



ICMAI

भारतीय लागत लेखाकार संस्थान

**THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA**

Statutory Body under an Act of Parliament
(Under the jurisdiction of Ministry of Corporate Affairs)



Handbook on RESTRUCTURING OF BANK LOANS

Banking, Financial Services & Insurance Board (BFSIB)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA (ICMAI)

(Statutory Body under an Act of Parliament)

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Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprise globally."

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The Institute of Cost Accountants of India is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrolls students for its courses, provides coaching facilities to the students, organises professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants are increasingly contributing toward the management of scarce resources and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

After an amendment passed by Parliament of

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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Foreword by President, ICMAI



CMA Chittaranjan Chattopadhyay

The banking sector plays a pivotal role in fostering economic growth by providing timely financial support to businesses across diverse sectors. However, changing economic conditions, market uncertainties, technological disruptions, and unforeseen business challenges often lead to financial stress among borrowers. In such circumstances, restructuring bank loans emerges as an important mechanism for preserving viable enterprises, protecting stakeholders' interests, and maintaining the stability of the financial system. Effective restructuring requires not only a sound understanding of regulatory guidelines but also a multidisciplinary approach involving financial analysis, techno-economic evaluation, business viability assessment, and prudent risk management.

It gives me immense pleasure to present this publication "Restructuring of Bank Loans", which has been developed as a practical reference for professionals engaged in credit appraisal, restructuring, resolution, and financial advisory services. The publication comprehensively covers the conceptual framework, regulatory requirements, early warning signals of financial stress, verification and appraisal processes, significance of Techno-Economic Viability (TEV) studies, evaluation of financial projections, operating cost analysis, preparation of Base Resolution Plans under the Pre-Packaged Insolvency Resolution Process (PPIRP), digital footprint analysis, detailed case studies, and standard documentation formats. The inclusion of practical illustrations and real-life case studies enhances the utility of this publication as a valuable professional guide.

The role of Cost and Management Accountants has significantly expanded beyond conventional cost accounting into strategic financial management, business restructuring, banking, insolvency, corporate advisory, and risk assessment. Their analytical capabilities and expertise in financial modelling, cost optimization, performance evaluation, and business viability assessment make them valuable contributors in the loan restructuring ecosystem. I am confident that this Guidance Note will further strengthen the knowledge base of CMAs while also serving as a useful resource for bankers, Finance Professionals, insolvency professionals, consultants, financial institutions, academicians, researchers, and students.

The Institute of Cost Accountants of India has consistently remained committed to promoting professional excellence by developing high-quality technical literature that addresses emerging areas of professional practice. This publication is another step towards equipping professionals with practical knowledge and contemporary guidance in one of the most significant areas of banking and financial management.

I sincerely appreciate the efforts of CMA (Dr.) P. Siva Rama Prasad, Former AGM, State Bank of India as the resource person and CMA (Dr.) Ramjass Yadav, BFSI Board Member and Former Executive Director, Bank of Baroda for reviewing the publication. I also thank the efforts and support of the BFSI Board Members for the meticulous efforts invested in compiling this publication with clarity, precision, and practical relevance. I am confident that this publication will serve as an authoritative reference and contribute meaningfully to strengthening professional



competence in the field of bank loan restructuring.

I extend my best wishes for the success of this publication and trust that it will prove beneficial to the entire professional fraternity.

CMA Chittaranjan Chattopadhyay

President

ICMAI

Foreword by Vice-President, ICMAI



CMA Manoj Kumar Anand

The dynamic nature of today's business environment has made financial resilience and timely corrective action indispensable for the sustainability of enterprises. In this context, restructuring of bank loans has evolved into a strategic instrument for reviving financially stressed but fundamentally viable business entities. Successful restructuring requires a balanced combination of regulatory compliance, financial prudence, commercial judgment, and professional expertise. It is therefore essential that professionals engaged in the restructuring process possess a comprehensive understanding of both the regulatory framework and the practical aspects involved in evaluating restructuring proposals.

It is a matter of great satisfaction that the publication "Restructuring of Bank Loans" has been developed as a comprehensive professional reference covering the critical dimensions of loan restructuring. The publication systematically addresses the regulatory framework prescribed by the Reserve Bank of India, identification of early warning signals, appraisal and verification procedures, Techno-Economic Viability (TEV) studies, evaluation of sales and operating cost projections, preparation of Base Resolution Plans under the Pre-Packaged Insolvency Resolution Process (PPIRP), digital footprint analysis, practical case studies, and standard documentation formats. The structured presentation of concepts, supported by illustrative examples and practical guidance, makes this publication both informative and application oriented.

The expanding role of Cost and Management Accountants in banking, credit monitoring, financial restructuring, insolvency resolution, forensic analysis, and strategic business advisory has created new opportunities for the profession. Their expertise in financial analysis, performance evaluation, cost management, business valuation, and risk assessment enables them to play a meaningful role in assisting lenders and borrowers alike in designing sustainable restructuring solutions. This publication will undoubtedly enhance the professional capabilities of CMAs while also serving as a valuable knowledge resource for bankers, financial institutions, insolvency professionals, consultants, academicians, and corporate executives.

The Institute of Cost Accountants of India has always encouraged the development of high-quality technical publications that bridge the gap between regulatory expectations and professional practice. This publication is a commendable contribution towards that objective, offering practical insights into one of the most significant and evolving areas of banking and finance. It reflects the Institute's continuing commitment to strengthening professional knowledge and promoting excellence in financial management and advisory services.

I congratulate CMA Chittaranjan Chattopadhyay, President, ICMAI who as Chairman, BFSIB enabled that the publication can see the light of the day. I also appreciate the efforts of the BFSI Board for the meticulous efforts



invested in compiling this publication with clarity, precision, and practical relevance. I am confident that this publication will become an indispensable reference for professionals involved in credit appraisal, restructuring, banking operations, and corporate financial advisory, while also serving as a valuable academic resource for students and researchers. I extend my sincere best wishes for the successful publication launch and trust that it will make a meaningful contribution to professional practice and capacity building in the field of bank loan restructuring.

CMA Manoj Kumar Anand

Vice President

ICMAI

Foreword by Chairman, BFSIB



CMA Harshad Shamkant Deshpande

The Banking, Financial Services and Insurance (BFSI) sector is undergoing rapid transformation driven by evolving regulatory frameworks, technological innovations, changing credit dynamics, and increasing expectations for robust risk management. In this changing landscape, restructuring of bank loans has become an essential strategy for preserving viable businesses, minimizing credit losses, strengthening asset quality, and promoting financial stability. Effective restructuring demands a comprehensive understanding of regulatory requirements, sound financial analysis, business viability assessment, and practical decision-making based on objective evaluation.

It is, therefore, a matter of great pleasure to introduce this "Handbook on Restructuring of Bank Loans," which has been meticulously designed to serve as a practical and comprehensive handbook for professionals engaged in the banking and financial services sector. The publication presents a systematic approach to loan restructuring by covering every critical stage of the process from identification of financial stress and regulatory compliance to appraisal methodologies, Techno-Economic Viability (TEV) studies, evaluation of financial projections, assessment of operating costs, preparation of Base Resolution Plans under the Pre-Packaged Insolvency Resolution Process (PPIRP), digital footprint analysis, practical case studies, and standardized documentation.

One of the notable strengths of this publication is its emphasis on practical application. The inclusion of illustrative case studies, analytical frameworks, financial evaluation techniques, and ready-to-use formats enables professionals to bridge the gap between theoretical knowledge and real-world implementation. Such practical guidance is particularly valuable in today's banking environment, where timely and informed restructuring decisions can significantly improve recovery prospects while supporting the revival of economically viable enterprises.

Cost and Management Accountants have emerged as trusted professionals in the BFSI ecosystem, contributing significantly to credit appraisal, business valuation, financial modelling, viability assessment, risk analysis, restructuring advisory, and insolvency resolution. Their expertise in interpreting financial information and evaluating business performance enables them to provide meaningful insights for lenders, borrowers, resolution professionals, and policymakers. This publication reinforces the expanding role of the profession by equipping members with contemporary knowledge and practical tools required in this specialized area.

The BFSI Board of The Institute of Cost Accountants of India remains committed to promoting professional excellence by encouraging the development of technical literature that addresses emerging challenges in the banking and financial services sector. This publication is a commendable contribution towards that objective and reflects the Institute's continuing efforts to enhance the professional competence of its members and other stakeholders.

I congratulate my predecessor CMA Chittaranjan Chattopadhyay who is now the President of the Institute for his visionary leadership in materializing this timely publication. I thank CMA Manoj Kumar Anand, Vice-President,



ICMAI for his leadership and thank the BFSI Board for their advisory support for the publication. I thank the resource person, reviewers for this kind guidance, diligence, research, and practical experience which is reflected throughout this publication. I am confident that this Handbook will become a valuable reference for Cost and Management Accountants, bankers, financial institutions, insolvency professionals, consultants, corporate executives, academicians, researchers, and students seeking a comprehensive understanding of bank loan restructuring and its practical implementation.

I extend my best wishes for the success of this publication and trust that it will contribute significantly to strengthening professional practices in credit restructuring, financial advisory, and banking risk management.

CMA Harshad S.Deshpande

Chairman

BFSI Board

The Institute of Cost Accountants of India

Foreword by Chairman, BSFI Sector Skill Council of India



CMA Mohan V Tanksale

It gives me immense pleasure to present the Handbook on Restructuring of Bank Loans published by the Banking, Financial Services & Insurance Board (BFSIB) of The Institute of Cost Accountants of India. This comprehensive handbook provides valuable guidance on the principles, processes, regulatory framework, and practical aspects of restructuring stressed credit facilities. It serves as a timely reference for bankers, Cost and Management Accountants, Chartered Accountants, financial Institutions, consultants, insolvency professionals, and other stakeholders engaged in credit monitoring and resolution of stressed assets, as well as restructuring MSMEs, retail, and Agriculture advances.

Indian banking sector today stands on a strong foundation, yet resilience and sustainability remain critical priorities. In an environment characterised by economic uncertainties, technological disruptions, climate-related challenges, and evolving business models, preventive governance measures and sound risk management practices are essential. Effective restructuring, when undertaken at the right time, can significantly reduce credit losses and mitigate the provisioning impact under the Expected Credit Loss (ECL) framework through timely intervention and continuous monitoring.

A key message that emerges from this handbook is that restructuring should never be viewed merely as a financial adjustment exercise. Before any restructuring proposal is considered, a thorough Root Cause Analysis must be undertaken to identify the factors responsible for the financial stress. Such causes may be internal, such as weak management practices, inadequate working capital management, operational inefficiencies, or excessive leverage or external, including economic slowdowns, sectorial distress, regulatory changes, natural calamities, pandemics, governance and market disruptions. Only after understanding the true causes can a sustainable and effective restructuring package be designed.

The handbook also highlights the increasing importance of Techno-Economic Viability (TEV) studies in assessing the long-term sustainability of enterprises undergoing restructuring. In this regard, Cost and Management Accountants are uniquely positioned to contribute through techno-economic evaluation, business viability assessment, cost optimisation, financial analysis, and performance improvement initiatives. Their professional expertise can play a pivotal role in ensuring that restructuring decisions are based on sound commercial and economic considerations.

Successful restructuring preserves productive assets, protects employment, enhances recovery prospects, and supports economic growth. More importantly, it prevents the erosion of valuable national assets by converting installed capacity into productive and sustainable economic activity. Such an approach creates a win-win outcome for borrowers, lenders, employees, and the economy at large. Restructuring, therefore, is not merely a mechanism for resolving financial stress but a strategic tool for preserving economic value and strengthening the resilience of the financial system.

I commend the BFSIB, the authors, reviewers, and all contributors associated with this publication for bringing together a practical and insightful handbook on a subject of immense relevance to the banking and financial services sector. I am confident that this publication will serve as a valuable guide and reference document for professionals involved in restructuring, rehabilitation, and revival of stressed assets.

I extend my best wishes for the success of this publication and trust that it will contribute meaningfully towards strengthening credit discipline, improving asset quality, and promoting sustainable economic development.

*With regards,
Sincerely yours,*

CMA Mohan V Tanksale

*Chairman, BSFI Sector Skill Council of India
Member, BFSI Board, The Institute of Cost Accountants of India
Ex-Chief Executive, Indian Banks Association
Ex-Chairman and Managing Director, Central Bank of India*

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Chapter

1

Overview of Bank Loan Restructuring

Synopsis:

This chapter explains the concept, objectives, causes, and benefits of bank loan restructuring as an important credit risk management and rehabilitation mechanism. Loan restructuring is undertaken when borrowers face temporary financial stress but retain long-term viability, enabling banks to modify repayment terms, grant moratoriums, or realign debt obligations with projected cash flows. The chapter discusses various factors leading to restructuring, including economic downturns, sectoral distress, project delays, natural calamities, rising interest rates, and liquidity mismatches. It further examines the perspectives of different borrower segments such as corporates, MSMEs, agricultural borrowers, and retail customers, while highlighting the benefits of restructuring for both banks and borrowers. The chapter concludes that restructuring serves as a value-preservation strategy that promotes business revival, safeguards bank assets, improves recovery prospects, and contributes to financial stability and economic growth.

Loan restructuring is a corrective and rehabilitative mechanism adopted by banks when a borrower faces temporary financial stress and is unable to service debt obligations according to the original repayment schedule, although the underlying business or economic activity remains viable. The objective of restructuring is not merely to postpone repayments but to restore the borrower's repayment capacity and maximize recovery while avoiding unnecessary deterioration of the asset into a non-performing asset (NPA). Restructuring therefore represents a balancing exercise between protecting the interests of lenders and providing genuine relief to borrowers experiencing stress arising from economic, operational, or unforeseen circumstances.

Banks generally consider restructuring when there is evidence that the financial difficulties are temporary rather than permanent. Such restructuring may involve extension of repayment periods, modification of interest rates, granting moratoriums on principal or interest, conversion of overdue interest into funded interest term loans, or reassessment of working capital requirements. The decision is usually based on detailed viability studies, projected cash flows, industry outlook, and the borrower's willingness and capability to revive operations.

Objective of Loan Restructuring:

The fundamental purpose of restructuring is rehabilitation rather than recovery through enforcement. Banks attempt to preserve viable businesses, maintain employment, protect asset values, and maximize eventual recoveries. Successful restructuring benefits all stakeholders, borrowers obtain time to stabilize operations, banks avoid higher losses associated with NPAs, and the economy benefits from continuity of productive activities.

However, restructuring is not a routine concession. Banks undertake detailed viability assessments, examine projected cash flows, assess promoter commitment, and ensure that restructuring serves a genuine economic purpose. Accounts lacking long-term viability or exhibiting wilful default are generally not considered suitable for restructuring.

a) Financial Stress and Deterioration in Cash Flows:

One of the most important reasons leading to restructuring is a sudden decline in cash flows. Businesses may experience reduced sales, delayed receivables, higher operating costs, or adverse market conditions that impair their ability to meet debt obligations on time. Even otherwise healthy enterprises may encounter temporary

liquidity mismatches because of economic slowdowns, supply-chain disruptions, or changing consumer demand patterns. In such situations, banks may restructure the facilities to align repayment obligations with the borrower's revised cash generation capability.

In retail lending also, individual borrowers may face temporary financial setbacks owing to loss of employment, reduction in income, illness, or other personal circumstances. Restructuring helps provide breathing space and prevents immediate default.

b) Economic Slowdowns and Recessionary Conditions:

Macroeconomic conditions play a significant role in the restructuring of loans. During periods of economic recession or reduced economic activity, many industries witness declining revenues and shrinking profitability. Such circumstances adversely affect the debt-servicing capacity of borrowers. Banks may therefore provide relief measures through restructuring to preserve viable businesses and maintain financial stability.

The experience during the COVID-19 pandemic highlighted the importance of restructuring frameworks. Several borrowers faced unprecedented disruptions in operations, prompting regulatory authorities to introduce special restructuring schemes to prevent widespread asset quality deterioration and support economic recovery.

c) Sector-Specific Distress:

Certain industries are particularly vulnerable to cyclical fluctuations, regulatory changes, technological disruptions, and international market developments. Sectors such as real estate, infrastructure, textiles, steel, aviation, shipping, and power have historically experienced stress arising from changes in commodity prices, delays in project execution, policy uncertainties, and demand contractions.

When the difficulties affecting such sectors are temporary and the long-term prospects remain favourable, banks may resort to restructuring to facilitate revival and preserve productive assets. The assessment generally includes analysis of industry trends, future demand, and the borrower's competitive position.

d) Delays in Project Implementation:

Large infrastructure and industrial projects frequently encounter delays because of land acquisition issues, environmental clearances, litigation, cost overruns, shortage of raw materials, or changes in government policies. Such delays increase project costs and postpone revenue generation, thereby affecting the borrower's ability to service debt according to the original schedule.

Banks may restructure project loans by extending repayment periods, granting moratoriums, or reassessing financing requirements so that debt servicing commences after the project becomes operational and starts generating adequate cash flows.

e) Natural Calamities and Force Majeure Events:

Natural disasters such as floods, cyclones, earthquakes, droughts, and other force majeure events can severely disrupt economic activity and destroy productive assets. Agriculture, MSMEs, and small businesses are particularly vulnerable to such events. In these circumstances, banks often restructure affected loans to support recovery and prevent borrowers from falling into prolonged distress.

The Reserve Bank of India has periodically issued guidelines permitting relief measures for borrowers affected by natural calamities, recognizing that such events are beyond the control of borrowers.

f) Increase in Interest Rates and Cost of Borrowing:

Rising interest rates increase the debt burden on borrowers, especially those with floating-rate facilities. Higher borrowing costs may adversely affect cash flows and profitability, making it difficult to meet repayment commitments. In periods of tight monetary conditions, banks may consider restructuring viable accounts by extending tenors or

modifying repayment schedules to reduce immediate repayment pressures.

g) *Changes in Government Policies and Regulatory Environment:*

Business operations may be adversely affected by changes in taxation, import-export policies, environmental regulations, or sector-specific reforms. Such policy changes can increase operating costs, alter market dynamics, or delay projects. Borrowers impacted by these developments may require restructuring support to adapt to the changed environment and restore normal operations.

h) *Impact of Global Events and External Shocks:*

Global economic uncertainties, geopolitical tensions, trade restrictions, commodity price volatility, and exchange rate fluctuations can significantly affect businesses, particularly those engaged in international trade. Export-oriented industries may suffer from declining overseas demand, while import-dependent sectors may face increased input costs. These external shocks often necessitate restructuring measures to enable borrowers to withstand temporary disruptions.

i) *Weak Working Capital Management:*

Many businesses encounter stress due to inefficient working capital management, delayed realization of receivables, excessive inventory accumulation, or poor liquidity planning. Although such problems may not indicate fundamental unviability, they can create temporary repayment difficulties. Banks may restructure facilities after evaluating whether operational improvements and better financial discipline can restore normalcy.

j) *MSME Vulnerabilities:*

Micro, Small and Medium Enterprises are particularly susceptible to economic disruptions because of limited financial resources and dependence on a few customers or suppliers. Delayed payments, fluctuating demand, and rising input costs can quickly affect their liquidity position. Recognizing the importance of MSMEs in employment generation and economic development, banks often utilize restructuring frameworks to provide timely support and ensure continuity of operations.

Factors Contributing to Restructuring of Loans from the Borrowers' Perspective:

Loan restructuring is generally initiated when borrowers encounter financial stress that affects their ability to service debt according to the original terms and conditions. From the borrowers' perspective, restructuring is not merely a mechanism for obtaining temporary relief but a means of restoring financial stability and ensuring continuity of economic activity. The reasons leading to restructuring vary considerably among corporates, MSMEs, agricultural borrowers, and retail customers because each segment faces different risks and operating environments.

