any bearing on the criminal case investigation. The same will proceed as per law.
- Based on the above points the borrower accepted the proposal and showed his readiness for making the payment as per the sanction.



One Time Settlement (OTS)

Auditor to check

1. OTS as per the Banks and RBI's policy
2. Note on proposal for compromise settlement.
3. Acceptance of OTS by the Borrower
4. Justifications for waivers
5. SWOT analysis
6. Calculation of Minimum Expected Recovery (MER)
7. Delegation of powers
8. Latest valuation reports
9. Accounting of income – processing charges/ legal charges
10. Recoveries as per the agreed terms
11. Release of securities and issuance of NOC
12. TWO then entire recovery will be profit for Bank.



Sale of NPAs to ARCs

Sale of NPAs to Securitisation Companies (SC)/ Reconstruction Companies (RC):

**RBI/DOR/2021-22/86 DOR.STR.REC.51/21.04.048/2021-22
September 24, 2021**

- ❖ Mostly applicable to ARB/ SAM branches
- ❖ Through assignment or novation only
- ❖ As per Board approved policy
- ❖ Top-down approach
- ❖ Determination of Reserve Price – basis of valuation – internal/ external, discount rate to be used – Board approved policy
- ❖ Exposures > 100 crores – 2 external valuations
- ❖ Deal can be CASH+SR or only CASH
- ❖ Standalone or POOL of assets



Sale of NPAs to ARCs

- ❖ Sale to Banks/ FI/ NBFCs - only on CASH basis
- ❖ Management fees payable to ARCs
- ❖ Sale through e-auction platforms
- ❖ Sale only to recognized ARCs who have RBI registration under section 3 of the SARFAESI Act
- ❖ Swiss Challenge Method to be used
- ❖ 75% by value and 60% by numbers – under Resolution Plan
- ❖ Adequate time for due diligence by prospective acquirers
- ❖ Loan can be removed from books only on receipt of entire transfer consideration
- ❖ Banks to continue to pursue Staff accountability
- ❖ Transfer at below NBV – shortfall to be debited to P&L – permitted to use floating/ countercyclical provisions



Sale of NPAs to ARC

- ❖ Investments in SRs/ PTCs/ other securities issued by ARC shall be valued periodically by reckoning the NAV declared by the ARC
- ❖ Banks to carry the SRs/ PTCs as investments at lower of redemption value based on NAV and the NBV at the time of transfer.
- ❖ SRs/ PTCs – not redeemed at the end of resolution period – shall be treated as loss asset
- ❖ Mostly deals now a days are on Cash Basis even at a higher discount since recoveries through SR/ PTC have not been satisfactory.
- ❖ NARCL – Bad Bank / IDRCL



Sale of NPAs to ARC

❖ Eligibility of accounts:

1. Stressed Loans with default > 60 days/ NPA
2. TWO/ RWO
3. Suit filed/ decreed accounts
4. Fraud accounts can also be sold by transferring all the legal responsibilities to the ARC
5. Before selling the Bank must have exhausted the possibility of restructuring and compromise.
6. OTS cases under implementation
7. Restructured accounts under implementation



Case Study 1

- ❖ A Ltd Bank selected an account Superpower Ltd with a ledger balance of Rs. 88 crores for sale to ARC after obtaining necessary approvals from its Management.
- ❖ The necessary advertisement were done in the newspapers for obtaining EOI
- ❖ The internal Reserve Price was finalized at Rs. 40 crores based on the valuations. As the first auction had failed the RP was reduced by 10% and the revised RP was finalized at Rs. 36 crores
- ❖ The account was TWO and the entire proceeds received were credited to the P&L
- ❖ With the appropriate approvals Rs. 52 crores ledger balance and unapplied interest was waived off.
- ❖ Auction was carried out on Auction Tiger platform.



Case Study 2

- ❖ B Ltd Bank selected an account Big Farm Produce Ltd with a ledger balance of Rs. 100 crores for sale to ARC after obtaining necessary approvals from its Management.
- ❖ The necessary advertisement were done in the newspapers for obtaining EOI.
- ❖ The internal Reserve Price was finalized at Rs. 20 crores based on the valuations.
- ❖ Security was already sold through e auction to XYZ Ltd for 30 crores. The purchaser didn't pay the full amount and the matter is sub-judice. Hence auction is pending to be confirmed by Bank in favour of the auction purchaser.
- ❖ Letter issued to purchaser regarding sale of asset to ARC - if any claim raised and decided in favour of purchaser then it will be borne by ARC.
- ❖ The account was TWO and the entire proceeds received were credited to the P&L
- ❖ With the appropriate approvals Rs. 80 crores ledger balance and unapplied interest was waived off.
- ❖ Auction was carried out on Auction Tiger platform.



