



Indian Banks' Association

CORPORATE & INTERNATIONAL BANKING

No. C&I/Circular/2014-15/689

September 29, 2014

To

The Chief Executives of All Member Banks

Dear Sirs/Madam,

Calculation of Drawing Power in consortium accounts including CDR/bilaterally restructured accounts

The Managing Committee (MC) considered a reference received from Reserve Bank of India (RBI) on issues relating to calculation and allocation of Drawing Power in respect of accounts under Consortium and CDR Restructuring. The reference contained a representation from a Member Bank in this regard and RBI suggested that these issues are procedural and may be examined and addressed, suitably by IBA.

2. The Committee noted that the banks follow RBI's approved MPBF methodology for arriving at the working capital requirement of their borrowers. The method of calculation of Drawing Power and its allocation under the Consortium Accounts presently followed by the Member Bank is in accordance with the MPBF system of working capital assessment. As regards the allocation of Drawing Power in Consortium Arrangement or a CDR Arrangement, the discipline envisaged in these arrangements demands that the Drawing Power allocation made by the Consortium Leader / Monitoring Institution is binding on the members in the Consortium and CDR lending system.

3. As regards the Member Bank's reference on the security cover of accounts under CDR in bilateral restructuring mechanism, the Committee decided that the instructions contained in para 16.1.1. of the CDR Master Circular of 2012, relating to security coverage by way of realizable value of security, both primary and collateral, should be diligently followed by the lenders. RBI Master Circular dated 1st July 2014 on "Prudential Norms on Income Recognition Asset Classification and Provisioning pertaining to Advances", has mandated that the classification of an asset is to be made on the record of recovery. It was pointed out that the accounts, which come for restructuring generally display weakness in availability of adequate drawing power. The asset should not be classified as NPA, merely on account of some deficiency, which is temporary in nature, such as non-availability of adequate drawing power based on the stock statement, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal

of limits on due date etc. In the matter of classification of accounts, with such deficiencies, banks may follow the laid down guidelines. The Committee desired that these guidelines may be reiterated to the member banks in terms of RBI's reference.

4. The detailed guidelines in this regard are contained in the **Annexure**. A copy of this circular is being forwarded to the RBI for their information.

Yours faithfully,



(Senior Advisor)
Sangeet Shukla


Encl.:a/a

Annexure to IBA Circular no. C&I/Circular/2014-15/689 dated September 29, 2014

1. The DP in case of consortium accounts would be calculated and allocated based on the method approved by RBI under the MPBF methodology as under -

Total Value of Stocks (Closing balance of stocks, their value as per market rates or cost price, whichever is lower)	A
Less : Excess of Sundry Creditors (Stocks)	B
Excess of Other Sundry Creditors	C
Over the level assumed at the time of assessment	
Net Value of Stock	$D=A-B-C$
Add: Eligible Trade Debtors including advance for stocks and expenses as envisaged at the time of assessment.	E
Less: Outstanding under Bills discounted	BD
Net Value of Debtors	$F=E-BD$
Total eligible Current Assets	$G=D+F$
Less : Stipulated Margin	H
Drawing Power	$G-H$

The allocation between the consortium members shall be done by the consortium leader pro-rata to the exposure assumed by these banks under consortium. The DP allocation advised to the consortium members will be binding on them for conduct of borrower's account. This may also apply to the facilities under the Multiple Banking Arrangements.

2. In case of the standalone credit facilities, it is advisable that the member banks adhere to the above methodology for the sake of uniformity and consistency so as to reduce confusion in operation staff and auditors alike.

3. As regards the status of restructured account and accounts referred to the CDR mechanism, the instructions issued by CDR Cell, vide Para 16.1 (i) of CDR Master Circular 2012, should uniformly apply, which are produced as under -

Fully secured: When the amounts due to a bank (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues, the bank's dues are considered to be fully secured. While assessing the realisable value of security, primary as well as collateral securities would be reckoned, provided such securities are tangible securities and are not in intangible form like guarantee etc., of the promoter/others. However, for this purpose the bank guarantees, State Government Guarantees and Central Government Guarantees will be treated on par with tangible security.

As regard these accounts, the impact of stock audit should be ignored if the account is fully secured as indicated above by total security i.e., Primary and Collateral and is otherwise adhering to the terms of restructuring under the restructuring or CDR terms.

4. The classification of an asset as NPA should be based on the record of recovery. Account should not be classified as NPA, merely due to existing of some deficiency which are temporary in nature such as non-availability of adequate drawing power based on latest available stock statement, balance outstanding exceeding the limit temporarily.