Common Factors Across All Borrower Segments:

Despite differences among various categories of borrowers, certain factors contribute to financial stress across all segments. Economic recessions, inflationary pressures, rising interest rates, supply-chain disruptions, geopolitical tensions, and natural calamities can affect borrowers irrespective of their size or nature of activity. Temporary liquidity shortages, unexpected expenditure, and reduced income often lead to a mismatch between cash inflows and debt obligations.

Borrowers generally seek restructuring when they possess underlying viability and expect improvement in future cash flows. Restructuring is therefore intended to provide temporary relief rather than permanent waiver of obligations.

a) *Corporate Borrowers:*

Corporate borrowers generally seek restructuring when temporary disruptions adversely affect their cash flows and

profitability. Economic slowdowns, industry downturns, increased competition, and technological changes often reduce revenues and strain their debt-servicing capacity. Corporates engaged in infrastructure, manufacturing, power, real estate, steel, textiles, and aviation are particularly vulnerable to cyclical fluctuations and regulatory uncertainties.

Large projects frequently suffer from delays caused by land acquisition issues, environmental clearances, legal disputes, shortages of raw materials, and cost overruns. Such delays postpone revenue generation while interest and repayment obligations continue to accumulate, resulting in stress on cash flows. Similarly, fluctuations in commodity prices, foreign exchange movements, and global economic conditions may adversely affect export-oriented industries and companies dependent upon imported inputs.

Corporate borrowers may also experience financial difficulties arising from mergers and acquisitions, changes in consumer preferences, technological obsolescence, loss of major customers, or disruptions in supply chains. Increased borrowing costs resulting from rising interest rates further aggravate repayment burdens. In such circumstances, restructuring enables corporations to realign debt obligations with projected cash flows and restore financial viability.

Another important factor is the mismatch between long-term investments and short-term funding. Corporates that rely excessively on working capital borrowings to finance capital expenditure may face liquidity stress, necessitating restructuring to achieve a more sustainable debt structure.

b) Micro, Small and Medium Enterprises (MSMEs):

MSMEs are highly susceptible to economic shocks because of their limited financial resources and dependence on local markets and a few customers. Delayed payments from buyers constitute one of the most common causes of stress among MSMEs. Since many MSMEs operate with thin margins and limited reserves, prolonged delays in realization of receivables can severely affect their liquidity and ability to repay loans.

Rising input costs, fluctuations in raw material prices, shortages of labour, increased power and transportation expenses, and changing market demand can significantly affect profitability. MSMEs also face stiff competition from larger enterprises and imported products, which may reduce their market share and earnings.

Technological changes and digital transformation require continuous investment, and inability to adapt to changing business environments can weaken financial performance. Further, disruptions caused by natural calamities, pandemics, or local disturbances may temporarily halt operations and affect cash generation.

Many MSMEs are family-managed entities with limited managerial expertise and inadequate financial planning. Consequently, working capital shortages and liquidity mismatches are common. Restructuring provides these enterprises with additional time and flexibility to stabilize operations and continue contributing to employment and economic growth.

c) Agricultural Borrowers:

Agriculture is inherently exposed to numerous uncertainties, making agricultural borrowers particularly vulnerable to repayment stress. Crop failures due to droughts, floods, cyclones, pest attacks, and unseasonal rainfall often result in substantial losses and reduction in farm incomes. Since agricultural income is largely dependent upon climatic conditions, any adverse weather event can directly affect the borrower's repayment capacity.

Fluctuations in market prices of agricultural commodities also create financial stress. Even when production levels are satisfactory, lower prices for crops may reduce profitability and make it difficult for farmers to meet debt obligations. Rising costs of seeds, fertilizers, pesticides, labour, and irrigation further compress margins.

Livestock diseases, inadequate storage facilities, transportation bottlenecks, and disruptions in supply chains may additionally affect farm incomes. In many cases, agricultural borrowers are dependent upon monsoon patterns and have limited alternative sources of income. Consequently, natural calamities and adverse agricultural conditions

often necessitate restructuring or conversion of short-term crop loans into term loans to facilitate recovery.

Farmers engaged in allied activities such as dairy, poultry, fisheries, and horticulture may also face risks arising from disease outbreaks, market volatility, and seasonal variations, leading to temporary repayment difficulties.

d) Retail Borrowers:

Retail borrowers seek restructuring primarily because of changes in personal financial circumstances. Loss of employment, reduction in salary, business losses, or retirement may significantly affect household income and the ability to service housing loans, vehicle loans, education loans, or personal loans.

Medical emergencies constitute another major reason for financial stress among individuals. Unexpected healthcare expenses and prolonged illness may divert income away from debt repayments. Family circumstances such as marriage expenses, educational expenses, death of an earning member, or divorce can also adversely affect repayment capacity.

Self-employed individuals and professionals may experience fluctuations in income because of economic slowdowns or changing business conditions. Rising interest rates increase equated monthly instalments (EMIs), thereby imposing additional financial burdens on borrowers with floating-rate loans.

Natural disasters, pandemics, and unforeseen economic disruptions may affect employment opportunities and household cash flows. During the COVID-19 pandemic, many retail borrowers faced salary reductions and temporary unemployment, prompting widespread restructuring measures.

Educational loan borrowers may experience difficulties in securing employment immediately after completion of studies, resulting in delays in repayment. Similarly, housing loan borrowers may face temporary cash flow mismatches due to relocation, career transitions, or family commitments. Restructuring in such situations provides relief through extended repayment periods and revised instalment schedules.

Benefits to Banks from Restructuring Loans and Advances:

Restructuring of loans and advances is not merely a relief measure for borrowers; it is also an important credit risk management tool for banks. A well-planned restructuring enables banks to preserve asset quality, maximize recoveries, maintain customer relationships, and support economic activity. Since the objective of banking is not merely recovery through legal action but ensuring sustainable repayment, restructuring often provides substantial benefits to lending institutions when the underlying business or borrower remains viable.

a) Preservation of Asset Value and Recovery Potential:

One of the foremost benefits of restructuring is that it preserves the value of the underlying asset and enhances the probability of recovery. If a financially stressed borrower is forced into default or insolvency immediately, the realizable value of assets may decline substantially. Distress sales, liquidation, and prolonged litigation often result in significant erosion of value.

By restructuring repayment terms and allowing the borrower sufficient time to revive operations, banks can improve the prospects of full or higher recovery. A going concern generally possesses greater value than a business that has ceased operations. Therefore, restructuring enables banks to preserve the economic value embedded in the enterprise and its assets.

b) Prevention of Slippages and Reduction in Credit Losses:

Financial stress does not necessarily imply that a borrower has become permanently unviable. Many borrowers experience temporary liquidity problems because of market conditions, project delays, or unforeseen circumstances. Timely restructuring prevents such temporary stress from turning into permanent default.

By addressing repayment difficulties at an early stage, banks can reduce slippages of standard accounts into non-performing assets (NPAs). Lower slippages translate into lower expected credit losses and improved stability of the loan portfolio.

c) Improvement in Recovery Prospects:

Traditional recovery mechanisms involving legal proceedings, insolvency processes, or enforcement of securities are often time-consuming and uncertain. Recovery through restructuring, on the other hand, allows borrowers to generate cash flows from continuing operations and repay their obligations over time.

Since borrowers retain ownership and continue business activities, the possibility of recovering a larger portion of the outstanding dues becomes significantly higher than immediate enforcement actions. In many cases, restructuring results in better recovery outcomes than liquidation.

d) Avoidance of Costly Legal Proceedings:

Recovery through litigation or insolvency involves considerable expenditure and delays. Proceedings before tribunals and courts may extend over several years, resulting in uncertainty and additional legal costs. Moreover, deterioration in asset values during prolonged proceedings may adversely affect recoveries.

Restructuring enables banks to avoid unnecessary legal action and the associated costs. Instead of engaging in adversarial proceedings, banks and borrowers work together toward rehabilitation and orderly repayment, thereby reducing recovery expenses.

e) Strengthening Long-Term Customer Relationships:

Banking is fundamentally relationship-oriented. Borrowers facing genuine financial stress often value institutions that provide support during difficult times. By offering restructuring facilities to viable borrowers, banks strengthen customer confidence and foster long-term business relationships.

A borrower who successfully overcomes financial stress with the support of the bank is more likely to continue banking relationships, maintain deposits, utilize trade finance facilities, and seek future credit requirements from the same institution. Thus, restructuring contributes to customer retention and relationship banking.

f) Preservation of Income Streams:

If a borrower becomes insolvent or business operations cease, banks may lose not only the principal amount but also future interest income. Restructuring enables continuation of operations and ensures that the bank receives interest and principal repayments over an extended period.

Although the repayment schedule may be modified, the bank retains the opportunity to earn income from the account instead of suffering complete disruption of cash flows. Consequently, restructuring helps preserve future earnings.

g) Better Management of Concentration Risks:

Large exposures to corporates, infrastructure projects, or sector-specific borrowers can significantly affect a bank's balance sheet if defaults occur. Restructuring viable stressed accounts allows banks to manage concentration risks and avoid sudden deterioration in asset quality.

By providing additional time and suitable repayment structures, banks can stabilize stressed exposures and prevent large-scale losses that could adversely affect profitability and capital adequacy.

h) Reduction in Provisioning Burden and Capital Strain:

Deterioration of accounts into severe stages of stress increases provisioning requirements and impacts

profitability. Higher provisions also affect capital adequacy and lending capacity. Successful restructuring and subsequent improvement in borrower performance can moderate credit losses and reduce pressure on the bank's financial position.

From the perspective of the Expected Credit Loss (ECL) framework being adopted in India, proactive restructuring supported by sound viability assessments and continuous monitoring may contribute to better credit risk management and mitigation of lifetime losses.

i) Support to Priority Sectors and Economic Stability:

Banks play a crucial role in supporting agriculture, MSMEs, housing, and infrastructure. Restructuring enables viable borrowers in these sectors to overcome temporary adversity and continue productive activities. Such support helps maintain employment, industrial production, agricultural output, and economic growth.

By preventing widespread defaults, restructuring contributes to financial stability and reduces systemic risks. A stable and healthy credit ecosystem ultimately benefits banks themselves through sustained business growth.

j) Protection Against Value Erosion of Securities:

Collateral values may decline sharply if businesses are closed or assets are subjected to distress sales. Machinery, inventories, and specialized industrial assets often fetch significantly lower values during liquidation. Real estate prices may also weaken during economic downturns.

Restructuring permits continued utilization of assets and prevents rapid erosion in collateral values. Consequently, the bank's security cover remains relatively protected, improving ultimate recoveries.

k) Enhancement of Reputation and Social Responsibility:

Banks that provide timely support to genuine borrowers during periods of stress demonstrate responsible banking practices. Such measures enhance their reputation among customers, regulators, investors, and society. Supporting businesses, farmers, and households during difficult times contributes to inclusive growth and reinforces public confidence in the banking system.

l) Better Portfolio Quality Through Early Intervention:

Modern credit risk management emphasizes early identification and resolution of stress. Restructuring forms an integral part of this approach. Timely intervention allows banks to correct emerging problems before they become severe, thereby improving portfolio quality and reducing the accumulation of bad assets.

Rather than treating restructuring as a sign of weakness, prudent banks view it as a strategic mechanism for preserving value and strengthening portfolio resilience.

m) Alignment with Regulatory Frameworks:

The Reserve Bank of India has issued various frameworks for resolution of stressed assets that encourage early recognition and timely resolution. These frameworks aim to facilitate orderly restructuring of viable accounts while ensuring transparency and prudent risk management.

By restructuring accounts in accordance with regulatory guidelines, banks can achieve resolution outside formal insolvency proceedings, thereby saving time and maximizing economic value.

Benefits to Borrowers on Account of Restructuring of Loans and Advances by Banks:

Loan restructuring is one of the most important mechanisms available to borrowers facing temporary financial stress. It provides an opportunity to realign debt obligations with the borrower's revised repayment capacity and helps avoid severe financial consequences arising from default. For corporates, MSMEs, farmers, and retail

borrowers, restructuring acts as a financial rehabilitation tool that facilitates recovery and continuity of economic activity. The benefits derived from restructuring extend beyond immediate liquidity relief and contribute to long-term financial stability and sustainability.

a) Relief from Immediate Financial Stress:

The foremost benefit of restructuring is the relief it provides from immediate repayment pressure. When borrowers experience temporary difficulties arising from economic downturns, business disruptions, natural calamities, loss of income, or unforeseen circumstances, they may find it difficult to adhere to the original repayment schedule. Through restructuring, banks may extend the repayment period, grant moratoriums, or revise instalment structures, thereby enabling borrowers to manage their cash flows more effectively.

Such relief provides breathing space and allows borrowers to focus on restoring their financial position without the burden of immediate default.

b) Continuity of Business Operations:

For corporate borrowers and MSMEs, continuity of operations is essential for survival. Financial stress often affects working capital availability and disrupts production, marketing, and supply chains. If loans are not restructured, businesses may face legal recovery proceedings or insolvency, resulting in closure and loss of economic value.

Restructuring enables businesses to continue operating, generate revenues, retain customers, and gradually restore profitability. A running business possesses greater value and better prospects for recovery than a closed enterprise. Thus, restructuring supports business continuity and long-term sustainability.

c) Preservation of Employment Opportunities:

Business failures often result in layoffs and loss of livelihood for employees. By providing relief through restructuring, banks indirectly help preserve employment and maintain economic activity. Corporates and MSMEs can continue operations, pay salaries, and sustain supply chains, thereby protecting the interests of workers and their families.

In the case of agricultural borrowers, restructuring supports farming activities and preserves rural livelihoods, while retail borrowers are able to maintain household financial stability.

d) Improved Cash Flow Management:

Restructuring aligns repayment obligations with the borrower's cash-generating capacity. Extension of loan tenors and reduction in periodic instalments reduce the burden on monthly or quarterly cash flows. Borrowers obtain the flexibility required to meet operational expenses and essential commitments while continuing to service debt obligations.

For seasonal activities such as agriculture, repayment schedules can be synchronized with crop cycles and harvest periods, thereby making repayments more manageable.

e) Avoidance of Default and Legal Proceedings:

Defaulting on loans may expose borrowers to recovery actions, legal proceedings, enforcement of securities, and insolvency processes. Such actions not only create financial stress but may also damage the reputation and goodwill of borrowers.

Through restructuring, borrowers can regularize their accounts and avoid costly and time-consuming legal disputes. They are able to retain control over their businesses and assets without facing distress sales or liquidation.

f) Protection of Assets and Securities:

Borrowers often provide valuable assets such as land, buildings, machinery, inventories, vehicles, or residential properties as collateral. Failure to repay loans may result in enforcement of security interests and sale of these assets.

Restructuring helps borrowers protect their assets by providing additional time to restore their repayment capacity. Instead of losing productive assets or residential properties, borrowers can continue utilizing them to generate income and repay obligations over time.

g) Preservation of Creditworthiness and Banking Relationships:

Long-standing relationships with banks are valuable for both businesses and individuals. Borrowers who receive restructuring support and subsequently improve their financial position can maintain credibility with lenders and preserve future access to banking services.

Corporate borrowers and MSMEs often require ongoing credit support for expansion and working capital requirements. Retail borrowers may need housing loans, education loans, or other financial products in the future. Successful restructuring helps maintain these relationships and facilitates future borrowing opportunities.

h) Time for Revival and Recovery:

Financial difficulties are not always permanent. Economic conditions improve, businesses recover, and incomes stabilize over time. Restructuring provides borrowers with sufficient time to implement corrective measures, improve efficiency, explore new markets, reduce costs, and strengthen their financial position.

Corporates may undertake restructuring of operations, diversify products, or bring in additional capital. MSMEs may streamline expenses and improve working capital management. Farmers may recover from adverse climatic conditions, while retail borrowers may regain employment or stabilize household finances.

i) Reduction in Financial Anxiety:

Financial stress often causes uncertainty and emotional pressure on borrowers and their families. The fear of losing assets, facing legal action, or experiencing business failure creates considerable anxiety.

Restructuring provides confidence and reassurance that there is a viable path toward financial recovery. Borrowers can focus on rebuilding their income and operations instead of dealing with the consequences of immediate default.

j) Support During Extraordinary Circumstances:

Borrowers are sometimes affected by circumstances beyond their control, such as pandemics, natural calamities, economic recessions, geopolitical disruptions, or sector-specific crises. Restructuring offers a mechanism for overcoming such temporary adversities.

Agricultural borrowers affected by floods or droughts, MSMEs facing supply-chain disruptions, corporates experiencing project delays, and retail borrowers suffering loss of income can all benefit from restructuring arrangements designed to restore financial stability.

k) Enhancement of Long-Term Viability:

Restructuring is not merely a postponement of repayments; it often forms part of a broader revival strategy. Revised repayment schedules, reassessment of working capital requirements, infusion of additional funds, and operational improvements contribute to strengthening the long-term viability of borrowers.

Successful restructuring transforms temporary liquidity problems into sustainable debt-servicing arrangements and enables borrowers to emerge financially stronger.

Benefits to Different Borrower Segments:

A. Corporate Borrowers

Corporate entities benefit from restructuring through improved liquidity, preservation of business operations, protection against insolvency, retention of market share, and continuation of employment. They gain valuable time to complete projects, improve profitability, and restore financial health.

B. MSMEs

MSMEs derive benefits through stabilization of cash flows, relief from delayed receivable pressures, preservation of customer relationships, and continuation of production activities. Restructuring enables these enterprises to survive economic shocks and maintain employment.

C. Agricultural Borrowers

Farmers benefit through conversion of short-term liabilities into manageable repayment structures aligned with agricultural cycles. Restructuring allows them to recover from crop failures, adverse weather conditions, and market fluctuations while preserving their land and productive assets.

D. Retail Borrowers

Individuals and households receive relief from repayment burdens arising from job losses, income reductions, medical emergencies, or other personal difficulties. They are able to protect their homes and assets and regain financial stability without facing immediate recovery actions.

To Sum Up:

Banks restructure loans and advances when borrowers experience genuine and temporary financial stress while retaining the capacity to recover and service debt in the future. Factors such as economic downturns, sectoral distress, project delays, natural calamities, rising interest rates, policy changes, global disruptions, and liquidity mismatches frequently contribute to the need for restructuring. Thus, loan restructuring serves as an important risk management and revival mechanism that supports borrowers, safeguards bank assets, and contributes to the stability and growth of the financial system.

From the borrowers' perspective, restructuring of loans and advances becomes necessary when unforeseen events or adverse economic conditions impair their ability to service debt according to the original terms. Corporate borrowers face challenges arising from project delays, industry downturns, and market volatility. MSMEs encounter liquidity constraints, delayed receivables, and rising input costs. Agricultural borrowers are exposed to climatic uncertainties and commodity price fluctuations, while retail borrowers are affected by employment, income, and personal contingencies. Thus, restructuring acts as an important financial support mechanism that enables viable borrowers to overcome temporary stress and regain financial stability while preserving the quality of bank assets and sustaining economic activity.

From the banks' perspective, restructuring of loans and advances is a value-preservation strategy rather than a concession to borrowers. It helps in maximizing recoveries, reducing credit losses, preserving asset values, avoiding costly litigation, maintaining customer relationships, and supporting economic stability. Effective restructuring enables banks to transform temporary borrower distress into sustainable repayment arrangements and thereby safeguard their profitability, capital strength, and long-term business interests. Consequently, loan restructuring has emerged as an essential component of modern credit risk management and stressed asset resolution frameworks in the banking sector.

From the borrowers' perspective, restructuring of loans and advances is a vital financial rehabilitation mechanism that provides liquidity support, protects assets, preserves business continuity, avoids legal consequences, and offers time for recovery. Whether the borrower is a large corporate, an MSME, a farmer, or an individual, restructuring

helps transform temporary financial stress into manageable obligations and creates an opportunity for sustainable revival. When supported by sound financial discipline and genuine intent to repay, restructuring becomes a mutually beneficial process that safeguards the interests of both borrowers and banks while contributing to overall economic stability.