Sale of NPAs to ARC

Auditor to check

1. Process as per the Bank's and RBI's policy
2. Note on proposal for sale
3. Winning Bid and receipt of funds/ SRs/ PTCs
4. Justifications and approvals for waivers
5. Delegation of powers
6. Latest valuation report – internal/ external
7. Recoveries as per the agreed terms
8. Release of securities
9. TWO then entire recovery will be profit for Bank.



Restructuring Relief for MSME Borrowers

Date of Circular	Details of Circular	P A Cut off Date
07 Feb, 2018	One time restructuring of MSME advances	31 August, 2017
01 Jan, 2019	Scheme Extended (31.3.2020)	01 Jan, 2019
11 Feb, 2020	Scheme Extended (31.12.2020)	01, Jan 2020
06 August, 2020	Scheme Extended (31.3.2021)	01, March 2020
05 May, 2021	Scheme Extended (31.12.2021)	31 March, 2021
04 June, 2021	Aggregate exposure increased from 25 crores to 50 crores	



Relief for MSME Borrowers

Circular dated May 5, 2021

MSME Sector restructuring of advances (in continuation of August 06, 2020 circular)

One time relaxation given for restructuring of MSME standard accounts without downgrade subject to conditions



Relief for MSME Borrowers

Circular dated May 5, 2021

1. Borrower should be MSME as on 31.03.2021
2. Borrower entity should be GST registered on date of implementation of restructuring (except for MSMEs that are exempt from GST Registration – Exemption limit to be checked as on 31.03.2021)



Relief for MSME Borrowers

Circular dated May 5, 2021

3. Aggregate exposures, including FB+NFB of all lending institutions should not exceed Rs. 25 crores as on 31.03.2021
4. Borrower account should be “Standard Asset” as on 31.03.2021
 - ❖ An account not marked as NPA but fulfilling NPA criteria to become ineligible
 - ❖ An account which is NPA as on 31.03.2021 but upgraded subsequently ineligible



Relief for MSME Borrowers

Circular dated May 5, 2021

5. Borrowers account was not restructured before under any of the MSME restructuring circulars.
6. Restructuring of the Borrower is invoked by 30.09.2021 and implemented within 90 days from the date of invocation i.e. 31.12.2021.



Relief for MSME Borrowers

Circular dated May 5, 2021

7. Borrowers not registered on Udyam Registration Portal should get themselves registered before the date of implementation of restructuring plan
8. Banks to keep 10% provision on the residual debt
9. All restructuring to be carried out as per the Board approved policies of the Bank



Relief for MSME Borrowers

Circular dated May 5, 2021

10. Asset classification to be retained even if the account slips into NPA category between 01.04.2021 and date of implementation
11. One time measure to review the working capital sanctioned limits / DP based on reassessment of the working capital cycle / reduction of margins – to be decided by Banks by 30.09.2021



Relief for MSME Borrowers

Circular dated May 5, 2021

12. Disclosure in Notes to accounts – number of accounts and amount
13. If the restructured accounts are downgraded as NPA as per IRAC norms, the same would be eligible for upgradation only if they demonstrate satisfactory performance during the specified period.



Projects under Implementation

Essentials

Project loan means any term loan which has been extended for the purpose of setting up of an economic venture.

The bank needs to clearly spell out 'Date of Completion' (DC) and 'Date of Commencement of Commercial Operations' (DCCO) at the time of sanction.

Type of Project Loan:

1. Infrastructure Sector
2. Non-Infrastructure Sector



Projects under Implementation

When not considered as Restructuring?

If *change in repayment schedule* is caused due to increase in project outlay on account of increase in scope and size of the project & following conditions are fulfilled:

1. The increase in scope and size of the project takes place before commencement of commercial operations of the existing project;
2. The rise in cost excluding any cost-overrun in respect of the original project is 25% or more of the original outlay;
3. The bank re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCO;
4. On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.



