

7th February 2018

Dear Sir/Madam,

We are sending herewith a circular issued by the Reserve Bank of India regarding Relief for MSME Borrowers registered under Goods and Services Tax (GST), for your information.

Eapen Kalapurakal
Secretary

RBI/2017-18/129

DBR.No.BP.BC.100/21.04.048/2017-18 February 07, 2018

All banks and NBFCs regulated by the Reserve Bank of India

Dear Sir/Madam,

Relief for MSME Borrowers registered under Goods and Services Tax (GST)

Presently, banks and NBFCs in India generally classify a loan account as Non-Performing Asset (NPA) based on 90 day and 120 day delinquency norms, respectively. It has been represented to us that formalisation of business through registration under GST had adversely impacted the cash flows of the smaller entities during the transition phase with consequent difficulties in meeting their repayment obligations to banks and NBFCs.. As a measure of support to these entities in their transition to a formalised business environment, it has been decided that the exposure of banks and NBFCs to a borrower classified as micro, small and medium enterprise under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, shall continue to be classified as a standard asset in the books of banks and NBFCs subject to the following conditions:

- (i) The borrower is registered under the GST regime as on January 31, 2018.
- (ii) The aggregate exposure, including non-fund based facilities, of banks and NBFCs, to the borrower does not exceed ` 250 million as on January 31, 2018.
- (iii) The borrower's account was standard as on August 31, 2017.
- (iv) The amount from the borrower overdue as on September 1, 2017 and payments from the borrower due between September 1, 2017 and January 31, 2018 are paid not later than 180 days from their respective original due dates.
- (v) A provision of 5% shall be made by the banks/NBFCs against the exposures not classified as NPA in terms of this circular. The provision in respect of the account may be reversed as and when no amount is overdue beyond the 90/1201 day norm, as the case may be.
- (vi) The additional time is being provided for the purpose of asset classification only and not for income recognition, i.e., if the interest from the borrower is overdue for more than 90/1202 days, the same shall not be recognised on accrual basis.

Yours faithfully,

(S.K. Kar)
Chief General Manager

8th February 2018

Dear Sir/Madam,

We are sending herewith a circular issued by the Press Information Bureau, Government of India, Ministry of Micro, Small & Medium Enterprises regarding the **proposal for Amendment to the Micro, Small and Medium Enterprises Development Act, 2006** for your information.

Eapen Kalapurakal
Secretary

**Press Information Bureau
Government of India
Ministry of Micro, Small & Medium Enterprises**

Cabinet approves proposal for Amendment to the Micro, Small and Medium Enterprises Development Act, 2006 to change the criteria of classification and to withdraw the MSMED (Amendment) Bill, 2015 – pending in Lok Sabha

The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved change in the basis of classifying Micro, Small and Medium enterprises from ‘investment in plant & machinery/equipment’ to ‘annual turnover’.

This will encourage ease of doing business, make the norms of classification growth oriented and align them to the new tax regime revolving around GST (Goods & Services Tax).

Section 7 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 will accordingly be amended to define units producing goods and rendering services in terms of annual turnover as follows:

A micro enterprise will be defined as a unit where the annual turnover does not exceed five crore rupees;

A small enterprise will be defined as a unit where the annual turnover is more than five crore rupees but does not exceed Rs 75 crore;

A medium enterprise will be defined as a unit where the annual turnover is more than seventy five crore rupees but does not exceed Rs 250 crore.

Additionally, the Central Government may, by notification, vary turnover limits, which shall not exceed thrice the limits specified in Section 7 of the MSMED Act.

At present the MSMED Act (Section 7) classifies the Micro, Small and Medium Enterprises (MSMEs) on the basis of investment in plant and machinery for manufacturing units, and investment in equipment for service enterprises. The criterion of investment in plant and machinery stipulates self declaration which in turn entails verification if deemed necessary and leads to transaction costs.

Taking turnover as a criterion can be pegged with reliable figures available e.g. in GST Network and other methods of ascertaining which will help in having a non discretionary, transparent and objective

criteria and will eliminate the need for inspections, make the classification system progressive and evolutionary, help in overcoming the uncertainties associated with the classification based on investment in plant & machinery/equipment and employment, and improve the ease of doing business. In addition the amendment will provide flexibility to the Government to fine-tune the classification of MSMEs in response to changing economic scenario without resorting to the amendment of MSMED (Micro, Small & Medium Enterprises Development) Act.

The change in the norms of classification will enhance the ease of doing business. The consequent growth and will pave the way for increased direct and indirect employment in the MSME sector of the country.