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Chapter

2

Regulatory Framework for Loan Restructuring

(RBI Guidelines)

Synopsis:

This chapter provides a comprehensive overview of the regulatory framework governing loan restructuring in India under the guidelines issued by the Reserve Bank of India (RBI). It explains the prudential framework applicable to retail, MSME, agricultural, and corporate borrowers, emphasizing early recognition of financial stress, viability assessment, time-bound resolution plans, asset classification norms, monitoring requirements, and lender coordination mechanisms. The chapter highlights the RBI's objective of preserving economic value, rehabilitating viable borrowers, maximizing recoveries, and preventing unnecessary insolvency proceedings. It also discusses special restructuring provisions for MSMEs, agricultural borrowers affected by natural calamities, and large corporate accounts, along with the importance of Board-approved policies, Techno-Economic Viability (TEV) studies, Independent Credit Evaluation (ICE), and Inter-Creditor Agreements (ICA) in ensuring prudent and effective restructuring of stressed assets.

The Reserve Bank of India (RBI) permits restructuring of retail loans as part of its prudential framework for resolution of stressed assets applicable to Regulated Entities (REs), which include commercial banks, co-operative banks, NBFCs, Housing Finance Companies, and All India Financial Institutions. The objective of these guidelines is to facilitate timely resolution of stress, preserve asset value, and ensure that borrowers experiencing genuine financial difficulties are provided a viable mechanism for repayment while maintaining prudential discipline.

a) Applicability to Retail Loans:

The RBI framework covers all retail exposures, including:

- ✓ Housing loans.
- ✓ Vehicle loans.
- ✓ Personal loans.
- ✓ Consumer durable loans.
- ✓ Education loans.
- ✓ Credit card receivables.
- ✓ Loans against deposits, securities, or property.
- ✓ Other retail credit facilities extended by Regulated Entities.

The framework is applicable when a borrower experiences financial difficulty and the lender considers restructuring as a viable resolution measure. Retail loans are also subject to Special Mention Account (SMA) classification norms for early recognition of stress. Agricultural advances governed by crop-season-based norms are separately

regulated.

b) Early Identification of Stress:

RBI emphasizes early recognition of stress through SMA categorization before the account becomes a Non-Performing Asset (NPA). Regulated Entities are required to establish Board-approved policies for identifying borrowers facing financial difficulties and initiating timely resolution measures.

Stress may arise due to:

- ✓ Loss or reduction of income.
- ✓ Medical emergencies.
- ✓ Temporary unemployment.
- ✓ Business setbacks affecting self-employed individuals.
- ✓ Natural calamities and unforeseen circumstances.
- ✓ Increase in debt burden or interest rates.

The objective is to resolve stress before it culminates in prolonged default.

- ✱ **Resolution Plan and Restructuring:** Under the RBI framework, restructuring forms part of a Resolution Plan (RP). A restructuring package may involve:
- ✱ **Rescheduling of Repayment:** Banks and other Regulated Entities may revise repayment schedules by extending the tenure of the loan and reducing the amount of monthly instalments.
- ✱ **Moratorium on Principal or Interest:** Temporary deferment of principal repayments or interest obligations may be granted to facilitate stabilization of the borrower's finances.
- ✱ **Reduction in EMI Burden:** By extending the repayment period or modifying loan terms, monthly repayment obligations can be reduced.
- ✱ **Conversion of Interest into Separate Facility:** Accumulated interest may be converted into a funded interest term loan (FITL) where permitted under the restructuring package.
- ✱ **Additional Finance:** Where necessary, additional finance may be provided to restore the viability of the borrower. Such additional finance enjoys standard asset treatment during implementation subject to RBI norms.

c) Conditions for Implementation:

A restructuring plan involving modification of loan terms is considered implemented only when:

- ✱ All necessary documentation and agreements are completed.
- ✱ Changes in loan terms are reflected in the books of both lender and borrower.
- ✱ Security documents and charge creation formalities are completed wherever applicable.
- ✱ The borrower is not in default under the revised terms.

These conditions ensure that restructuring is legally enforceable and operationally effective.

d) Asset Classification after Restructuring:

A significant prudential requirement prescribed by RBI is that:

- ✱ A standard account undergoing restructuring is generally downgraded to Sub-standard category (NPA).
- ✱ If the account is already an NPA, it retains its existing classification and continues to age according to IRAC norms.
- ✱ Upgradation to standard category is permissible only after demonstrating satisfactory performance during the specified monitoring period.

Thus, restructuring does not imply automatic preservation of standard asset status. It is accompanied by appropriate prudential safeguards and provisioning requirements.

e) Monitoring Period:

After implementation, the borrower's repayment behaviour is closely monitored. Upgradation of the account depends upon satisfactory performance under the revised repayment schedule. Continuous compliance with repayment obligations is essential for improvement in asset classification.

f) Board-Approved Policy:

Every Regulated Entity is required to formulate a Board-approved policy covering:

- ✱ Identification of financial stress.
- ✱ Eligibility criteria for restructuring.
- ✱ Approval authorities.
- ✱ Viability assessment.
- ✱ Monitoring mechanisms.
- ✱ Provisioning and disclosure requirements.

This ensures uniformity, transparency, and accountability in restructuring decisions.

g) Resolution of Accounts Affected by Natural Calamities:

RBI has prescribed special relief measures for borrowers affected by natural calamities. In such cases, banks may:

- ✱ Convert short-term loans into term loans.
- ✱ Extend repayment schedules.
- ✱ Grant moratoriums.
- ✱ Provide fresh working capital support.

These measures are governed by RBI's Directions on Relief Measures in Areas Affected by Natural Calamities, 2018.

h) Role of Recovery Mechanisms:

RBI encourages Regulated Entities to use alternative resolution mechanisms and Lok Adalats, especially in respect of small-value personal loans, housing loans, and credit card dues. Recovery proceedings are generally considered after efforts toward resolution and restructuring fail.

i) One-Time COVID-19 Resolution Framework:

During the COVID-19 pandemic, RBI introduced special one-time restructuring frameworks for individual borrowers and MSMEs through circulars issued in August 2020 and May 2021. These frameworks permitted restructuring without asset classification downgrade, subject to specified conditions. These were exceptional and time-bound measures and are no longer available for fresh cases.

j) Salient Principles Under the Current Framework:

The present RBI approach towards retail loan restructuring rests upon the following principles:

- ✱ Early recognition of borrower stress.
- ✱ Timely implementation of a resolution plan.
- ✱ Preservation of economic value.
- ✱ Transparent and Board-approved processes.
- ✱ Appropriate provisioning and prudential treatment.
- ✱ Continuous monitoring after restructuring.
- ✱ Restoration of repayment capacity rather than mere postponement of dues.

RBI Guidelines for Restructuring of MSME Loans:

The Reserve Bank of India (RBI) recognizes the crucial role played by Micro, Small and Medium Enterprises (MSMEs) in economic growth, employment generation, exports, and industrial development. Since MSMEs are particularly vulnerable to economic fluctuations, delayed receivables, supply-chain disruptions, and liquidity constraints, RBI has prescribed a framework enabling Regulated Entities (REs)—including Scheduled Commercial Banks, Small Finance Banks, Local Area Banks, Regional Rural Banks, Co-operative Banks, Non-Banking Financial Companies (NBFCs), and Housing Finance Companies—to undertake timely resolution and restructuring of stressed MSME accounts. The objective is to revive viable enterprises and preserve economic value rather than merely pursuing recovery actions.

Objective of MSME Restructuring:

RBI's philosophy underlying MSME restructuring is based on the principle that preserving a viable enterprise generates greater economic value than pursuing immediate recovery through legal action. Rehabilitation protects employment, strengthens industrial activity, preserves productive assets, and enhances the possibility of full recovery by lenders. Accordingly, restructuring is viewed as an important credit risk management and revival mechanism rather than a mere concession to borrowers.

a) Regulatory Framework Applicable to MSME Restructuring:

At present, restructuring of MSME advances is governed primarily by the **Prudential Framework for Resolution of Stressed Assets dated June 7, 2019**, together with various Master Directions and special MSME-specific instructions issued by RBI from time to time. The framework emphasizes early recognition of stress, viability assessment, time-bound resolution, and preservation of economic value. The intention is to provide financially stressed but fundamentally viable MSMEs with an opportunity to recover and continue operations.

b) Applicability to Regulated Entities:

The restructuring framework is applicable to all Regulated Entities supervised by RBI, including:

- ✓ Scheduled Commercial Banks;
- ✓ Small Finance Banks;

- ✓ Regional Rural Banks;
- ✓ Co-operative Banks;
- ✓ All India Financial Institutions;
- ✓ Non-Banking Financial Companies (NBFCs);
- ✓ Housing Finance Companies.

These entities are required to have Board-approved policies governing identification, resolution, and monitoring of stressed MSME accounts.

c) Identification of Financial Stress:

RBI emphasizes early detection of stress before accounts become irrecoverable. Stress may arise due to:

- ✓ Decline in sales and profitability;
- ✓ Delayed realization of receivables;
- ✓ Increase in raw material costs;
- ✓ Supply-chain disruptions;
- ✓ Economic recession;
- ✓ Natural calamities and unforeseen events;
- ✓ Labour shortages;
- ✓ Technological changes and market competition;
- ✓ Temporary liquidity mismatches.

Regulated Entities are expected to identify stress through SMA (Special Mention Account) categories and initiate corrective measures in a timely manner.

d) Viability as the Fundamental Principle:

The basic objective of restructuring is revival and rehabilitation of viable enterprises and not evergreening of weak accounts. Before approving restructuring, lenders must conduct a detailed viability assessment based on:

- ✓ Past performance of the unit;
- ✓ Future cash-flow projections;
- ✓ Promoter's commitment;
- ✓ Industry outlook;
- ✓ Market prospects;
- ✓ Ability to service debt under revised terms.

Only enterprises capable of generating sufficient cash flows under the revised structure are considered eligible for restructuring.

- ✓ **Resolution Plan:** Under RBI's prudential framework, restructuring forms part of a Resolution Plan (RP). The plan may include:

- ✓ **Rescheduling of Repayment:** The repayment period may be extended to reduce the burden on monthly or quarterly cash flows.
- ✓ **Moratorium on Principal Repayment:** A temporary moratorium may be granted to enable stabilization of business operations.
- ✓ **Modification of Interest Terms:** Interest rates may be revised, and accumulated interest may be converted into separate facilities wherever permitted.
- ✓ **Additional Working Capital Support:** Banks may sanction additional finance to support revival and restore operations. Such additional finance is generally treated favourably from a prudential perspective when provided under a viable resolution plan.

e) Documentation and Implementation:

A restructuring proposal is considered implemented only when:

- ✱ All legal documentation has been completed;
- ✱ Revised terms have been accepted by the borrower;
- ✱ Security documents are perfected wherever necessary;
- ✱ The changes are reflected in the books of the lender and borrower.

Implementation must be completed within the timelines prescribed under RBI's prudential framework.

f) Asset Classification and Provisioning:

Under the present framework, restructuring generally results in asset classification treatment in accordance with the Income Recognition and Asset Classification (IRAC) norms. Standard assets undergoing restructuring are ordinarily downgraded unless covered by specific regulatory dispensations announced by RBI for exceptional circumstances.

If the account is already classified as NPA, it continues to remain in the existing category and ages accordingly. Upgradation to standard status is permitted only after the borrower demonstrates satisfactory performance during the prescribed monitoring period. Appropriate provisions are required to be maintained by lenders.

g) Committee for Stressed MSMEs:

RBI had introduced the framework for revival and rehabilitation of MSMEs requiring banks to establish Committees for Stressed MSMEs for specified categories of accounts. These committees evaluate stress, formulate Corrective Action Plans, and recommend:

- ✱ Rectification;
- ✱ Restructuring; or
- ✱ Recovery.

The objective is to provide a systematic mechanism for rehabilitation of MSME borrowers.

h) Udyam Registration and GST Compliance:

For availing restructuring benefits under specific MSME restructuring schemes, RBI has emphasized that the borrowing entity should be recognized as an MSME under the prevailing definition notified by the Government of India. Where applicable, Udyam Registration and GST registration requirements are required to be complied with before implementation of the restructuring package.

i) Additional Finance During Restructuring:

RBI permits lenders to provide additional finance to stressed MSMEs when such support is necessary for revival. Additional working capital helps enterprises restart operations, meet current obligations, and restore production levels. The objective is to ensure that restructuring is not confined merely to rescheduling liabilities but also facilitates revival of business activities.

j) Monitoring after Restructuring:

After implementation, lenders are required to continuously monitor:

- ✓ Cash-flow performance;
- ✓ Repayment behaviour;
- ✓ Financial statements;
- ✓ Compliance with restructuring conditions;
- ✓ Utilization of additional finance.

The account is upgraded only after satisfactory performance during the specified monitoring period. Continuous supervision ensures that restructuring achieves genuine revival and not postponement of stress.

k) Special Regulatory Reliefs:

During extraordinary situations such as the COVID-19 pandemic, RBI introduced special one-time restructuring frameworks for MSMEs allowing retention of standard asset classification subject to specified conditions. These were exceptional and time-bound measures and do not constitute the regular restructuring framework.

RBI Guidelines for Restructuring of Agriculture Segment Loans:

The Reserve Bank of India (RBI) has prescribed a distinct framework for restructuring agricultural advances in recognition of the unique nature of agricultural activities and the uncertainties associated with farming. Agricultural borrowers are highly vulnerable to climatic conditions, natural calamities, pest attacks, fluctuations in crop prices, and disruptions in allied activities. Therefore, RBI permits Regulated Entities (REs), including Commercial Banks, Regional Rural Banks (RRBs), Small Finance Banks, Cooperative Banks, and NBFCs, to provide relief measures through restructuring and rescheduling of agricultural loans in deserving cases. The broad objective of these guidelines is to preserve farmers' livelihoods, sustain agricultural production, and enable borrowers to recover from temporary distress without impairing their long-term creditworthiness.

Objective of Agricultural Loan Restructuring:

The philosophy underlying RBI's framework is that temporary distress in agriculture should not permanently deprive farmers of institutional credit. Since agriculture is exposed to risks beyond the control of borrowers, restructuring aims at preserving productive assets, maintaining agricultural output, ensuring food security, protecting rural livelihoods, and facilitating eventual repayment of loans.

a) Regulatory Framework Governing Agricultural Loan Restructuring:

- ✓ Agricultural loan restructuring is governed primarily by:
- ✓ RBI Master Directions on Relief Measures by Banks in Areas Affected by Natural Calamities.
- ✓ Prudential Framework for Resolution of Stressed Assets.
- ✓ Income Recognition, Asset Classification and Provisioning (IRAC) norms applicable to agricultural advances.

- ✓ Special instructions issued by RBI from time to time in extraordinary situations.

Unlike other sectors, agricultural advances are treated separately because repayment capacity depends upon crop cycles and seasonal cash flows.

b) Circumstances Warranting Restructuring:

Restructuring is generally considered when farmers suffer financial stress arising from:

- ✓ Droughts, floods, cyclones, earthquakes, and other natural calamities.
- ✓ Crop failures due to pest attacks or diseases.
- ✓ Unseasonal rainfall and adverse weather conditions.
- ✓ Damage to agricultural assets.
- ✓ Losses in allied agricultural activities such as dairy, poultry, fisheries, and animal husbandry.
- ✓ Temporary disruptions affecting farm incomes.

The emphasis is on rehabilitation of viable borrowers rather than immediate recovery.

c) Restructuring of Short-Term Production Credit (Crop Loans):

RBI provides special relief in respect of short-term crop loans. In the event of a natural calamity, all short-term production loans that were not overdue on the date of occurrence of the calamity are eligible for restructuring.

The principal amount together with the interest due during the year of the calamity may be converted into a term loan. The repayment period depends upon the severity of crop loss and the extent of distress caused to the farmer. A moratorium period of at least one year is generally provided to facilitate recovery and restoration of farming operations. Banks are advised not to insist on additional collateral security while restructuring such loans.

d) Restructuring of Long-Term Agricultural Investment Loans:

Agricultural term loans granted for tractors, irrigation facilities, farm mechanization, plantations, dairy farming, poultry, fisheries and other investment purposes may also be restructured.

Where the productive assets remain intact and only the crop of the particular season is affected, banks may re-schedule the instalments falling due during the year and extend the overall repayment period.

Where productive assets themselves are damaged, banks may reassess the total liabilities of the borrower and restructure the existing loans after considering compensation and insurance proceeds receivable. The repayment period may generally extend up to five years, depending upon the borrower's repayment capacity and the extent of losses suffered.

e) Moratorium Facility:

RBI guidelines provide for granting moratoriums in deserving cases. During the moratorium period, farmers are relieved from repayment obligations, enabling them to resume cultivation and restore income generation. Such moratoriums constitute an important component of rehabilitation and are designed to prevent distress among agricultural borrowers.

f) Fresh Credit Support:

Restructuring alone may not be sufficient for revival. Therefore, RBI encourages banks to provide fresh crop loans and additional finance to affected farmers so that agricultural operations are not disrupted.

Fresh loans may be granted for:

- ✓ Seasonal cultivation requirements.
- ✓ Repair or replacement of damaged assets.
- ✓ Dairy, poultry, fisheries, and allied agricultural activities.
- ✓ Consumption requirements in deserving cases.

Banks are expected to sanction such facilities expeditiously after assessment of requirements.

g) Asset Classification Benefits:

A significant feature of agricultural restructuring is the prudential relief provided under RBI guidelines. The restructured portion of eligible agricultural loans may continue to be treated as current dues and need not necessarily be classified as non-performing assets. Thus, restructuring in agriculture is accorded special treatment considering the peculiar nature of farming risks.

Even repeated restructuring necessitated by recurring natural calamities does not automatically result in adverse asset classification consequences, provided the conditions prescribed by RBI are satisfied.

h) Consideration of Insurance Claims:

While restructuring agricultural advances, banks are required to take into account the proceeds receivable under crop insurance schemes such as the Pradhan Mantri Fasal Bima Yojana (PMFBY). However, lenders are advised not to delay restructuring or fresh lending merely because insurance claims are pending. Relief measures should be extended promptly whenever there is reasonable certainty regarding receipt of insurance proceeds.

i) Institutional Mechanism:

The State Level Bankers' Committee (SLBC) and District Consultative Committees (DCCs) play an important role in coordinating relief measures. These bodies assess the extent of damage caused by natural calamities and recommend restructuring and other relief measures. Banks are required to maintain Board-approved policies and implement relief measures uniformly and expeditiously.

j) Recent RBI Framework for Natural Calamities:

In January 2026, RBI proposed a principle-based framework and subsequently finalized norms providing greater flexibility to Regulated Entities. Under the revised framework, banks may initiate restructuring measures even without waiting for formal requests from borrowers, based on recommendations of SLBCs or competent authorities. Eligible standard accounts not in default for more than 30 days on the date of occurrence of the calamity can be covered under the resolution plan. Resolution measures may include:

- ✓ Rescheduling of payments.
- ✓ Granting moratoriums.
- ✓ Conversion of accrued interest into separate facilities.
- ✓ Additional finance for rehabilitation.
- ✓ Modification of repayment terms based on viability.

These revised norms are scheduled to come into effect from July 1, 2026.

RBI Guidelines for Restructuring of Corporate (Mid-Corporate and Large Corporate) Loans:

The Reserve Bank of India (RBI) has established a comprehensive framework for the resolution and restructuring of stressed corporate loans through the **RBI (Prudential Framework for Resolution of Stressed Assets) Directions, 2019**, which have subsequently been incorporated into the entity-specific Master Directions issued in 2025. These guidelines are applicable to Scheduled Commercial Banks, Small Finance Banks, All India Financial Institutions, NBFCs, and other Regulated Entities (REs). The framework is designed to facilitate early recognition of stress, timely resolution of distressed accounts, preservation of economic value, and maximization of recovery while minimizing the need for insolvency proceedings under the Insolvency and Bankruptcy Code (IBC).

a) *Applicability to Mid-Corporate and Large Corporate Borrowers:*

The framework applies to all corporate borrowers, including mid-corporate and large corporate entities, irrespective of the nature of industry or business. It covers both fund-based and non-fund-based facilities and is applicable to consortium lending arrangements, multiple banking arrangements, and standalone exposures. The objective is to resolve stress before it culminates in liquidation or insolvency.

b) *Early Recognition of Stress:*

The cornerstone of the RBI framework is early identification of financial stress. Lenders are required to recognize incipient stress immediately upon default and classify accounts under the Special Mention Account (SMA) categories before they become Non-Performing Assets (NPAs).