Projects under Implementation

Deferment of DCCO

If deferment and consequential shift in repayment schedule is for equal or shorter duration, then the account is not considered as restructuring if:

Particulars

Infrastructure

Non-Infrastructure

Revised DCCO is within

Two years from original DCCO

One year from original DCCO

Revision due to Court Case

2 + 2 Years from original DCCO

Revision due to any other reason beyond the control of promoters

2 + 1 Years from original DCCO

1 + 1 Years from original DCCO



Projects under Implementation

Deferment of DCCO & Retention of Class – Conditions

1. Benefit of asset classification not applicable to CRE with extension by 1 year as per circular dated 07.02.2020
2. Application for restructuring (deferment of DCCO) is received upto two years from date of original DCCO for Infrastructure and one year w.r.t. non-infrastructure
3. Account needs to be standard
4. If moratorium given for interest, income on accrual can be booked till two years from date of original DCCO for Infrastructure and one year w.r.t. non-infrastructure
5. Additional provision of 5% if extended beyond two years from date of original DCCO for Infrastructure and one year w.r.t. non-infrastructure



Projects under Implementation

Deferment of DCCO & Retention of Class – Conditions

6. Additional provision of sacrifice (diminution in fair value) for standard assets is required to be made for extension of DCCO
7. In case of Infrastructure projects under implementation, appointed date is shifted due to inability of concession authority to comply requisite conditions, the loan need not be treated as 'restructuring' provided:
 - i. Project should be Public Private Partnership model
 - ii. Loan is not yet disbursed
 - iii. Revised date is documented by way of supplementary agreement
 - iv. Viability to be re-assessed and sanctioned



Projects under Implementation

Retention of Class – Change of Ownership (2+2+2)

Additional extension of DCCO permitted upto 2 years with retention of class subject to:

1. Project is stalled due to inadequacies of the promoters;
2. Change of ownership resulting in high probability of commencement of commercial operations;
3. New promoters need to have sufficient expertise
4. New promoters should own at least 51% of paid up equity
5. Viability of the project to be established
6. Intra-group company take over not eligible



Projects under Implementation

Retention of Class – Change of Ownership (2+2+2)

Additional extension of DCCO permitted upto 2 years with retention of class subject to:

7. Asset classification would be as of reference date (date on which preliminary binding agreement is executed)

8. Take over to be completed within 90 days

9. New promoters to demonstrate commitment by bringing in substantial portion of additional funds

10. Repayment schedule not to exceed beyond 85% of economic life

11. Facility available only once



Projects under Implementation

Retention of Class – Financing of Cost Over-runs

Standby Credit Facility:

1. Sanctioned at the time of initial financial closure
2. Purpose is to fund cost overruns, if required
3. To be disbursed only if cost overruns and not otherwise
4. Subsequent Standby Credit facility permitted if DCCO extended upto 2 / 1 year for infra and non-infra
5. Exemption from definition of restructuring provided:
 - i. Interest during construction due to delay can be funded
 - ii. Other cost overruns limited to 10% of original cost



Projects under Implementation

Retention of Class – Financing of Cost Over-runs

Standby Credit Facility:

5.Exemption from definition of restructuring provided:

- iii. Debt / Equity Ratio need to be unchanged (promoters to infuse funds)
- iv. Disbursement only after promoter's contribution
- v. No other change in terms and conditions
- vi. 10% cost-over run ceiling is excluding interest but including currency fluctuations



Case Study 1

- Paper Trading Ltd is in the business of importing paper applied for restructuring since it faced issues with the lockdown and also realization of its receivables.
- CC was reduced from Rs. 10 crores to Rs. 5 crores since there was insufficient DP
- WCTL I was created of Rs. 10.82 crores pertaining to the portion of the devolved LC
- Moratorium in principal and interest payments(FITL) was given for 2 years



Case Study 1

- WCTL II of Rs. 5 crores carved out towards the CC amount which was reduced
- Similar moratorium given for WCTL II
- FITL of Rs. 3.27 crores for funding of WCTL and unapplied interest on CC
- Moratorium towards the principal amount given for 2 years and interest to be repaid as and when charged.
- Emergency Credit Line Guarantee Scheme (ECLGS) granted of Rs. 1.95 crores –100% guaranteed by NCGTC
- Interest to be serviced as and when due.



Case Study 1

- **Auditor Check points:**
 - Check the proposal submitted by the party
 - Confirm the processing fees
 - Check the master has been amended as per the sanction letter
 - Scrutinise the TEV study report and ascertain the restructuring has been done as per the parameters mentioned in the TEV study report
 - Interest regularly serviced in FITL and ECLGS



Case Study 2

- Five Star Hotel Ltd was shut down during the lockdown and applied for restructuring under the COVID relief framework.
- Reference Date – 01.03.2020
- Cut off Date – 01.09.2020
- Moratorium was granted upto 31.12.2021 for TL and upto 31.3.22 for FITL
- Interest capitalized from reference date to cut off date



Case Study 2

- FITL for conversion of interest during the moratorium period
- Right of recompense agreed with the borrower
- RTL I – O/s Bal – 200 crores – interest to be serviced as & when applied from FITL I
- RTL II – O/s Bal – 50 crores - interest to be serviced as & when applied from FITL II
- FITL I – Rs. 32 crores
- FITL II – 6 crores
- Processing fees of Rs. 2 crores to be recovered