- ✓ Stress in corporate accounts may arise because of:
- ✓ Economic slowdown and recessionary conditions.
- ✓ Decline in demand and profitability.
- ✓ Cost overruns and project delays.
- ✓ Changes in government policies.
- ✓ Commodity price volatility.
- ✓ Foreign exchange fluctuations.
- ✓ Supply chain disruptions.
- ✓ Increased leverage and liquidity mismatches.
- ✓ Technological obsolescence and industry-specific challenges.

Early recognition facilitates timely intervention and increases the probability of successful resolution.

c) *Board-Approved Policy:*

Every Regulated Entity is required to formulate a Board-approved policy for resolution of stressed assets. The policy should contain:

- ✓ Procedures for identification of stress.
- ✓ Approval mechanisms.
- ✓ Viability assessment criteria.
- ✓ Monitoring systems.
- ✓ Delegation of powers.
- ✓ Provisioning norms.

- ✓ Documentation and implementation procedures.

This ensures consistency and transparency in restructuring decisions.

d) Resolution Plan (RP):

The restructuring of corporate loans forms part of a Resolution Plan (RP). Lenders have complete discretion in designing the Resolution Plan, depending upon the viability and cash-flow projections of the borrower.

The Resolution Plan may involve:

- ✱ **Rescheduling of Repayment:** Extension of loan tenure and modification of repayment schedules to align debt obligations with projected cash flows.
- ✱ **Moratorium on Principal or Interest:** Granting temporary deferment of principal repayments or interest servicing to facilitate stabilization of operations.
- ✱ **Conversion of Debt:** Conversion of a portion of debt into equity instruments, preference shares, or other marketable securities.
- ✱ **Change in Ownership:** Transfer of ownership or induction of new promoters wherever required for revival of the enterprise.
- ✱ **Additional Finance:** Provision of additional working capital or term finance to revive operations. Additional finance granted under the Resolution Plan enjoys standard asset treatment subject to prescribed conditions.
- ✱ **Sale of Exposures:** Assignment of exposures to Asset Reconstruction Companies (ARCs) or other lenders.
- ✱ **Merger or Business Reorganization:** Structural changes aimed at restoring financial viability. The framework gives lenders flexibility to adopt any combination of these measures based on the borrower's circumstances.

e) Inter-Creditor Agreement (ICA):

Where multiple lenders are involved, RBI mandates the execution of an Inter-Creditor Agreement (ICA). Under this arrangement, decisions approved by lenders representing at least 75 percent of the outstanding exposure by value and 60 percent by number become binding on all signatories.

The ICA facilitates coordinated action and prevents delays caused by differing approaches among lenders.

f) Independent Credit Evaluation (ICE):

For large exposures, independent credit evaluation is mandatory. The Resolution Plan should be supported by an assessment conducted by RBI-authorized credit rating agencies.

This evaluation ensures:

- ✓ Realistic cash-flow projections.
- ✓ Independent assessment of viability.
- ✓ Prevention of evergreening.
- ✓ Objectivity in restructuring decisions.

Independent Credit Evaluation is particularly relevant for large corporate accounts with aggregate exposures exceeding prescribed thresholds.

g) *Timelines for Implementation: The Resolution Plan is considered implemented only when:*

- ✓ Necessary documentation has been completed.
- ✓ Changes are reflected in the books of all lenders.
- ✓ Security documents have been perfected.
- ✓ The borrower is not in default under the revised terms.

Timely implementation is critical because delays attract additional provisioning requirements.

h) *Additional Provisioning for Delay:*

RBI discourages prolonged inaction by imposing additional provisioning requirements where Resolution Plans are not implemented within prescribed timelines. These provisions act as disincentives for delaying the resolution process and encourage lenders to act promptly.

Where resolution is delayed, lenders are required to maintain higher provisions, thereby protecting the financial system against accumulation of stressed assets.

i) *Asset Classification and Prudential Treatment:*

Restructuring generally results in changes in asset classification in accordance with the Income Recognition and Asset Classification (IRAC) norms.

A restructured account can be upgraded to standard category only after satisfactory performance during the prescribed monitoring period. If the account is already classified as NPA, it continues to age in accordance with existing norms.

The framework ensures that restructuring does not become a mechanism for evergreening stressed assets.

j) *Monitoring Period:*

After implementation of the Resolution Plan, lenders are required to monitor:

- ✓ Repayment behaviour.
- ✓ Operational performance.
- ✓ Cash flows.
- ✓ Compliance with covenants.
- ✓ Utilization of additional finance.

The account is upgraded only after demonstrating satisfactory performance throughout the monitoring period. Continuous monitoring enhances the probability of successful revival.

k) *Projects Under Implementation:*

Certain infrastructure and long-term projects involving deferment of the Date of Commencement of Commercial Operations (DCCO) continue to enjoy special regulatory treatment under RBI guidelines. Delays arising from genuine reasons such as environmental clearances, land acquisition, and litigation may be accommodated through extension of project implementation periods without immediate adverse asset classification consequences.

l) *Relationship with Insolvency and Bankruptcy Code:*

The Prudential Framework operates without prejudice to RBI's powers under Section 35AA of the Banking Reg-

ulation Act, 1949. RBI may issue specific directions for initiation of insolvency proceedings under the Insolvency and Bankruptcy Code, 2016, in respect of particular borrowers.

Accordingly, restructuring is viewed as a pre-insolvency mechanism aimed at preserving value and avoiding liquidation wherever possible. However, where restructuring fails or the borrower is found to be unviable, lenders may proceed under the IBC framework.

m) Withdrawal of Earlier Corporate Restructuring Schemes:

The Prudential Framework replaced several earlier schemes, including:

- ✓ Corporate Debt Restructuring (CDR).
- ✓ Strategic Debt Restructuring (SDR).
- ✓ Scheme for Sustainable Structuring of Stressed Assets (S4A).
- ✓ Flexible Structuring (5/25 Scheme).
- ✓ Joint Lenders' Forum (JLF).

The present framework provides lenders with greater flexibility and emphasizes early and time-bound resolution.

Bottom of Form

SME, Mid-Corporate and Large Corporate Loans for Restructuring by Banks:

Restructuring is not intended for every stressed borrower. The Reserve Bank of India (RBI) expects Regulated Entities (REs) to distinguish between **temporary financial stress** and **fundamental business unviability**. Therefore, before approving restructuring, banks undertake a comprehensive viability assessment to determine whether the borrower has the capacity to revive operations and service debt under revised terms. The objective is rehabilitation of viable enterprises and not evergreening of stressed assets.

a) Early Warning Signals and Detection of Stress:

The process generally begins with identification of early warning signals. Banks continuously monitor borrower accounts and financial performance to detect signs of emerging stress. Persistent delays in repayment, deterioration in account conduct, irregular drawings in working capital accounts, decline in turnover, frequent requests for ad hoc limits, reduction in profitability, and increase in receivables and inventories often indicate the onset of financial difficulties.

Banks also analyse external developments affecting the industry, such as economic slowdown, adverse policy changes, commodity price volatility, technological disruptions, and changes in market demand. Accounts categorized under Special Mention Accounts (SMA-0, SMA-1 and SMA-2) are subjected to closer scrutiny before they slip into Non-Performing Assets (NPAs).

b) Assessment of the Nature of Financial Stress:

The most important aspect in determining eligibility for restructuring is understanding whether the stress is temporary or structural.

Banks examine whether the financial difficulties have arisen due to:

- ✓ Economic slowdown or cyclical downturn;
- ✓ Delays in project implementation;
- ✓ Increase in raw material costs;

- ✓ Temporary loss of orders;
- ✓ Supply-chain disruptions;
- ✓ Delayed realization of receivables;
- ✓ Pandemic-related disruptions;
- ✓ Natural calamities;
- ✓ Regulatory changes;
- ✓ Working capital mismatches.

If the causes are temporary and capable of being corrected, restructuring may be considered. However, if the enterprise suffers from obsolete technology, permanent loss of market, fraudulent conduct, or absence of future viability, restructuring is generally avoided.

c) Detailed Viability Study:

Viability assessment constitutes the cornerstone of restructuring decisions. Banks conduct a detailed study of the enterprise covering operational, financial, managerial, and market-related aspects.

The study includes evaluation of:

- ✱ **Past Financial Performance:** Banks analyse audited financial statements for several years to understand trends in sales, profitability, cash generation, and leverage. Continuous losses and deterioration in net worth are carefully examined.
- ✱ **Future Cash Flow Projections:** Projected cash flows form the basis for restructuring. Banks estimate future revenues, operating profits, debt servicing capacity, and liquidity requirements under realistic assumptions. The revised repayment schedule is designed around expected cash generation.
- ✱ **Debt Service Coverage Ratio (DSCR):** A satisfactory DSCR indicates that the borrower will be able to service interest and principal obligations under the restructured terms. Low DSCR values may indicate weak viability.
- ✱ **Promoters' Contribution and Commitment:** Banks assess whether promoters are willing to infuse additional capital, provide guarantees, or bring in strategic investors. Promoter commitment is considered essential for successful restructuring.
- ✱ **Market Position and Industry Outlook:** Banks evaluate the borrower's competitive strengths, customer base, order book, and future demand prospects. Industries experiencing temporary cyclical downturns are viewed differently from sectors undergoing permanent decline.
- ✱ **Management Capability:** The competence and integrity of the management are important considerations. Enterprises with experienced management and sound governance practices are generally considered more suitable for restructuring.

d) Evaluation of Operational Viability:

For SMEs and corporate borrowers, banks examine whether the core operations remain viable. Factors considered include:

- ✓ Availability of raw materials.
- ✓ Production capacity utilization.

- ✓ Order position and customer relationships.
- ✓ Cost structure and efficiency.
- ✓ Technology employed.
- ✓ Marketing arrangements.
- ✓ Competitive advantages.

If the enterprise can generate positive operating profits after restructuring, it is considered operationally viable.

e) Analysis of Working Capital Cycle:

Banks study the working capital requirements of the borrower by analysing inventory levels, receivables, payables, and operating cycles. Many SMEs face stress because of delayed payments from customers rather than because of lack of business. In such cases, restructuring coupled with additional working capital support may restore normal operations.

f) Security Coverage and Asset Base:

The value and realizability of securities available with the bank are also assessed. Although restructuring decisions are primarily based on cash flow viability rather than collateral values, adequate security coverage provides additional comfort and improves recovery prospects.

Banks examine:

- ✓ Value of fixed assets.
- ✓ Current assets and inventories.
- ✓ Collateral securities.
- ✓ Guarantees available.
- ✓ Insurance coverage.

g) Assessment of Borrower's Conduct:

Borrower behaviour and repayment track record play an important role in determining eligibility. Banks evaluate whether the stress has arisen due to genuine business difficulties or because of diversion of funds, fraud, wilful default, or lack of financial discipline.

Generally, borrowers classified as wilful defaulters, fraudulent accounts, or those involved in diversion or siphoning of funds are not considered eligible for restructuring under RBI guidelines.

h) Independent Credit Evaluation:

In large corporate accounts above prescribed exposure thresholds, RBI requires Independent Credit Evaluation (ICE) by authorized credit rating agencies. The independent assessment provides an objective opinion regarding:

- ✓ Future viability of the enterprise;
- ✓ Sustainability of debt;
- ✓ Adequacy of restructuring proposals;
- ✓ Risks associated with the account.

This mechanism prevents evergreening and promotes prudent restructuring practices.

i) Techno-Economic Viability (TEV) Study:

For large and complex corporate exposures, banks often commission a Techno-Economic Viability (TEV) study through specialized agencies. The study examines:

- ✓ Technical feasibility of operations;
- ✓ Economic viability of the project;
- ✓ Demand projections;
- ✓ Financial projections;
- ✓ Debt servicing capability;
- ✓ Requirement of additional finance;
- ✓ Break-even analysis.

A favourable TEV report strengthens the case for restructuring.

j) Consortium and Multiple Banking Arrangements:

Where several lenders are involved, a common assessment is carried out through consortium meetings or under the Inter-Creditor Agreement (ICA). Decisions are based on collective evaluation of viability and are binding upon participating lenders in accordance with RBI norms.

k) Requirement of Positive Cash Flows:

Perhaps the most critical criterion is the ability of the borrower to generate positive cash flows after restructuring. Banks generally ensure that:

- ✓ The enterprise will earn sufficient profits.
- ✓ Cash accruals will meet debt obligations.
- ✓ Additional borrowing requirements are manageable.
- ✓ The revised debt structure is sustainable.

Without sustainable cash flows, restructuring merely postpones default and is therefore discouraged.

l) Circumstances Generally Favouring Restructuring:

Banks are more likely to consider restructuring where:

- ✓ Stress is temporary and reversible.
- ✓ Business operations remain fundamentally sound.
- ✓ Market demand exists for the products or services.
- ✓ Promoters demonstrate commitment.
- ✓ Cash flows are expected to improve.
- ✓ Additional funding requirements are reasonable.

- ✓ Recovery through continued operations is superior to liquidation.

m) Circumstances Generally Not Favouring Restructuring:

Banks generally avoid restructuring when:

- ✓ The account involves fraud or wilful default.
- ✓ Funds have been diverted or siphoned off.
- ✓ The business model has become permanently unviable.
- ✓ There is no prospect of future cash generation.
- ✓ Promoters are unwilling to contribute.
- ✓ Recovery prospects through restructuring are poor.
- ✓ Liquidation value exceeds going concern value.

To Sum Up:

RBI's guidelines for restructuring of retail loans provide a comprehensive framework for Regulated Entities to address financial stress among individual borrowers in a prudent and time-bound manner. The framework aims to balance borrower relief with sound banking practices by ensuring that restructuring is undertaken only for viable accounts and accompanied by appropriate asset classification, provisioning, documentation, and monitoring requirements. Proper implementation of these guidelines helps borrowers regain financial stability while enabling banks and other Regulated Entities to maximize recoveries and maintain the quality of their loan portfolios.

The RBI guidelines for restructuring of MSME loans provide a comprehensive framework for Regulated Entities to identify stress at an early stage, evaluate viability, and implement time-bound resolution plans. The framework encourages rehabilitation of viable MSMEs through repayment rescheduling, moratoriums, additional finance, and continuous monitoring. By focusing on revival rather than liquidation, the RBI seeks to protect both the interests of lenders and the sustainability of the MSME sector, which remains one of the most important pillars of the Indian economy.

RBI has evolved a comprehensive and farmer-friendly framework for restructuring agricultural loans by Regulated Entities. The framework provides special treatment for crop loans and agricultural term loans through rescheduling, moratoriums, fresh finance, and asset classification relief. By recognizing the inherent uncertainties associated with agriculture and emphasizing rehabilitation rather than recovery, RBI seeks to safeguard both farmers and lending institutions while promoting stability and sustainability in the rural credit system.

The RBI guidelines for restructuring of mid-corporate and large corporate loans are founded on the principles of early recognition, viability assessment, lender coordination, time-bound implementation, and preservation of economic value. Through the Prudential Framework for Resolution of Stressed Assets, RBI has shifted the focus from fragmented restructuring schemes to a flexible and market-oriented approach that encourages lenders to resolve stress before resorting to insolvency proceedings. The framework seeks to balance borrower rehabilitation with prudential safeguards and remains one of the most significant instruments for managing stressed corporate assets in the Indian banking system.

Banks identify eligible SME, mid-corporate, and large corporate loans for restructuring through a rigorous process involving early warning signal analysis, viability assessment, cash flow projections, promoter evaluation, industry outlook, security coverage, and independent studies such as TEV and credit evaluations. The guiding principle under RBI's Prudential Framework for Resolution of Stressed Assets is that restructuring should revive viable businesses and maximize recoveries rather than merely postpone recognition of stress. Consequently, only those

borrowers possessing sustainable operational and financial viability are considered suitable candidates for restructuring, while fundamentally unviable accounts are directed towards recovery or insolvency mechanisms.

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Chapter 3

Early Warning Signals: Identification of Financial Stress

Synopsis:

This chapter explains the importance of identifying financial stress at an early stage as the foundation for successful loan restructuring and revival of stressed business units. It emphasizes that banks should not rely solely on defaults but must undertake a comprehensive assessment of Early Warning Signals (EWS), financial statements, liquidity position, cash flows, working capital management, profitability trends, leverage levels, account conduct, operational performance, industry conditions, management quality, digital footprints, and statutory compliance. The chapter further highlights the role of Techno-Economic Viability (TEV) studies, stress testing, credit history, repayment behaviour, break-even analysis, revenue generation capability, and promoter commitment in determining whether a borrower is temporarily distressed yet viable or fundamentally unviable. It also discusses key restructuring tools such as moratoriums, Working Capital Term Loans (WCTL), capitalization of interest through Funded Interest Term Loans (FITL), and additional working capital support, all aimed at aligning debt obligations with future cash-generating capacity and ensuring sustainable business revival.

The restructuring of loans is not merely an exercise of extending repayment periods or reducing interest rates. Before any restructuring package is considered, banks are required to identify whether the financial difficulties faced by the borrowing unit are temporary, operational, cyclical, or structural in nature. The objective is to distinguish a potentially viable enterprise from one that has become economically unviable. Identification of financial stress is therefore the foundation upon which a restructuring proposal, Techno-Economic Viability (TEV) study, and future cash-flow projections are built.

Financial stress generally manifests much earlier than actual default. It begins with deterioration in liquidity, weakening operating performance, shrinking profitability, and increasing dependence on borrowed funds. A systematic diagnosis helps banks understand the causes of stress and determine whether restructuring can restore viability.

Understanding Financial Stress:

Financial stress refers to the inability of a business to generate sufficient cash flows to meet its financial obligations as and when they become due. The stress may arise from internal factors such as poor management, cost overruns, or excessive debt, or external factors like market downturns, technological changes, regulatory actions, or supply-chain disruptions.

Banks generally classify stress indicators into financial, operational, market-related, management-related, and external factors. A comprehensive assessment of these indicators enables lenders to design suitable restructuring measures.

Identification Through Early Warning Signals (EWS):

Banks rely heavily on Early Warning Signals (EWS) to detect financial distress at an early stage. These signals provide advance indications that the borrower's financial position is weakening.

Irregular operations in current accounts, persistent overdrawings, delays in submission of stock statements,

non-payment of statutory dues, frequent requests for ad hoc limits, and delays in servicing interest or instalments are among the earliest warning signs. Repeated devolvement of letters of credit, invocation of bank guarantees, and increased cheque returns indicate liquidity problems.

Banks compare these indicators with past performance and peer-group trends to determine whether the problems are temporary or symptomatic of deeper stress.

a) Analysis of Financial Statements:

One of the most important methods of identifying stress is the analysis of audited financial statements and provisional accounts.

Banks examine the Balance Sheet, Profit and Loss Account, and Cash Flow Statements over three to five years to identify trends. Declining net worth, accumulation of losses, rising debt levels, reduction in reserves, and erosion of working capital are major indicators of stress.

A comparison of historical data helps in understanding whether the deterioration is gradual or sudden. Ratio analysis is employed extensively to assess liquidity, leverage, profitability, and efficiency.

b) Assessment of Liquidity Position:

Liquidity stress generally appears before profitability problems. Banks therefore evaluate whether the company possesses adequate current assets to meet current liabilities.

Declining current ratio, excessive utilization of working capital limits, increase in sundry debtors and inventories, and inability to pay creditors on time indicate liquidity constraints. Continuous reliance on short-term borrowings to finance long-term assets is another sign of stress.

Negative working capital and stretched operating cycles often suggest that the business is unable to generate sufficient internal cash flows.

c) Cash Flow Analysis and Distortion Mapping:

Cash flow analysis is considered more important than accounting profits in identifying stress. A company may report profits but still experience financial distress due to poor cash generation.

Banks analyse cash flow statements to determine whether operating cash flows are sufficient to meet interest and principal repayments. Persistent negative operating cash flows, increasing dependence on external borrowings, and diversion of funds are warning signals.

Cash flow distortion mapping helps identify:

- ✱ Delayed realization from customers.
- ✱ Excess inventory accumulation.
- ✱ Diversion of working capital funds.
- ✱ Increase in receivables cycle.
- ✱ Higher dependence on creditors.

The Debt Service Coverage Ratio (DSCR) and Interest Coverage Ratio are closely monitored to assess repayment capacity.

d) Working Capital Stress Assessment:

Working capital stress is one of the earliest indicators of financial difficulties.

Banks study the movement of inventories, receivables, and creditors. Excessive stock accumulation, slow-moving inventories, increasing debtor days, and rising creditor outstanding periods indicate operational inefficiencies.

Mismatch between projected and actual sales, irregular stock statements, and non-rotation of inventories often reveal underlying problems in working capital management.

Borrowers utilizing cash credit limits continuously at maximum levels without corresponding sales growth are considered stressed.

e) Profitability Trend Analysis:

Profitability trends provide valuable information regarding the sustainability of operations.

Banks examine Gross Profit Margin, EBITDA Margin, Operating Profit Margin, and Net Profit Margin over several years. Declining margins suggest rising costs, competitive pressures, or reduction in demand.

A business experiencing falling profits despite increasing sales may be suffering from inefficient operations or excessive financing costs.

Negative EBITDA is generally considered a serious sign because it indicates that the enterprise cannot generate enough operating income to cover basic expenses.

f) Debt Burden and Leverage Analysis:

Financial stress often arises when debt levels become excessive compared to the company's earning capacity.

Banks analyse:

- ✓ **Debt-Equity Ratio:** A rising debt-equity ratio indicates increasing dependence on borrowed funds and declining financial flexibility.
- ✓ **Total Outside Liabilities to Tangible Net Worth:** High leverage signifies weakening solvency and increased financial risk.
- ✓ **Interest Coverage Ratio:** Lower interest coverage reflects inability to service interest obligations from operating profits.
- ✓ **Debt Service Coverage Ratio:** DSCR below one indicates inadequate cash generation for debt repayment. Excessive leverage is one of the primary reasons for restructuring proposals.

g) Examination of Account Conduct:

The conduct of the loan account itself reveals the financial health of the borrower.

Banks monitor:

- ✱ Frequency of overdrawing.
- ✱ Delays in servicing interest.
- ✱ Return of cheques.
- ✱ Excess drawings beyond sanctioned limits.
- ✱ Temporary overdrafts.
- ✱ Frequent enhancement requests.
- ✱ Non-submission of stock statements.

- ✱ Delayed renewal of insurance policies.

These behavioural indicators provide early evidence of stress even before financial statements reflect deterioration.

h) Operational Performance Evaluation:

Financial stress is often a consequence of operational problems. Banks therefore examine the operational efficiency of the enterprise.

Declining capacity utilization, frequent production stoppages, labour disputes, machinery breakdowns, shortage of raw materials, and lower productivity are indicators of operational stress.

Comparisons are made between installed capacity and actual production. Continuous underutilization of capacity affects revenue generation and debt servicing ability.

i) Industry and Market Analysis:

Stress may arise due to adverse industry conditions rather than borrower-specific factors.

Banks study:

- ✱ Demand-supply imbalances.
- ✱ Changes in customer preferences.
- ✱ Entry of new competitors.
- ✱ Import competition.
- ✱ Technological obsolescence.
- ✱ Government regulations.
- ✱ Commodity price fluctuations.

For example, pharmaceutical units may suffer due to regulatory actions, while textile units may be affected by cheap imports and changing global demand.

Industry stress must be distinguished from borrower-specific weaknesses while considering restructuring.

j) Analysis of Sales and Revenue Patterns:

Revenue trends are important indicators of business viability.

Banks compare actual sales with projected sales and historical performance. Continuous decline in turnover, dependence on a few customers, cancellation of major orders, and increased sales returns indicate weakening market position.

Reduction in export orders, shrinking customer base, and increasing credit sales are also warning signals.

Variance analysis between projected and actual turnover helps identify deviations requiring corrective measures.

k) Verification Through Digital Footprints:

Modern banks increasingly rely on digital footprints to detect stress.

Information is obtained from:

- ✱ **GST Returns:** Declining GST turnover indicates reduction in business activity.

- ✱ Income Tax Returns: Lower taxable income reveals shrinking profitability.
- ✱ MCA Filings: Delayed filings, qualifications in audit reports, and increasing borrowings provide indications of stress.
- ✱ Credit Information Companies: Data from CIBIL, CRIF Highmark, Experian, and Equifax reveal repayment patterns and defaults.
- ✱ E-Way Bills and Trade Data: Reduction in logistics movement indicates lower business volumes.
- ✱ Banking Transactions: Daily transaction patterns help identify changes in cash flows and business activity.

Digital footprints provide real-time indicators and improve the reliability of restructuring decisions.

- ✓ **Detection Through Financial Ratio Analysis:** Ratio analysis helps identify deteriorating financial conditions.
- ✓ **Liquidity Ratios:** Declining Current Ratio and Quick Ratio indicate liquidity stress.
- ✓ **Profitability Ratios:** Lower Gross Profit and Net Profit Ratios suggest operational weakness.
- ✓ **Solvency Ratios:** Higher Debt-Equity Ratio and Total Outside Liabilities to Net Worth indicate excessive leverage.
- ✓ **Efficiency Ratios:** Increasing inventory holding period and debtor collection period reflect inefficiencies.
- ✓ **Coverage Ratios:** Lower Interest Coverage Ratio and DSCR signal repayment difficulties.

Trend analysis over several years helps banks assess the severity of stress.

l) Identification Through Cash Flow Projections and Stress Testing:

Banks prepare future projections under various scenarios to assess viability.

Sensitivity analysis is conducted by assuming:

- ✱ Reduction in sales.
- ✱ Increase in raw material costs.
- ✱ Delay in receivable realization.
- ✱ Increase in interest rates.
- ✱ Capacity utilization constraints.

If the borrower remains capable of servicing debt under adverse conditions, restructuring may be considered viable.

Stress testing helps distinguish temporary financial difficulties from permanent economic unviability.

m) Management and Governance Assessment:

Many financial problems originate from managerial deficiencies.

Banks evaluate:

- ✱ Promoters' experience.
- ✱ Integrity and track record.

- ✱ Corporate governance standards.
- ✱ Succession planning.
- ✱ Related-party transactions.
- ✱ Fund diversion.
- ✱ Quality of management information systems.

Frequent changes in key managerial personnel, disputes among promoters, and lack of transparency often indicate higher risks.

Even financially stressed businesses can be revived if management quality remains strong.

Identification Through Techno-Economic Viability (TEV) Study:

A TEV study provides a comprehensive diagnosis of financial stress.

The study examines:

- ✱ Technical feasibility.
- ✱ Market prospects.
- ✱ Cost structure.
- ✱ Production efficiency.
- ✱ Working capital requirements.
- ✱ Cash flow generation.
- ✱ Debt servicing capability.
- ✱ Break-even analysis.
- ✱ Sensitivity analysis.

The TEV study helps determine whether the unit is commercially viable and whether restructuring can revive the enterprise.

a) Assessment of Statutory and Regulatory Compliance

Non-compliance with statutory obligations is often a symptom of cash shortages.

Banks verify payment of:

- ✱ GST liabilities.
- ✱ Income tax dues.
- ✱ Provident Fund contributions.
- ✱ ESI contributions.
- ✱ Electricity dues.
- ✱ Labour payments.

Persistent defaults in statutory payments indicate severe liquidity stress and possible insolvency risk.

b) Forensic Indicators and Fund Diversion

Banks investigate whether stress has arisen due to genuine business reasons or diversion of funds.

Indicators include:

- ✱ Large related-party transactions.
- ✱ Unusual advances.
- ✱ Investments unrelated to business.
- ✱ Siphoning of funds.
- ✱ Multiple banking arrangements.
- ✱ Layering of transactions.

Where fraud or diversion is suspected, forensic audits are conducted before considering restructuring.

Hence, Identification of financial stress is the most critical stage in the restructuring process. Banks do not rely solely on defaults or profitability figures; they adopt a multidimensional approach involving financial analysis, operational review, industry assessment, digital footprints, cash-flow studies, management evaluation, and TEV analysis. The primary objective is to distinguish a temporarily distressed but viable unit from a fundamentally unviable one.

A successful restructuring package depends upon accurate diagnosis of stress. Early identification enables timely corrective action, preservation of asset value, and revival of the enterprise, thereby protecting the interests of both the borrower and the banking system.

Assess the Viability of Units Financed by Banks:

The success of any loan restructuring exercise depends fundamentally on the viability of the borrowing unit. Restructuring is not intended merely to postpone defaults or provide temporary relief to a distressed borrower. Its principal objective is to revive a financially stressed but fundamentally viable enterprise and restore its ability to generate sufficient cash flows to service debt obligations. Therefore, before approving any restructuring package, banks undertake a detailed viability assessment to determine whether the business can survive and sustain itself under revised financial arrangements.

Viability assessment is a comprehensive process involving financial analysis, technical feasibility, market potential, operational efficiency, management capability, cash flow projections, and sensitivity analysis. Banks seek to ascertain whether the causes of stress are temporary and reversible or whether they represent permanent structural weaknesses that cannot be remedied through financial restructuring alone.

a) Concept and Meaning of Viability Assessment:

Viability refers to the ability of an enterprise to continue its operations profitably and generate adequate cash flows for meeting its operating expenses, servicing debt obligations, replacing assets, and providing a reasonable return to stakeholders over the long term.

A viable unit is one that possesses sound business fundamentals and has the capability to recover from temporary setbacks through appropriate corrective measures. On the other hand, a non-viable unit is one whose operations have become permanently unprofitable or obsolete, making revival economically unjustifiable.

Banks therefore conduct viability assessments to ensure that scarce financial resources are deployed only towards enterprises that have reasonable prospects of revival.

b) Importance of Viability Assessment in Loan Restructuring:

Restructuring without establishing viability merely postpones inevitable defaults and increases losses to banks. Therefore, viability assessment acts as the foundation of any restructuring proposal.

A proper viability study enables banks to determine whether the borrower will be able to service restructured debt from future cash flows. It also helps in deciding the extent of sacrifice required from lenders, additional funding needs, repayment schedules, and monitoring mechanisms.

Furthermore, viability assessment protects the interests of depositors, lenders, employees, suppliers, and other stakeholders by ensuring that restructuring efforts are directed towards businesses capable of long-term survival.

c) Evaluation of the Causes of Financial Stress:

Before assessing future viability, banks first identify the reasons behind the borrower's financial distress.

Temporary factors such as economic slowdown, delay in project implementation, rise in raw material prices, loss of export orders, natural calamities, or sudden regulatory changes may affect profitability for a limited period. Such problems can often be addressed through restructuring.

However, if stress arises from obsolete technology, poor management, fraud, diversion of funds, permanent loss of market share, or excessive leverage beyond sustainable levels, the unit may not be considered viable.

Therefore, understanding the root causes of distress is the first step in viability assessment.

d) Assessment of Technical Viability:

Technical viability refers to the ability of the enterprise to produce goods or services efficiently using existing technology and infrastructure.

Banks evaluate whether the plant and machinery are modern, whether production processes are efficient, and whether capacity utilization levels are adequate. Obsolete technology, frequent breakdowns, high wastage, and excessive maintenance costs adversely affect technical viability.

The quality of raw materials, production methods, energy consumption, and compliance with environmental standards are also examined. If technological deficiencies can be corrected through modernization and capital expenditure, the unit may still remain viable.

e) Examination of Market Viability:

No business can survive without sufficient demand for its products or services. Therefore, banks conduct a detailed analysis of market conditions before approving restructuring.

They examine the current and future demand for the products, competitive position of the company, market share, customer concentration, export potential, pricing power, and changing consumer preferences.

A company operating in a growing industry with established customers and strong demand prospects is more likely to be viable. Conversely, declining industries with shrinking demand and intense competition may indicate long-term weakness.

Banks also analyse whether the products have become obsolete and whether substitutes have adversely affected sales.

f) Analysis of Historical Financial Performance:

Past financial performance provides valuable insight into the underlying strength of the business.

Banks analyse the audited financial statements for the previous three to five years to study trends in turnover, profitability, net worth, leverage, and cash generation. Consistent profits in earlier years followed by temporary losses may indicate that the enterprise can recover.

Trend analysis helps distinguish cyclical problems from structural weaknesses. Declining sales, continuous losses, erosion of net worth, and persistent negative cash flows indicate serious concerns regarding viability.

Historical performance acts as a benchmark for projecting future recovery.

g) Evaluation of Profitability and Earnings Capacity:

Profitability is one of the most critical determinants of viability.

Banks assess Gross Profit, EBITDA, Operating Profit Margin, and Net Profit Margin to determine whether the enterprise generates sufficient earnings from operations.

Positive EBITDA indicates that the business is capable of generating operating surplus before interest and depreciation. Even if temporary losses occur due to high interest burden, restructuring may restore profitability through reduction in debt servicing obligations.

However, if the enterprise consistently generates negative operating margins, its viability becomes doubtful.

Banks also compare profitability with industry benchmarks to assess competitive strength.

h) Assessment of Cash Flow Generation Capacity:

Cash flows are more important than accounting profits while evaluating viability.

Banks prepare projected cash flow statements to determine whether future operating cash inflows will be adequate to meet expenses, repay debt obligations, and support working capital requirements.

The ability of the unit to generate positive cash flows after restructuring is a key indicator of viability. If cash flows remain negative despite revised repayment schedules, the restructuring proposal may not be feasible.

Special emphasis is placed on operating cash flows rather than financing or investing cash flows.

i) Debt Servicing Ability and Sustainable Debt Assessment:

Viability depends largely upon the capacity of the enterprise to service its debt from internal accruals.

Banks calculate Debt Service Coverage Ratio (DSCR), Interest Coverage Ratio, Fixed Asset Coverage Ratio, and other leverage indicators. Sustainable debt is estimated based on projected earnings and cash flows.

Debt that can be serviced comfortably through normal operations is considered sustainable, while the excess debt becomes unsustainable and may require restructuring through extension of tenure, conversion into equity, or sacrifice by lenders.

Banks generally ensure that the post-restructuring debt obligations remain within the repayment capacity of the borrower.

j) Working Capital Viability Analysis:

Adequate working capital is essential for smooth business operations.

Banks evaluate inventory levels, debtor collection periods, creditor cycles, and operating cycle requirements. A mismatch between current assets and current liabilities often results in liquidity stress.

The working capital requirements are reassessed based on projected sales and production levels. Excessive inven-

tory accumulation, poor receivable management, and over-dependence on short-term borrowings adversely affect viability.

Efficient working capital management enhances the prospects of successful restructuring.

k) Assessment Through Techno-Economic Viability Study:

The Techno-Economic Viability (TEV) study is an important tool used by banks to determine the revival potential of stressed units.

The study evaluates technical feasibility, economic viability, market prospects, production capabilities, cost structures, profitability, break-even levels, debt servicing capacity, and future cash flows.

Independent TEV consultants analyse assumptions used in projections and verify whether the proposed restructuring package is capable of restoring financial health.

The TEV study provides an integrated assessment of the enterprise and forms the basis for restructuring decisions.

l) Comparison Between Going Concern Value and Break-Up Value:

Banks compare the value of the enterprise as a going concern with its liquidation or break-up value.

Going concern value represents the worth of the business if it continues operations, whereas break-up value represents the amount realizable through sale of assets.

If the going concern value is significantly higher than liquidation value, restructuring becomes economically justified because revival preserves enterprise value and employment opportunities.

However, if liquidation value exceeds future business value, revival efforts may not be commercially prudent.

Thus, this comparison is an important aspect of viability assessment.

m) Break-Even Analysis:

Break-even analysis helps banks understand the minimum level of production and sales required to cover all costs.

A lower break-even point indicates greater resilience and stronger viability. Conversely, businesses requiring very high-capacity utilization to break even may face higher risks.

Banks examine contribution margins, fixed costs, variable costs, and capacity utilization to determine whether the projected sales levels are realistic and achievable.

Break-even analysis provides valuable insights into the sustainability of operations.

n) Sensitivity Analysis and Stress Testing:

Future projections are based on assumptions, which may not always materialize. Therefore, banks conduct sensitivity analysis and stress testing to evaluate the resilience of the business.

Different scenarios are developed by assuming lower sales, increase in raw material prices, higher interest costs, delayed receivables, and reduction in capacity utilization.

If the business remains capable of servicing debt even under adverse conditions, it is considered more viable. Sensitivity analysis helps banks identify vulnerabilities and build appropriate safeguards into restructuring packages.

o) Assessment of Management Capability and Promoters' Commitment:

The quality of management plays a crucial role in determining viability.

Banks evaluate the experience, competence, integrity, and commitment of promoters. Past repayment behaviour, corporate governance standards, succession planning, and managerial capabilities are examined.

Promoters are generally expected to bring additional equity and demonstrate commitment towards revival. Lack of promoter support, disputes among directors, and poor governance practices reduce confidence in the success of restructuring.

Even a financially stressed enterprise may become viable if managed efficiently by committed promoters.

p) Evaluation of Industry Prospects:

Banks assess the overall outlook of the industry in which the borrower operates.

Industries experiencing strong growth, technological advancement, and favourable government policies provide better prospects for recovery. Conversely, industries affected by structural decline, import competition, or technological obsolescence present greater risks.

Sector-specific factors, global market trends, and regulatory developments are considered while evaluating viability.

Industry analysis ensures that restructuring decisions are aligned with future economic realities.

q) Analysis of Promoters' Contribution and Additional Funding Requirements:

Successful revival often requires fresh infusion of funds by promoters.

Banks assess whether promoters possess the financial capacity and willingness to contribute additional equity. This demonstrates their confidence and commitment towards the business.

The requirement for additional working capital, modernization expenditure, and margin money is also evaluated. Lack of promoter contribution increases the burden on lenders and adversely affects viability.

Adequate capitalization strengthens the chances of successful restructuring.

r) Examination of Statutory and Regulatory Compliance:

A viable enterprise should maintain compliance with various statutory requirements.

Banks verify payment of GST liabilities, provident fund contributions, employee dues, income tax obligations, electricity charges, and other statutory commitments.

Persistent defaults in statutory payments may indicate severe liquidity problems and poor governance. Compliance history therefore forms an important part of viability assessment.

s) Determination of Post-Restructuring Financial Position:

Banks prepare projected financial statements incorporating restructuring measures such as reduction in interest rates, extension of repayment periods, moratorium, and additional funding support.

The post-restructuring projections are examined to determine whether the enterprise can achieve sustainable profitability, maintain adequate liquidity, and service debt obligations without requiring repeated restructuring.

The objective is to ensure that the revised financial structure restores long-term stability rather than providing temporary relief.

t) Monitoring and Review Mechanism:

Viability assessment does not end with approval of restructuring. Continuous monitoring is necessary to ensure

that projected improvements are achieved.

Banks establish milestones relating to sales, profitability, cash flows, inventory levels, and debt servicing performance. Variances between actual and projected performance are periodically reviewed.

Corrective measures are initiated whenever deviations occur. Effective monitoring ensures timely intervention and improves the probability of successful revival.