Case Study 2

Auditor Check points:

- Account was standard as on 1st March, 2020
- Account was not in default for more than 30 days as on 01.03.2020
- Account is standard till the date of invocation of the Resolution Plan
- RP was invoked before 31.12.2020
- Rating should be RP4
- Implemented within 180 days from date of invocation.
- TEV study report



Case Study 3

- ABCD Ltd a Govt entity with borrowings under Consortium dealing in minerals and metal trading submitted proposal for restructuring since its import and export activities were severely impacted. Loss in trading turnover and shutting of plants
- Cut off Date – 11.12.2020
- WCTL for conversion of interest due but not paid till date of implementation on TL and CC i.e 1.05.21 amounting to Rs. 102 crores
- Moratorium upto 31.3.22



Case Study 3

- FITL I – interest due during the moratorium period on STL
- FITL II – interest due during the moratorium period on WCTL
- Penal interest waived
- Processing charges of Rs. 1 crores recovered
- Upfront amount of 5 crores



Case Study 3

Auditor Check points:

- TEV Study Report basis
- Waiver of penal interest – to check the reversal in the accounts
- Consortium account – Minutes to be checked
- Booking of income as per sanction letter – documentation/ supervision charges etc
- Compliance of specific terms and conditions
- To verify the infusion of upfront amount of Rs. 5 crores via unsecured loan – quasi capital



Case Study 4

- Apna Stores Ltd account was restructured by the Bank under the RBI circular for MSME Relief
- The borrower was banking for more than 3 decades with the bank
- WCTL I was carved out of Rs. 5 crores towards the devolved LCs.
- WCTL II was carved out of Rs. 10 crores towards the overdrawn amount
- CC was kept at Rs. 8 crores and TL at Rs. 2 crores



Case Study 4

- Moratorium was granted for WCTL and TL instalments and FITL was created for the interest to be charged during the moratorium period.
- Restructuring was duly approved by the Bank officials and necessary documentation etc was carried out during the month of November 2020.
- While conducting the statutory audit of the Branch the auditor noticed that the borrower had showed loan of Rs. 10 crores from an NBFC and hence was not eligible for the restructuring and downgraded the account with retrospective date.



Case Study 4

- As per RBI circular dated August 6, 2020 only those accounts are eligible for restructuring under the MSME guidelines whose aggregate exposure, including non fund based facilities of banks and NBFCs do not exceed Rs. 25 crores as on March 1, 2020.
- Since the borrower had not informed the Branch/ also the Branch had failed to find this borrowing from his CIBIL/ CRILC records hence the auditor was correct in downgrading the account.



Case Study 5

- Tom Cruise was in the business of tours and travels. During lockdown he suffered huge losses and applied to bank for restructuring his facilities.
- The proposal was submitted by the party for restructuring his loans and the cash flows submitted were linked to the sale of a flat which was owned by his sister.
- The proposal was accepted by the branch and the necessary restructuring was carried out as per the policy.



Case Study 5

- While conducting the audit, the statutory auditor noticed that the security creation was not done properly and he ascertained from the internal note that the sister had permanently migrated to Canada and there was dispute between the siblings.
- Accordingly, the auditor downgraded the account and considered the restructuring as void.



Case Study 6

- Ropeway Ltd is in the business of constructing Ropeways. It applied for restructuring since it faced issues with the lockdown, low turnover and also slow realization of its receivables.
- Actual DCCO was on 01/06/2021 but it was agreed to shift the DCCO to 01/02/2022 and repayment schedule from June 2023.
- As the DCCO was shifted within one year, the account was maintained as standard.



Case Study 6

Auditor Check points:

- Booking of income as per sanction letter – documentation/ supervision charges etc
- Compliance of specific terms and conditions
- To verify the CA certificate and Lenders Independent Engineers (LIE) report obtained from the borrower.
- To confirm the future cashflows as per the TEV study report



Case Study 7

- M/s G.M.T & sons is in the business of trading of goods. It applied for restructuring since it faced issues with the lockdown and also slow realization of its receivables.
- M/s G.M.T & sons account was restructured by the Bank under the RBI circular for Covid Relief.
- Before March 2020 the account was overdue for 2 months and was standard account as per IRAC norms, but due to Covid pandemic, the borrower was unable to pay the instalment due to which it applied for restructuring.