Hence, Viability assessment is the cornerstone of loan restructuring and determines whether a distressed enterprise deserves financial support for revival. Banks undertake a multidimensional evaluation involving technical feasibility, market potential, financial performance, cash flow generation, debt servicing ability, management quality, industry outlook, and stress testing. The objective is to identify businesses that are fundamentally sound but temporarily distressed and to distinguish them from enterprises that are economically unviable.

A properly conducted viability assessment ensures that restructuring leads to sustainable recovery, preservation of enterprise value, protection of employment, and maximization of recovery for lenders. Thus, viability assessment transforms restructuring from a mere debt rescheduling exercise into a comprehensive business revival strategy.

Credit History and Conduct of Loan Accounts as a Critical Parameter:

Loan restructuring is essentially a confidence-based exercise. While financial statements, cash flow projections, and Techno-Economic Viability (TEV) studies provide insights into the future prospects of a borrower, the past credit history and conduct of loan accounts reveal the borrower's repayment culture, financial discipline, and commitment towards honouring obligations. Therefore, banks place significant importance on the historical conduct of loan accounts before granting any restructuring concessions.

A borrower who has maintained a satisfactory repayment record over many years but is presently facing temporary difficulties due to external circumstances is viewed differently from a borrower whose accounts have consistently exhibited irregularities, defaults, and poor financial discipline. Thus, the conduct of accounts acts as an indicator of both willingness and ability to repay and forms an integral component of the restructuring process.

a) Importance of Credit History in Restructuring Decisions:

The purpose of restructuring is not merely to postpone repayments but to revive a potentially viable business. Since restructuring involves sacrifices by lenders in the form of extension of repayment periods, reduction in interest burden, or additional funding support, banks must be reasonably assured that the borrower possesses the intention and capability to comply with revised terms.

Past credit history provides evidence regarding the borrower's integrity, financial discipline, and responsiveness to obligations. A borrower who has demonstrated responsible conduct over several years creates confidence among lenders that the present stress is temporary and that the restructuring package is likely to succeed.

Conversely, a history characterized by persistent defaults, frequent irregularities, and poor cooperation raises doubts about the effectiveness of restructuring measures.

b) Conduct of Loan Accounts Reflects Repayment Culture:

Repayment culture is one of the most important qualitative factors considered by banks while assessing restructuring proposals.

A borrower may experience temporary business losses due to market conditions or unforeseen events. However, despite such challenges, financially disciplined borrowers often make sincere efforts to service their obligations to the extent possible. They maintain communication with lenders, seek timely assistance, and demonstrate commitment towards revival.

On the other hand, habitual defaulters who repeatedly neglect repayment obligations, avoid communication, and

fail to honour commitments are viewed as possessing weak repayment culture. Such borrowers present higher risks, and restructuring benefits may not produce desired outcomes.

Thus, the conduct of loan accounts serves as a reflection of the borrower's attitude towards debt obligations.

u) Historical Repayment Track Record Indicates Financial Discipline:

Banks generally review the repayment behaviour of the borrower over several years to understand the quality of account conduct.

Regular servicing of interest and instalments in earlier years indicates sound financial discipline and responsible management practices. Occasional delays arising from temporary disruptions may not adversely affect the restructuring decision if the overall repayment record has been satisfactory.

However, continuous overdues, repeated slippages into Special Mention Accounts (SMA), and prolonged irregularities indicate systemic weaknesses. Such patterns suggest that the current stress may not be temporary but could represent deeper operational or managerial deficiencies.

Therefore, historical repayment behaviour is regarded as a valuable predictor of future performance.

c) Analysis of Current Account Operations:

Banks closely examine the operation of current accounts and cash credit accounts to understand the borrower's cash management practices.

Healthy accounts generally exhibit regular turnover, balanced inflows and outflows, and adequate routing of business transactions through banking channels. Cash generation and account operations correspond with the scale of business activities.

On the contrary, continuous overdrawing, absence of credit transactions, declining turnover, and irregular utilization patterns indicate financial stress. Excessive reliance on ad hoc limits and temporary overdrafts also reveal liquidity problems.

The manner in which accounts are operated provides valuable insights into the financial health of the enterprise and the borrower's discipline.

d) Persistent Irregularities as Indicators of Weak Account Conduct:

Banks differentiate between temporary irregularities and persistent account misconduct.

Temporary irregularities may arise because of delayed receivables, market slowdowns, or seasonal fluctuations. Such deviations can often be corrected through restructuring.

However, repeated excess drawings beyond sanctioned limits, prolonged overdues, frequent requests for emergency funding, and inability to regularize accounts over extended periods indicate chronic financial stress.

Persistent irregularities suggest that restructuring alone may not restore financial stability unless accompanied by operational improvements and promoter support.

e) Timely Submission of Financial Information Reflects Transparency:

The conduct of loan accounts is not limited to repayment alone. Banks also evaluate the borrower's compliance with various reporting requirements.

Submission of stock statements, financial statements, GST returns, insurance policies, and renewal documents within prescribed timelines reflects transparency and cooperation. Borrowers who maintain regular communication with banks and provide accurate information inspire confidence among lenders.

Delayed submission of statements, incomplete disclosures, and lack of transparency raise concerns regarding governance standards and increase uncertainty in restructuring decisions.

Therefore, information discipline forms an important aspect of account conduct.

f) Frequency of Cheque Returns and Payment Defaults:

Returned cheques and dishonoured instruments provide early warning signals regarding financial distress.

Frequent cheque returns indicate inadequate liquidity and weak cash flow management. Non-payment of statutory dues, delayed salaries, and defaults to suppliers also reveal financial strain.

Banks examine whether such incidents are isolated events or recurring patterns. Repeated payment failures adversely affect the borrower's credibility and weaken the case for restructuring.

Thus, payment behaviour across all obligations, and not merely bank dues, is considered while assessing the conduct of accounts.

g) Classification History Under SMA and NPA Categories:

The history of Special Mention Accounts (SMA) and Non-Performing Assets (NPA) provides important information regarding the quality of account conduct.

Repeated migration of accounts into SMA-1 and SMA-2 categories indicates growing stress and inadequate financial discipline. If the account has previously slipped into NPA status and subsequently recovered, banks analyse the reasons behind such deterioration.

Borrowers with frequent episodes of default are considered riskier compared to those whose accounts remained standard for several years before encountering temporary difficulties.

The classification history helps lenders determine whether restructuring is likely to achieve sustainable revival.

h) Credit Information Reports and External Credit Behaviour:

Banks rely extensively on reports obtained from credit information companies such as CIBIL, CRIF High Mark, Experian, and Equifax to evaluate repayment history.

These reports reveal the borrower's conduct across multiple lending institutions. Delays in repayment, write-offs, settlements, suit-filed accounts, and defaults under other facilities become visible through these databases.

Consistent repayment across all lenders strengthens the borrower's credibility, whereas widespread defaults indicate systemic financial problems.

External credit behaviour therefore complements internal account analysis and provides a broader picture of financial discipline.

i) Consortium and Multiple Banking Conduct:

Where the borrower enjoys facilities from multiple banks, account conduct is evaluated across all lenders.

Banks examine whether the borrower maintains equitable distribution of transactions and whether repayments are being made uniformly. Selective servicing of certain lenders while neglecting others is viewed adversely.

Instances of unauthorized diversion of funds, routing of transactions outside the consortium arrangement, and non-compliance with inter-creditor agreements weaken confidence in the borrower.

Good conduct across all banking relationships improves the prospects of obtaining restructuring support.

j) Promoters' Commitment as Reflected in Account Conduct:

The conduct of accounts often reveals the commitment of promoters towards the business.

Promoters who infuse additional funds, reduce personal withdrawals, and cooperate with lenders during periods of financial stress demonstrate seriousness about revival. Such behaviour positively influences restructuring decisions.

Conversely, excessive related-party transactions, diversion of funds, and reluctance to contribute additional equity indicate lack of commitment. Banks become hesitant to provide concessions when promoters themselves are unwilling to support the enterprise.

Therefore, account conduct acts as an indirect measure of promoter sincerity.

k) Compliance with Statutory Obligations as an Extension of Credit Conduct:

The repayment culture of a borrower extends beyond bank liabilities to statutory obligations.

Banks verify whether the borrower has regularly paid GST liabilities, provident fund contributions, employee salaries, electricity charges, and income taxes. Persistent defaults in statutory payments indicate severe liquidity stress and poor financial discipline.

A borrower who prioritizes statutory dues and maintains compliance despite business difficulties demonstrates responsible management and improves the chances of successful restructuring.

Thus, statutory compliance forms an integral part of credit conduct assessment.

l) Previous Restructuring History and Its Significance:

Banks carefully analyse whether the borrower has availed restructuring facilities in the past.

If previous restructuring measures successfully restored the account to standard status and repayments were subsequently maintained, the borrower may still be considered for additional assistance under exceptional circumstances.

However, repeated restructuring requests within short intervals suggest that the underlying problems have not been resolved. Multiple restructuring episodes often indicate fundamental weaknesses and increase the risk of eventual failure.

Consequently, restructuring history itself becomes an important parameter in evaluating fresh proposals.

m) Digital Footprints and Behavioural Analytics:

Modern banking systems increasingly utilize digital footprints to assess account conduct.

Transaction patterns, GST filings, income tax returns, e-way bills, utility payments, and vendor settlements provide real-time insights into business operations. Banks analyse these digital records to verify whether account behaviour is consistent with the borrower's claims.

Behavioural analytics help identify unusual patterns such as declining turnover, diversion of funds, and irregular cash movements. These indicators supplement traditional financial analysis and improve the quality of restructuring decisions.

n) Account Conduct and Techno-Economic Viability:

Even a technically and economically viable unit may fail if the borrower's repayment culture is weak.

Banks therefore combine viability studies with assessment of account conduct. A borrower possessing strong

business fundamentals and satisfactory historical conduct is more likely to receive favourable restructuring terms. Conversely, poor account conduct may outweigh otherwise promising financial projections because restructuring requires mutual trust between lenders and borrowers.

Thus, account conduct acts as an important qualitative parameter in the overall viability framework.

o) Conduct of Accounts and Risk Rating:

Internal risk rating systems adopted by banks assign considerable weight to repayment history and account behaviour.

Borrowers with clean credit records receive better ratings and may qualify for more flexible restructuring packages. Poor repayment history, frequent defaults, and weak compliance result in lower ratings and increased provisioning requirements.

Consequently, account conduct directly influences the extent of concessions, additional funding support, and approval of restructuring proposals.

p) Distinguishing Inability to Pay from Unwillingness to Pay:

One of the most important objectives of examining account conduct is to distinguish genuine financial difficulties from deliberate default.

Borrowers affected by adverse economic conditions may face temporary inability to pay despite maintaining a strong repayment culture. Such cases merit sympathetic consideration and restructuring support.

However, wilful defaulters who possess the capacity to repay but intentionally avoid obligations do not deserve restructuring benefits. Banks carefully analyse account conduct to make this distinction and ensure that concessions are extended only to deserving borrowers.

Hence, past credit history and conduct of loan accounts constitute one of the most critical parameters in the restructuring process. They provide valuable insights into the borrower's repayment culture, financial discipline, transparency, and commitment towards revival. While financial projections and viability studies focus on future performance, account conduct reflects the borrower's past behaviour and reliability.

Banks recognize that restructuring is essentially a partnership based on trust. A borrower who has historically demonstrated integrity, timely compliance, and responsible financial management is more likely to receive support during periods of temporary distress. Therefore, past credit history is not merely a record of payments but a vital indicator of the borrower's character, credibility, and the probability of successful rehabilitation under a restructuring framework.

Assessment of Break-Even Point, Repayment Capacity and Revenue Generation Period While Granting Moratorium or Extension of Term Loan Repayment:

Restructuring of bank loans is not merely an exercise of postponing repayment obligations through moratorium or extending the tenure of existing term loans. Such measures are intended to restore the financial health of a stressed but viable enterprise and to align debt servicing obligations with the actual cash-generating capacity of the business. Therefore, before granting any moratorium or extending the repayment period, banks undertake a comprehensive assessment of the unit's break-even point, revenue generation capability, operating cycle, repayment capacity, and future cash flows.

The fundamental principle behind restructuring is that debt should be serviced out of future earnings and not through additional borrowings. Consequently, the revised repayment schedule must correspond with the time required by the enterprise to stabilize operations, reach break-even, and generate adequate surpluses for servicing

debt. Hence, determining the appropriate moratorium period and repayment tenure becomes an integral part of the viability assessment process.

a) Importance of Aligning Debt Repayment with Business Cash Flows:

Banks recognize that stressed enterprises often experience temporary disruptions in production, sales, and collections. During such periods, immediate repayment obligations may further aggravate financial difficulties and accelerate deterioration of the account.

Therefore, while restructuring loans, banks seek to synchronize debt obligations with the expected revival cycle of the business. Moratorium and extended repayment periods are designed to provide breathing space until the unit regains normal operational levels and begins generating positive cash flows.

The objective is to create a repayment structure that is realistic, sustainable, and supported by future earnings rather than imposing repayment schedules that may ultimately lead to repeated defaults.

b) Concept of Moratorium in Loan Restructuring:

Moratorium refers to a temporary suspension of repayment of principal, and in some cases interest, for a specified period. The purpose of granting moratorium is to enable the enterprise to overcome temporary difficulties and utilize available funds for operational revival.

Banks grant moratorium only after assessing the period required for stabilization of operations and commencement of revenue generation. During the moratorium period, the borrower is expected to improve production, revive sales, rebuild working capital, and restore profitability.

The duration of moratorium depends upon the nature of the industry, operating cycle, gestation period, and projected cash flows. Excessive moratorium without supporting cash flows merely postpones the problem and increases the debt burden.

c) Need for Extension of Existing Repayment Period:

When cash flows are insufficient to service debt under the original repayment schedule, banks may extend the tenure of existing term loans.

The extension of repayment period reduces the instalment burden and improves debt servicing capability. However, banks do not grant such concessions arbitrarily. They carefully examine whether the extended repayment schedule is supported by projected revenues and whether the enterprise possesses the capacity to repay over the revised period.

The objective is to ensure that debt obligations remain within the financial capabilities of the borrower and that the repayment structure contributes to sustainable revival.

d) Determination of Break-Even Point Before Granting Relief:

One of the most important factors considered by banks during restructuring is the break-even point of the enterprise.

Break-even represents the level of sales or production at which total revenues become equal to total costs, resulting in neither profit nor loss. Until the business reaches break-even, it cannot generate sufficient surpluses for servicing debt obligations.

Banks therefore calculate the break-even level by analysing fixed costs, variable costs, contribution margins, and expected selling prices. They assess the time required by the enterprise to attain break-even under normal operating conditions.

If projections indicate that the business can achieve break-even within a reasonable period, restructuring measures such as moratorium and extended repayment may be justified. However, if break-even cannot be achieved even after restructuring, the viability of the unit becomes doubtful.

e) Analysis of Revenue Generation Period:

Revenue generation period refers to the time required by the enterprise to restore production, market its products, collect receivables, and generate adequate cash flows from operations.

Banks carefully estimate the period needed for normalization of business activities. Industries with long gestation periods, such as infrastructure, hospitality, and plantations, may require longer periods before revenues stabilize. Manufacturing industries may require time to rebuild inventories and regain market share.

The revenue generation period becomes the basis for deciding the duration of moratorium. Repayment obligations should ideally commence only after the enterprise starts generating stable and sustainable revenues.

f) Assessment of Capacity Utilization and Production Recovery:

Banks analyse installed capacity, actual production levels, and expected recovery in operations while restructuring loans.

A unit operating at low capacity due to temporary difficulties may require time to reach optimum production levels. Banks examine the period required for restoring capacity utilization and achieving operational efficiency.

The revised repayment schedule is generally linked with projected increases in production and sales. The assumption is that improved capacity utilization will lead to higher revenues and increased cash generation.

Thus, production recovery forms an important factor in determining repayment periods.

g) Cash Flow-Based Repayment Capacity Assessment:

Repayment capacity forms the cornerstone of restructuring decisions.

Banks prepare projected cash flow statements covering the entire restructuring period. These projections include estimated sales, operating expenses, working capital requirements, taxation, and debt servicing obligations.

The repayment schedule is then designed in such a manner that annual cash surpluses are adequate to meet principal and interest obligations comfortably.

Unlike conventional lending, restructuring relies heavily on future cash flows rather than historical profitability. Therefore, cash flow analysis assumes greater importance while deciding moratorium and repayment tenure.

h) Debt Service Coverage Ratio as a Measure of Repayment Capacity:

Debt Service Coverage Ratio (DSCR) is one of the most important tools used by banks to assess repayment capacity.

DSCR measures the ability of the enterprise to generate sufficient cash flows for meeting principal and interest obligations. Banks generally ensure that projected DSCR remains above acceptable levels throughout the repayment period.

Where projected cash flows are weak, longer repayment periods may be considered to reduce annual debt servicing requirements and improve DSCR.

A sustainable repayment schedule should provide adequate margin of safety and withstand minor fluctuations in business performance.

i) Estimation of Operating Cycle and Working Capital Requirements:

Banks examine the operating cycle of the enterprise before granting moratorium or extending repayment periods.

The operating cycle includes procurement of raw materials, production, inventory holding, sales realization, and collection from customers. Industries with longer operating cycles naturally require longer periods before generating cash inflows.

Banks reassess working capital requirements based on projected sales and production levels. Inadequate working capital support may delay recovery and adversely affect repayment capacity.

Therefore, the repayment schedule is designed after considering the entire operating cycle of the business.

j) Assessment Through Techno-Economic Viability Study:

The Techno-Economic Viability (TEV) study plays a significant role in determining appropriate moratorium and repayment periods.

The TEV study evaluates technical feasibility, market prospects, cost structures, profitability, and future cash flows. It estimates the time required for achieving break-even and generating sustainable profits.

Based on these findings, banks determine the most appropriate repayment structure. The study ensures that restructuring concessions are based on realistic assumptions rather than optimistic projections.

Thus, TEV studies provide scientific support for restructuring decisions.

k) Industry-Specific Considerations in Determining Moratorium:

Different industries have varying business cycles and revenue generation patterns. Consequently, banks adopt industry-specific approaches while granting restructuring relief.

Agricultural and plantation projects may require longer gestation periods before generating cash flows. Pharmaceutical companies may require time to obtain regulatory approvals and revive marketing networks. Infrastructure projects often experience delays in achieving commercial operations.

Therefore, banks study the characteristics of each industry and tailor repayment schedules accordingly. Uniform repayment structures are avoided because they may not suit the specific requirements of individual sectors.

l) Stress Testing of Revenue Projections:

Banks recognize that future projections are subject to uncertainties. Therefore, they conduct sensitivity analysis and stress testing while evaluating repayment capacity.

Alternative scenarios involving lower sales, increase in raw material prices, delays in receivables, or reduction in capacity utilization are considered. The objective is to determine whether the enterprise can still service debt under adverse conditions.

If repayment obligations remain manageable even under stress scenarios, the restructuring proposal gains credibility. Stress testing helps banks avoid excessive optimism and establish realistic repayment schedules.

m) Determination of Ballooning or Structured Repayment:

In many restructuring cases, banks adopt structured repayment mechanisms rather than equal instalments.

Since cash flows during the initial years may be weak, smaller instalments are fixed in the beginning, followed by larger repayments as revenues improve. This method, known as ballooning repayment, aligns debt obligations with the anticipated growth in cash flows.

Such structured repayment schedules are commonly used in project finance and stressed asset restructuring. They provide flexibility and improve the probability of successful revival.

n) Assessment of Promoters' Contribution and Additional Funding:

Banks also consider the contribution of promoters while determining repayment periods.

Fresh equity infusion by promoters strengthens liquidity and reduces dependence on debt. Additional funding support from promoters improves the ability of the enterprise to withstand initial losses and reach break-even sooner.

Where promoters demonstrate commitment by infusing capital, banks may be more willing to grant longer repayment periods and moratorium facilities.

Thus, promoter support significantly influences restructuring decisions.

o) Importance of Sustainable Debt Computation:

Before extending the repayment period, banks compute sustainable debt based on projected earnings and cash flows.

Only that portion of debt which can be serviced through future operations is considered sustainable. The repayment schedule is designed around sustainable debt rather than the total outstanding liability.

If the debt burden exceeds repayment capacity, banks may consider conversion of debt into equity, reduction in interest rates, or other restructuring measures to restore sustainability.

The objective is to ensure that the revised debt structure remains compatible with the earning potential of the enterprise.

p) Monitoring of Actual Performance After Restructuring:

Granting moratorium or extending repayment periods does not conclude the restructuring process. Banks continuously monitor actual performance against projections.

Production levels, sales turnover, cash flows, profitability, and debt servicing performance are periodically reviewed. Variations between projected and actual performance are analysed and corrective measures are initiated wherever necessary.

Continuous monitoring ensures that the restructuring package achieves its intended objectives and prevents recurrence of financial stress.

q) Relationship Between Break-Even and Commencement of Repayment:

An important principle followed by banks is that debt servicing should ideally begin after the enterprise crosses its break-even point and starts generating operational surpluses.

Repayment obligations imposed before stabilization of operations may strain liquidity and lead to repeated defaults. Therefore, banks align moratorium periods with the estimated time required to achieve break-even and positive cash generation.

This approach enhances the sustainability of restructuring and improves the likelihood of successful revival.

Hence, While granting moratorium or extending the repayment period of existing term loans during restructuring, banks undertake a detailed evaluation of break-even levels, revenue generation periods, repayment capacity, operating cycles, and future cash flows. These assessments ensure that debt obligations are aligned with the earning potential of the enterprise and that the restructuring package is economically viable.

The process is supported by cash flow analysis, DSCR calculations, TEV studies, sensitivity analysis, and indus-

try-specific considerations. The underlying philosophy is that debt should be serviced from sustainable future earnings rather than through temporary financial support. Therefore, determination of break-even point, repayment capacity, and revenue generation period constitutes the very foundation of successful loan restructuring and business revival.

Factors Considered by Banks While Converting Working Capital into Working Capital Term Loan (WCTL):

During the restructuring of stressed loan accounts, banks frequently encounter situations where the existing working capital limits are fully utilized and are no longer capable of supporting the day-to-day operations of the borrowing unit. In many cases, a portion of the working capital outstanding represents accumulated irregularities, unpaid interest, blocked receivables, inventory pile-up, or temporary liquidity mismatches that cannot be liquidated immediately from current operations. In such circumstances, banks may convert a part of the working capital borrowings into a Working Capital Term Loan (WCTL).

The purpose of converting working capital into WCTL is not to provide permanent relief but to segregate the non-liquid portion of current assets from the normal operating cycle and to restore the required drawing power for carrying on business activities. This conversion enables the enterprise to obtain fresh working capital support while repaying the crystallized portion over a longer period aligned with its cash-generating capacity.

However, banks do not undertake such conversion mechanically. They evaluate several technical, financial, operational, and managerial factors before deciding whether conversion of working capital into WCTL would contribute to revival and sustainability.

a) Understanding the Concept of Working Capital Term Loan:

A Working Capital Term Loan is a funded term liability created by converting a portion of the irregular or blocked working capital outstanding into a separate repayable loan. The converted amount is generally repayable over an extended period with or without an initial moratorium.

The purpose of WCTL is to remove the accumulated stress from the cash credit account and enable the borrower to operate the working capital account normally. Such restructuring prevents permanent blockage of working capital and facilitates continuity of business operations.

The conversion is generally resorted to when the stress is considered temporary and when the underlying business remains viable.

b) Assessment of the Nature of Financial Stress:

Before converting working capital into WCTL, banks examine the reasons responsible for the stress.

They analyse whether the problems have arisen due to temporary liquidity shortages, delay in receivables, sudden increase in raw material prices, market slowdown, delayed project implementation, or external economic factors.

If the stress is cyclical or temporary, conversion into WCTL may be justified. However, if the problems are structural in nature, arising from obsolete technology, permanent loss of market share, fraud, or diversion of funds, banks may be reluctant to grant such relief.

Therefore, understanding the root cause of stress becomes the first prerequisite for conversion.

c) Evaluation of Techno-Economic Viability of the Unit:

Banks undertake a Techno-Economic Viability (TEV) study to determine whether the enterprise possesses revival potential.

The viability study examines market prospects, production capacity, cost structures, operating margins, future

demand, profitability, and debt-servicing capability. The findings help banks determine whether the business can generate sufficient cash flows to repay the WCTL over the proposed period.

Conversion of working capital into WCTL is considered only if the enterprise remains economically viable and capable of sustaining operations after restructuring.

d) *Determination of Genuine Working Capital Requirement:*

Banks reassess the actual working capital requirements of the unit before conversion.

The existing drawing power and current assets are examined to determine the extent of blockage in inventories and receivables. A distinction is made between normal working capital requirements and the excess borrowings that have accumulated because of operational difficulties.

Only the non-liquid and blocked portion of the working capital outstanding is generally converted into WCTL, while adequate working capital limits are retained to support ongoing operations.

The objective is to ensure that the business does not suffer from shortage of operating funds after restructuring.

e) *Analysis of Inventory Levels and Receivable Position:*

One of the most important considerations is the quality and liquidity of current assets.

Banks carefully examine whether inventories are saleable and whether receivables are recoverable within a reasonable period. Slow-moving inventories, obsolete stock, and long outstanding receivables indicate blockage of working capital.

Age-wise analysis of debtors and stock statements helps banks identify the extent of liquidity stress. Where receivables are expected to be realized over time, conversion into WCTL may provide breathing space for gradual recovery.

However, where inventories have become obsolete or receivables are doubtful, banks may reconsider the extent of conversion.

f) *Historical Conduct of Loan Accounts:*

The conduct of the loan account and repayment history play a significant role in restructuring decisions.

Banks review whether the borrower had maintained satisfactory account operations in earlier years and whether the present irregularities are temporary. Borrowers with a history of financial discipline and transparent dealings are viewed more favourably.

Frequent defaults, persistent overdrawings, non-submission of stock statements, and irregular account operations raise concerns regarding repayment capacity and promoter commitment.

Good account conduct increases the confidence of banks while approving conversion into WCTL.

g) *Assessment of Cash Flow Generation Capability:*

Since WCTL is a term liability, banks examine whether the borrower possesses adequate future cash flows to service the additional debt.

Detailed cash flow projections are prepared for the entire restructuring period. These projections include expected sales, operating expenses, working capital requirements, taxes, and debt servicing obligations.

The repayment schedule of WCTL is designed based on the anticipated cash surpluses generated by the business. Conversion is considered feasible only if future cash flows indicate comfortable servicing capability.

h) Evaluation of Debt Service Coverage Ratio:

Banks calculate the Debt Service Coverage Ratio (DSCR) after incorporating the proposed WCTL repayments.

The objective is to ensure that annual cash accruals are sufficient to meet principal and interest obligations under the revised structure. A healthy DSCR indicates that the enterprise can sustain additional term liabilities without creating further stress.

Where DSCR remains weak even after restructuring, banks may reconsider the amount proposed for conversion or seek additional support from promoters.

i) Assessment of Break-Even Point and Revenue Generation Cycle:

Banks estimate the time required for the enterprise to stabilize operations and begin generating sufficient revenues.

The break-even point, production levels, capacity utilization, and expected sales growth are analysed to determine when positive cash flows are likely to emerge.

The repayment period of WCTL and any moratorium granted are aligned with the expected revenue generation cycle. This ensures that repayment obligations commence only after the enterprise starts generating adequate surpluses.

Thus, break-even analysis forms an important basis for WCTL conversion.

j) Examination of Working Capital Cycle:

Banks study the operating cycle comprising procurement of raw materials, production, inventory holding, sales realization, and collection of receivables.

Long operating cycles often result in temporary blockage of funds. Industries such as textiles, pharmaceuticals, engineering, and infrastructure-related sectors may require extended periods for realization of cash.

The duration and characteristics of the operating cycle influence both the amount of WCTL and its repayment schedule.

k) Promoters' Contribution and Commitment Towards Revival:

Banks expect promoters to share the burden of restructuring and demonstrate commitment towards revival.

Promoters may be required to infuse additional equity or unsecured loans to strengthen liquidity and improve confidence among lenders. Their willingness to contribute reflects seriousness about the business and increases the probability of successful restructuring.

Where promoters are unwilling to bring in fresh funds or where there is evidence of diversion of resources, banks may adopt a cautious approach towards conversion into WCTL.

l) Analysis of Industry Conditions and Market Prospects:

Industry outlook and market demand significantly influence restructuring decisions.

Banks assess whether the stress has arisen due to cyclical factors affecting the entire industry or due to borrower-specific deficiencies. Industries experiencing temporary downturns may recover with improving economic conditions, making WCTL conversion a suitable option.

However, sectors suffering from structural decline, technological obsolescence, or permanent loss of demand may not justify additional restructuring support.

Therefore, market prospects are carefully examined before approving conversion.

m) Verification of Diversion or Siphoning of Funds:

Banks investigate whether the stress in working capital has arisen because of genuine business reasons or because of diversion and siphoning of funds.

Forensic audits, transaction analysis, related-party dealings, and digital footprints are examined to identify irregularities. Conversion into WCTL is generally discouraged if funds have been diverted for non-business purposes.

Restructuring concessions are intended to support genuine business revival and not to regularize financial indiscipline.

n) Availability and Adequacy of Security Coverage:

Banks evaluate the adequacy of existing securities and collateral coverage before converting working capital into WCTL.

Since WCTL becomes a separate funded facility, banks assess whether sufficient primary and collateral securities are available to safeguard their interests. Additional security or extension of charge may be insisted upon wherever necessary.

Security coverage enhances recovery prospects and reduces credit risk.

o) Compliance with Statutory and Regulatory Requirements:

Banks also review the borrower's compliance with statutory obligations such as GST payments, provident fund contributions, income tax liabilities, and employee dues.

Regular compliance reflects financial discipline and responsible management practices. Persistent defaults in statutory payments may indicate severe liquidity problems and weak governance.

Such factors influence the extent and terms of conversion into WCTL.

p) Impact on Asset Classification and Prudential Norms:

Banks consider regulatory guidelines and prudential norms while converting working capital into WCTL.

They examine the impact of restructuring on asset classification, provisioning requirements, and income recognition. Conversion must comply with applicable regulatory frameworks and internal credit policies.

The restructuring package is designed in such a manner that it remains consistent with prudential standards and minimizes future asset deterioration.

q) Structuring the Repayment Schedule of WCTL:

After determining the amount to be converted, banks design an appropriate repayment structure.

The repayment period generally depends upon projected cash flows, break-even analysis, and debt servicing capacity. Moratorium periods may also be provided where necessary.

The objective is to ensure that repayments remain realistic and synchronized with future earnings. In some cases, ballooning repayments are adopted whereby smaller instalments are payable initially and larger repayments are made after stabilization of operations.

Such structured repayments improve the sustainability of restructuring.

r) Continuous Monitoring After Conversion:

Conversion of working capital into WCTL does not conclude the restructuring process.

Banks continuously monitor production levels, sales performance, cash flows, inventory positions, and account operations. Actual performance is compared with projections to ensure that revival is progressing as anticipated.

Periodic review helps identify deviations and enables timely corrective action. Continuous monitoring is therefore essential for ensuring the success of WCTL restructuring.

Hence, The conversion of working capital into Working Capital Term Loan is an important restructuring tool intended to segregate blocked or irregular working capital from normal operating requirements and restore liquidity to viable enterprises. Before undertaking such conversion, banks carefully evaluate the causes of stress, techno-economic viability, cash flow generation capacity, break-even point, working capital cycle, promoter commitment, industry prospects, account conduct, security coverage, and regulatory considerations.

The ultimate objective of converting working capital into WCTL is to provide temporary relief, revive business operations, and ensure that debt obligations are aligned with the future earning capacity of the enterprise. Therefore, WCTL conversion is not merely an accounting adjustment but a comprehensive business revival measure based on detailed financial and operational analysis.

Factors Contributing to the Capitalization of Interest in Working Capital and Other Loans:

In the restructuring of stressed loan accounts, one of the important relief measures adopted by banks is the capitalization of accrued and unpaid interest. Financially stressed units often experience severe liquidity constraints and are unable to service interest obligations on working capital facilities, term loans, and other borrowings during periods of business disruptions. Immediate recovery of overdue interest from such borrowers may further aggravate the financial stress and impair the prospects of revival. Therefore, banks may convert unpaid interest into a separate funded liability, commonly known as Funded Interest Term Loan (FITL), or capitalize it as part of the restructured debt.

Capitalization of interest is not intended to waive interest dues or provide permanent concessions. It is merely a mechanism for postponing immediate cash outflows and aligning debt servicing obligations with the future earning capacity of the enterprise. However, banks undertake detailed financial, operational, and viability analyses before capitalizing interest because excessive capitalization may lead to unsustainable debt and eventual failure of restructuring.

a) Meaning and Purpose of Capitalization of Interest:

Capitalization of interest refers to the conversion of accrued but unpaid interest into a separate term liability or addition of such interest to the principal amount repayable over an extended period.

The principal objective behind capitalization is to provide temporary liquidity relief to borrowers experiencing financial stress. By converting accumulated interest into a term liability, banks enable the enterprise to utilize available funds for production, procurement, salaries, and other operational requirements instead of diverting scarce resources towards servicing accumulated interest obligations.

This mechanism improves liquidity, restores working capital operations, and increases the probability of successful revival of the business.

b) Temporary Cash Flow Mismatch as a Primary Factor:

One of the most common reasons for capitalization of interest is temporary cash flow mismatch.

Businesses may experience delays in realization of receivables, sudden decline in sales, increase in inventory levels, disruption in supply chains, or delayed commencement of projects. Such situations create temporary liquidity shortages, making it difficult for borrowers to service interest obligations on time.

Banks recognize that forcing immediate payment of accumulated interest may further strain operations. Therefore,

capitalization is resorted to when stress is temporary and future cash flows are expected to improve.

c) Decline in Revenue and Business Slowdown:

Reduction in sales and decline in business activity significantly affect the cash-generating capacity of enterprises.

Industries may suffer because of economic recession, market slowdown, competition, changes in consumer preferences, or external events. Lower revenues result in inadequate cash flows and inability to service interest obligations.

Banks evaluate whether the decline in turnover is cyclical and reversible. If future market prospects remain favourable, capitalization of interest may be permitted to support the revival process.

Thus, temporary business slowdown is an important factor contributing to interest capitalization.

d) Working Capital Stress and Liquidity Constraints:

Working capital shortages often lead to accumulation of unpaid interest.

When inventories remain unsold or receivables are not realized on time, the working capital cycle gets disrupted. The borrower may utilize available cash for procurement of raw materials, wages, and operational expenses, leaving insufficient funds for interest servicing.

Banks understand that uninterrupted operations are essential for generating future revenues. Therefore, unpaid interest on working capital borrowings is often capitalized and converted into Funded Interest Term Loan to relieve immediate pressure on liquidity.

e) Techno-Economic Viability of the Borrowing Unit:

Capitalization of interest is generally permitted only when the borrowing unit is found to be technically and economically viable.

Banks undertake Techno-Economic Viability (TEV) studies to assess production capabilities, market demand, profitability, break-even levels, and future cash generation.

If projections indicate that the enterprise can recover and generate sufficient cash flows after restructuring, capitalization of interest may be justified. However, if the unit is fundamentally unviable, capitalization merely increases debt without improving repayment prospects.

Therefore, viability remains one of the most important considerations.

f) Future Cash Flow Generation Capacity:

Banks rely primarily on future cash flows while deciding whether accumulated interest should be capitalized.

Detailed cash flow projections are prepared to estimate future operating surpluses. These projections include expected revenues, operating costs, working capital requirements, and debt servicing obligations.

Capitalization is considered appropriate only if projected cash flows indicate that the enterprise can service both the principal debt and the capitalized interest over the revised repayment period.

Thus, future earnings rather than historical losses form the basis for such decisions.

g) Need to Preserve Working Capital for Revival:

During periods of stress, businesses require liquidity for maintaining operations, purchasing raw materials, paying wages, and meeting essential expenses.

If accumulated interest is recovered immediately, the already limited working capital resources may be exhausted, leading to production stoppages and further deterioration.

Banks therefore capitalize unpaid interest to preserve working capital and ensure continuity of business operations. This approach improves the prospects of revival and enhances recovery possibilities for lenders.

Hence, preservation of operational liquidity becomes a major factor supporting interest capitalization.

h) Moratorium Granted Under Restructuring:

Restructuring packages often include moratorium periods during which borrowers are not required to make principal repayments and, in certain cases, interest payments.

Interest that accrues during the moratorium period may be capitalized and converted into FITL or included in the restructured debt.

Banks determine the duration of moratorium after evaluating break-even points, gestation periods, and expected revenue generation cycles. Capitalization of interest during the moratorium period ensures that repayment obligations are aligned with future cash flows rather than immediate liquidity conditions.

i) Impact of External Economic Factors:

Financial stress may arise because of circumstances beyond the control of borrowers.

Economic recession, global disruptions, pandemics, changes in government policies, commodity price fluctuations, natural disasters, and geopolitical developments may adversely affect business performance.

Banks generally adopt a supportive approach where stress is attributable to external factors rather than managerial inefficiencies. In such cases, capitalization of interest helps borrowers overcome temporary difficulties and restore normal operations.

Therefore, external economic conditions often influence restructuring decisions.

j) Assessment of Debt Servicing Capacity:

Before capitalizing interest, banks evaluate the overall debt servicing capacity of the borrower.

Debt Service Coverage Ratio (DSCR), Interest Coverage Ratio, EBITDA margins, and projected profitability are analysed to determine whether the borrower can repay the revised obligations.

Capitalization is considered feasible only if debt servicing remains sustainable after incorporating the funded interest component. Excessive capitalization without corresponding repayment capacity may lead to overleveraging and eventual failure.

Thus, sustainable debt servicing is a critical consideration.

k) Conduct of Loan Accounts and Credit History:

Historical conduct of loan accounts plays an important role in deciding whether interest should be capitalized.

Borrowers with a long record of timely repayments and satisfactory account operations are viewed more favourably. Temporary irregularities caused by unforeseen circumstances may justify restructuring and capitalization of interest.

Conversely, borrowers with poor repayment culture, repeated defaults, and non-cooperation with lenders may not receive such concessions.

Banks place considerable reliance on past credit behaviour while evaluating restructuring proposals.

l) Promoters' Commitment and Additional Capital Contribution:

Capitalization of interest is often accompanied by expectations of promoter support.

Banks assess whether promoters are willing to infuse fresh capital, bring additional equity, or provide unsecured loans to support the revival process. Promoters sharing the burden of restructuring enhance lender confidence.

Where promoters themselves are unwilling to contribute resources, banks may hesitate to capitalize interest because the entire burden of revival falls upon lenders.

Thus, promoter commitment significantly influences the decision.

m) Industry Characteristics and Gestation Period:

Different industries exhibit varying revenue generation patterns and business cycles.

Infrastructure projects, hotels, plantations, pharmaceuticals, and export-oriented units often experience longer gestation periods before generating stable cash flows. Such sectors may require interest capitalization during the initial years until operations stabilize.

Banks consider the nature of the industry and expected recovery timelines while determining whether accrued interest should be funded and repaid over a longer period.

Industry-specific characteristics therefore affect restructuring measures.

n) Need to Avoid Asset Classification Deterioration:

Banks also examine the impact of unpaid interest on asset quality and prudential norms.

Accumulation of overdue interest may lead to deterioration in account classification and increase provisioning requirements. Through restructuring and capitalization, banks seek to establish a sustainable repayment structure that improves asset quality and enhances recovery prospects.