Case Study 7

- During the final audit, the auditor noticed that while restructuring the account the bank did not analyse the projected financials and future cashflows and stock audit report of the borrower.
- The auditor observed that there was negative DP and also qualification of the statutory auditors on non provision of debtors balances. Thus the plan submitted seemed unviable.
- Hence, he downgraded the account and considered the restructuring to be void.



Case Study 8

- ABC Ltd had borrowing limits with XYZ Bank of Rs. 20 crores as CC and Rs. 5 crores as TL.
- The CC was overdrawn as on 31.3.2021 and was classified by the system as NPA.
- The Branch carved out the overdrawn limits of CC into WCTL and gave moratorium for the instalments on TL for 2 years and created FITL for the interest to be serviced on the TL and WCTL payable in 3 years.



Case Study 8

- While auditing, the auditor observed that the Branch had restructured the account and upgraded it SUO MOTO as it didn't want to show it as NPA in its books and wanted to take advantage of the COVID circulars.
- Necessary documentation was not in place – there was no request from borrower – implementation of the package was not done in the CBS.
- Hence the auditor considered the restructuring to be void and cancelled the upgradation.



Case Study 9

- ITR Ltd applied for restructuring to Bank as on 30.6.21. It has CC limit of Rs. 10 crores and TL of Rs. 5 crores.
- The Branch sanctioned the restructuring and carved out the WCTL and FITL and gave moratorium for the instalments and interest.
- At year end the auditor observed that the account of ITR was marked as NPA by the CBS on 31.3.2021 and hence the account was not eligible under the MSME circular and passed MOC for downgrading the account and reversing the effect of restructuring.



Case Study 10

- Bahubali Ltd applied for restructuring to Bank as on 30.9.21. It has CC limit of Rs. 8 crores and TL of Rs. 10 crores.
- In the last quarter of 2020-21, there were insufficient credits in the CC account to cover the interest debited even though the O/s was within the limit.
- The Branch sanctioned the restructuring and carved out the WCTL and FITL and gave moratorium for the instalments and interest.



Case Study 10

At year end the auditor observed that the account of Bahubali Ltd was NPA as on 31.3.2021 as per IRAC norms even though it was not identified as NPA by CBS; and hence the account was not eligible under the MSME circular and passed MOC for downgrading the account and reversing the effect of restructuring.



Case Study 11

- Beautiful Ltd applied for restructuring under the MSME Covid guidelines since its Salon was making losses during lockdown. It requested for carving out Rs. 50 lakhs excess in CC account as WCTL and creation of Rs. 25 lakhs as FITL and kept CC at Rs. 2 crores.
- Beautiful Ltd had faced problems in the past and the account which was NPA as on 31.3.2021 was later upgraded as per IRAC norms since full recoveries were made by Bank.



Case Study 11

- It made request to the Bank on 30.8.21 after paying all its dues.
- The Branch willingly restructured its account since the borrower was an old account with the Branch.
- At the year-end, the auditor downgraded the account with retrospective date since as on 31.3.2021 the account was NPA and hence ineligible for restructuring as per the RBI MSME circular.



Restructuring

Auditor to check

1. Restructuring carried out for genuine reasons and not for ever greening the account.
2. Should be carried out on the basis of the request of the borrower and not SUO MOTO by the branch.
3. Check the note on proposal put up by the Branch based on the request of the borrower.
4. Viability of the proposal is established properly through TEV Study Report and Cash Flows/ Business Plans which should be realistic and not very optimistic.
5. Valuation of the securities has been carried out by registered valuer.



Restructuring

Auditor to check

6. The restructuring has been implemented in the CBS by carving out the additional limits like WCTL, FITL etc.
7. The master has been updated accordingly.
8. The proposal has been dealt with as per the laid down policy of the Bank which is as per the RBI guidelines.
9. The necessary waivers and restructured limits have been duly approved by the appropriate Bank officials as per the delegation of powers.



Restructuring

Auditor to check

10. In case of COVID related restructuring, ascertain whether actually, the borrower's business suffered due to the pandemic.
11. To check whether the interest components on the TL, CC, WCTL have been transferred to FITL on the specified dates. Check the interest debited on 31.3.22
12. FITL is provided 100% being notional income hence the transfer has to be checked properly.
13. Usually, the interest on FITL is to be serviced by the borrower and hence many a times the branch fails to recover that amount from the borrower.



Restructuring

Auditor to check

14. Confirm that the upfront amount has been infused by the borrower and CA certificate is obtained to that extent.
15. If the restructuring fails, then the account needs to be downgraded back dated considering the restructuring to be void and accordingly the classification and provisioning needs to be ensured.
16. Compliance of the specific terms and conditions in the sanction letter.



Thank you

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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