However, capitalization must conform to regulatory guidelines and should not merely serve as an accounting device to postpone recognition of stress.

Accordingly, prudential considerations influence such decisions.

o) Conversion of Interest into Funded Interest Term Loan:

In many restructuring cases, accumulated interest is segregated from the principal and converted into a separate Funded Interest Term Loan (FITL).

The FITL is repayable over a longer tenure and may carry lower repayment obligations during the initial years. This arrangement reduces immediate pressure on cash flows and facilitates operational recovery.

Banks design the repayment schedule of FITL based on projected cash generation and break-even analysis.

Thus, FITL serves as an important restructuring instrument for managing accumulated interest liabilities.

p) Assessment of Security Coverage:

Before capitalizing interest, banks examine the adequacy of primary and collateral securities.

Since capitalization increases the total debt exposure, lenders evaluate whether existing securities provide adequate coverage for the enhanced liabilities. Additional collateral or extension of charge over assets may be required wherever necessary.

Adequate security strengthens the recovery position and reduces credit risk associated with restructuring.

g) *Avoidance of Fund Diversion and Misuse:*

Banks ensure that capitalization of interest is intended for genuine business revival and not for regularizing financial indiscipline.

Forensic audits, transaction analysis, and verification of digital footprints are undertaken to detect diversion of funds, related-party transactions, and misuse of borrowings.

Where evidence of siphoning or fraud exists, capitalization of interest is generally avoided because such concessions may only postpone losses without improving recovery prospects.

Therefore, integrity and transparency of the borrower remain important considerations.

r) *Synchronization of Interest Liability with Revenue Generation:*

The fundamental philosophy behind capitalization of interest is to synchronize debt obligations with the timing of revenue generation.

Banks estimate the period required for achieving break-even, restoring production, increasing capacity utilization, and generating positive cash flows. The repayment schedule for capitalized interest is structured accordingly.

This alignment between debt servicing and future earnings enhances the sustainability of restructuring and improves the probability of successful revival.

s) *Monitoring After Capitalization of Interest:*

Capitalization of interest is not the end of the restructuring process. Banks continuously monitor operational performance, sales, profitability, and cash flows after restructuring.

Periodic reviews help assess whether projections are being achieved and whether the borrower is adhering to revised repayment schedules. Deviations are analysed, and corrective measures are implemented whenever necessary.

Continuous monitoring ensures that capitalization of interest contributes to long-term financial recovery rather than merely postponing repayment obligations.

Hence, Capitalization of interest in working capital and other loans during restructuring is a significant relief measure aimed at preserving liquidity and facilitating business revival. Banks consider numerous factors before adopting this measure, including the causes of stress, viability of the enterprise, cash flow generation capacity, debt servicing ability, account conduct, promoter commitment, industry characteristics, security coverage, and regulatory requirements.

The objective is not simply to defer interest payments but to align debt obligations with the future earning capacity of the enterprise. When supported by sound viability assessment and effective monitoring, capitalization of interest becomes a valuable tool for restoring financial stability and maximizing recovery for banks while ensuring the survival and growth of viable businesses.

Factors Contributing to Sanctioning of Additional Working Capital Support:

Restructuring of stressed loan accounts is aimed not merely at postponing repayment obligations but at restoring the operational and financial health of viable enterprises. In many cases, the difficulties faced by borrowers are aggravated by inadequate working capital rather than lack of long-term viability. Even after conversion of irregular portions into Working Capital Term Loan (WCTL), capitalization of interest, or extension of repayment periods, a unit cannot revive unless sufficient liquidity is available for procurement of raw materials, payment of wages, maintenance of inventories, and continuation of production.

Therefore, banks often provide additional working capital support as part of the restructuring package. Such support acts as “revival finance” and is intended to bridge temporary liquidity gaps. However, sanction of additional working capital is a carefully evaluated decision because it involves enhancement of exposure to already stressed accounts. Banks, therefore, examine numerous financial, operational, technical, managerial, and market-related factors before extending fresh working capital assistance.

a) Importance of Additional Working Capital in Revival of Stressed Units:

Financial stress frequently results in depletion of working capital resources. Outstanding receivables, slow-moving inventories, unpaid creditors, and accumulated losses restrict the ability of businesses to carry on normal operations.

Even a technically viable unit cannot survive without adequate liquidity. Machinery may remain idle, customer orders may be lost, and employees may leave if operational funds are unavailable.

Therefore, banks recognize that restructuring without providing adequate working capital support may prove ineffective. Additional working capital serves as the lifeline required for restarting operations and restoring normal business activity.

b) Assessment of Techno-Economic Viability of the Unit:

Before sanctioning additional working capital, banks conduct a detailed Techno-Economic Viability (TEV) study.

The viability study evaluates production capabilities, market demand, cost structures, profitability, break-even levels, and future cash flows. The objective is to determine whether the enterprise possesses the ability to recover and generate sufficient revenues after restructuring.

Additional working capital support is generally sanctioned only when the unit is considered technically feasible and economically viable. Banks avoid providing fresh funds to enterprises that are fundamentally unviable because such support may merely postpone losses without improving recovery prospects.

Thus, viability assessment forms the foundation of additional funding decisions.

c) Nature and Causes of Financial Stress:

Banks carefully analyse the reasons behind the financial difficulties faced by the borrower.

Stress arising from external factors such as economic slowdown, delayed receivables, sudden increase in raw material costs, natural calamities, changes in government policies, or temporary market disruptions is viewed differently from stress caused by diversion of funds, poor management, or fraud.

If the problems are temporary and reversible, banks are more inclined to sanction additional working capital support. However, structural weaknesses and permanent loss of competitiveness reduce the possibility of obtaining fresh assistance.

Accordingly, identification of the root causes of stress is an important consideration.

d) Requirement of Additional Working Capital Based on Operating Cycle:

Banks reassess the operating cycle of the business while determining the need for additional working capital.

The operating cycle includes procurement of raw materials, production processes, inventory holding, sales realization, and collection from debtors. Any increase in the operating cycle results in higher working capital requirements.

Industries with long production and collection cycles often experience temporary shortages of funds. Banks therefore estimate the revised working capital requirement based on projected levels of operations and assess whether

additional support is necessary for maintaining continuity.

Thus, working capital assessment becomes an essential factor in restructuring.

e) Evaluation of Projected Cash Flows:

The sanction of additional working capital is primarily based on projected cash flows rather than past losses.

Banks prepare projected cash flow statements incorporating expected sales, production costs, collection periods, and operating expenses. These projections help determine whether the business can generate sufficient internal accruals to service both existing liabilities and additional working capital support.

If future cash flows indicate sustainable repayment capacity, banks may consider enhancement of working capital facilities. Otherwise, additional funding may only increase the debt burden without improving viability.

Therefore, cash flow analysis assumes critical importance.

f) Assessment of Capacity Utilization and Production Revival:

Banks evaluate the present level of capacity utilization and the prospects for restoring production.

A unit operating at sub-optimal levels due to lack of working capital may achieve higher production and improved profitability if adequate liquidity is provided. The projected increase in production and sales forms the basis for estimating additional working capital requirements.

The relationship between additional funding and expected operational improvement is carefully examined. Banks seek assurance that fresh funds will translate into enhanced production and revenue generation.

Hence, capacity utilization analysis significantly influences restructuring decisions.

g) Analysis of Existing Working Capital Deficiencies:

Before sanctioning additional working capital, banks examine the reasons behind the inadequacy of existing limits.

The deficiency may arise due to increase in raw material costs, higher inventory levels, longer receivable cycles, inflationary pressures, or expansion of business activities. Alternatively, it may result from poor inventory management or diversion of funds.

Banks distinguish between genuine business requirements and inefficient utilization of resources. Additional working capital is sanctioned only when the shortage is attributable to legitimate operational requirements.

Thus, proper diagnosis of existing deficiencies is essential.

h) Historical Conduct of Loan Accounts:

The repayment history and account conduct of the borrower play an important role in sanctioning fresh working capital support.

Borrowers with a satisfactory repayment record and transparent dealings inspire confidence among lenders. Temporary irregularities caused by unforeseen circumstances are generally viewed sympathetically.

Conversely, persistent defaults, repeated excess drawings, diversion of transactions, and poor compliance reduce the willingness of banks to provide additional support.

Good account conduct indicates financial discipline and strengthens the case for restructuring assistance.

i) Promoters' Commitment and Equity Contribution:

Banks expect promoters to share the burden of revival and demonstrate commitment towards the enterprise.

Additional equity infusion, unsecured loans, and reduction of personal withdrawals by promoters reflect confidence in the future prospects of the business. Such support reduces dependence on borrowed funds and improves liquidity.

Where promoters are unwilling to contribute resources, banks may hesitate to sanction additional working capital because the entire risk of revival falls upon lenders.

Therefore, promoter commitment is regarded as an important parameter.

j) Market Potential and Future Demand for Products:

No amount of financial support can revive a business if there is no demand for its products or services.

Banks analyse market conditions, customer demand, competitive position, order book, export potential, and industry trends before sanctioning additional working capital.

A strong order pipeline and favourable market prospects justify enhancement of limits because additional liquidity can be converted into higher sales and profits.

Conversely, declining industries with shrinking demand and obsolete products may not merit further support.

Thus, market viability is closely linked to additional funding decisions.

k) Assessment Through Break-Even Analysis:

Banks determine the break-even point and evaluate the time required for the enterprise to reach profitable operations.

Additional working capital support is considered useful only when the unit can achieve break-even within a reasonable period. If projections indicate that the enterprise will continue to incur losses despite fresh funding, banks may reconsider the proposal.

Break-even analysis helps lenders assess whether additional liquidity will facilitate sustainable operations and eventual repayment.

Therefore, profitability projections influence the extent of additional support.

l) Debt Service Coverage Ratio and Repayment Capacity:

Banks evaluate the impact of additional working capital on overall debt servicing capacity.

Projected Debt Service Coverage Ratio (DSCR), Interest Coverage Ratio, EBITDA margins, and cash accruals are analysed to determine whether the enterprise can comfortably service the increased debt burden.

Additional funding should strengthen the business rather than create excessive leverage. Sustainable debt servicing capability is therefore a prerequisite for sanctioning fresh working capital.

m) Availability and Adequacy of Security Coverage:

Banks assess the adequacy of existing securities before enhancing working capital limits.

Additional exposure increases credit risk and may necessitate extension of charge over assets or creation of additional collateral security. The value of inventories, receivables, fixed assets, and collateral properties is examined to ensure adequate protection.

Strong security coverage improves lender confidence and facilitates sanction of additional facilities.

Accordingly, collateral adequacy becomes an important consideration.

n) Verification of End Use and Absence of Diversion of Funds:

Banks conduct detailed investigations to ensure that previous borrowings have been utilized for genuine business purposes.

Forensic audits, transaction analysis, GST returns, bank statements, and digital footprints are examined to detect diversion or siphoning of funds.

If evidence of misuse of funds is found, banks generally avoid providing additional working capital support because such assistance may not contribute to revival.

Therefore, integrity and proper utilization of funds are essential requirements.

o) Industry Outlook and Economic Conditions:

Industry-specific factors significantly influence restructuring decisions.

Temporary downturns affecting entire sectors may justify additional working capital support because business conditions are expected to improve over time. Conversely, industries facing structural decline, technological obsolescence, or permanent loss of demand present higher risks.

Banks consider macroeconomic trends, government policies, import competition, and global developments while evaluating proposals for fresh working capital assistance.

Thus, industry prospects play an important role.

p) Requirement for Meeting Increased Input Costs:

Inflationary trends and increases in raw material prices often create additional working capital requirements.

Rising prices of inputs, transportation costs, energy expenses, and wages increase the funds needed to sustain production levels. Banks reassess the working capital requirement based on revised cost structures and provide additional support where justified.

Such support enables the enterprise to maintain uninterrupted production despite rising costs.

Therefore, inflationary pressures frequently contribute to the need for enhanced working capital.

q) Statutory Compliance and Governance Standards:

Banks examine the borrower's compliance with statutory obligations such as GST payments, provident fund contributions, income tax dues, and employee-related liabilities.

Regular compliance indicates financial discipline and sound governance practices. Persistent defaults in statutory payments raise concerns regarding liquidity and management quality.

Good governance and regulatory compliance increase the confidence of banks while considering additional working capital support.

r) Consortium Arrangements and Inter-Creditor Cooperation:

In consortium or multiple banking arrangements, additional working capital support requires coordination among participating lenders.

Banks examine sharing arrangements, inter-creditor agreements, and proportionate contribution by consortium members. Uniform support from all lenders improves the effectiveness of restructuring and ensures equitable distribution of risks.

Inter-creditor cooperation therefore becomes an important factor in sanctioning additional facilities.

s) Regulatory Guidelines and Prudential Considerations:

Banks must ensure that additional working capital support complies with regulatory guidelines and internal credit policies.

The impact on asset classification, provisioning requirements, exposure norms, and capital adequacy is carefully evaluated. Additional finance should strengthen recovery prospects and not merely postpone recognition of losses.

Accordingly, prudential considerations influence the structure and quantum of fresh assistance.

t) Monitoring Mechanism After Sanction of Additional Working Capital:

Banks establish stringent monitoring mechanisms after providing additional support.

Periodic review of stock statements, sales turnover, receivables, cash flows, and account operations helps ensure that funds are utilized for intended purposes. Variances between projections and actual performance are continuously analysed.

Close monitoring improves the probability of successful revival and safeguards the interests of lenders.

Thus, post-disbursement supervision forms an integral part of restructuring.

Hence, Sanctioning additional working capital support during restructuring is a critical component of business revival because adequate liquidity is essential for restoring production and generating revenues. However, banks do not provide fresh assistance automatically. They undertake a comprehensive evaluation of techno-economic viability, cash flows, operating cycles, market potential, account conduct, promoter commitment, security coverage, debt servicing capability, and industry conditions before extending additional working capital facilities.

The underlying objective is to ensure that fresh funding acts as a catalyst for revival and not as a temporary measure that merely postpones financial distress. When supported by sound viability analysis and effective monitoring, additional working capital assistance becomes one of the most powerful tools for rehabilitating stressed but fundamentally viable enterprises and maximizing recovery for banks.

Factors Contributing to the Sanction of Additional Term Loan for Capital Expenditure (CAPEX):

Restructuring of stressed loan accounts is not always confined to rescheduling existing liabilities, converting working capital into Working Capital Term Loan (WCTL), or capitalizing interest through Funded Interest Term Loan (FITL). In several cases, the revival of a distressed enterprise requires additional investment in fixed assets, modernization of plant and machinery, completion of unfinished projects, replacement of obsolete equipment, compliance with regulatory requirements, or enhancement of operational efficiency. Consequently, banks may sanction additional term loans for capital expenditure (CAPEX) as an integral component of the restructuring package.

The sanction of fresh term loans during restructuring involves a higher degree of risk because lenders are increasing their exposure to already stressed borrowers. Therefore, banks undertake detailed technical, financial, operational, and market-related evaluations before deciding whether additional CAPEX funding would contribute to revival and long-term sustainability. The underlying principle is that fresh investment should enhance productivity, improve profitability, and strengthen debt servicing capacity rather than merely increase the debt burden.

a) Necessity of Capital Expenditure for Revival of Stressed Units:

In many distressed enterprises, the underlying problem may not be lack of demand but inadequacy or obsolescence of existing infrastructure. Ageing machinery, low productivity, high power consumption, technological inefficiencies, and unfinished projects may impair the competitiveness of the business.

Banks recognize that restructuring of existing liabilities alone cannot revive such enterprises unless additional

investments are made to strengthen operational capabilities. CAPEX support becomes necessary to restore production, improve efficiency, reduce costs, and enhance product quality.

Therefore, additional term loans are sanctioned only when such investments are expected to contribute significantly to the revival of the enterprise.

b) Techno-Economic Viability as the Primary Determinant:

One of the most important factors influencing sanction of additional term loans for CAPEX is the Techno-Economic Viability (TEV) of the enterprise.

Banks appoint independent consultants or conduct internal studies to assess whether the proposed investment is technically feasible and economically viable. The TEV study evaluates market demand, production processes, cost structures, profitability, break-even levels, and cash flow generation.

If the study demonstrates that the additional investment will improve operational efficiency and generate adequate returns, banks may consider sanctioning fresh term loans. Conversely, if the project lacks economic viability, additional exposure is avoided.

Thus, viability assessment forms the foundation of CAPEX financing decisions.

c) Requirement for Modernization and Technological Upgradation:

Technological obsolescence is often a major cause of financial stress.

Outdated machinery increases production costs, lowers productivity, and affects product quality. Competitors equipped with advanced technologies may capture market share, thereby weakening the borrower's position.

Banks examine whether modernization and technological upgradation can restore competitiveness and improve profitability. Investments in automation, energy-efficient machinery, digital systems, quality control mechanisms, and process improvements often justify additional term loans.

Such investments are considered productive because they contribute to long-term sustainability and enhanced earnings.

d) Completion of Incomplete Projects:

Several projects encounter financial difficulties due to cost overruns, delays in implementation, or inadequate initial funding. As a result, substantial investments already made may remain unproductive.

Banks evaluate whether the completion of unfinished projects requires additional capital expenditure and whether the completed project would generate adequate revenues.

Where a project is near completion and possesses favourable market prospects, additional term loans may be sanctioned to avoid erosion of existing investments and to enable commencement of commercial operations.

Thus, completion funding becomes an important consideration during restructuring.

e) Replacement of Worn-Out or Obsolete Machinery:

The physical condition of plant and machinery significantly influences operational efficiency.

Frequent breakdowns, excessive maintenance costs, poor capacity utilization, and quality issues often arise from obsolete or worn-out equipment. Banks assess whether replacement of such assets would improve productivity and reduce operating costs.

If the replacement of machinery is expected to enhance output and strengthen profitability, additional term loans for CAPEX may be justified.

Therefore, asset replacement forms an important factor in restructuring decisions.

f) *Improvement in Capacity Utilization and Production Efficiency:*

Banks analyse the impact of additional capital expenditure on production capabilities.

Fresh investments may enable the enterprise to optimize capacity utilization, reduce wastages, increase throughput, and improve operational efficiency. Enhanced productivity leads to higher revenues and better absorption of fixed costs.

Banks assess whether the proposed CAPEX will generate incremental cash flows sufficient to service the additional debt.

Thus, the relationship between investment and operational improvement becomes a critical consideration.

g) *Market Demand and Future Business Prospects:*

No amount of capital expenditure can revive a business if there is inadequate demand for its products or services.

Banks conduct detailed market studies to evaluate customer demand, order books, export opportunities, competition, pricing trends, and industry growth prospects.

Additional term loans are sanctioned only when there is reasonable assurance that increased production or improved products can be absorbed by the market.

Strong market potential significantly enhances the justification for fresh CAPEX support.

h) *Cash Flow Generation and Debt Servicing Capacity:*

The ability of the enterprise to generate future cash flows is one of the most important factors considered by banks.

Projected financial statements and cash flow forecasts are prepared to estimate revenues, operating expenses, working capital requirements, and debt servicing obligations.

Banks ensure that the incremental earnings resulting from the proposed CAPEX are sufficient to service the additional term loan along with existing liabilities.

The Debt Service Coverage Ratio (DSCR), Internal Rate of Return (IRR), and break-even analysis are extensively used to evaluate repayment capacity.

Thus, sustainable cash generation forms the cornerstone of CAPEX financing decisions.

i) *Promoters' Commitment and Equity Contribution:*

Banks generally expect promoters to participate in the revival process by contributing their share of capital.

Fresh equity infusion demonstrates confidence in the business and reduces dependence on borrowed funds. Promoters' willingness to invest additional resources reflects commitment and strengthens lender confidence.

Where promoters are unwilling to contribute funds or support the restructuring efforts, banks become reluctant to sanction additional term loans because the entire burden of revival falls on lenders.

Accordingly, promoter contribution remains an important prerequisite.

j) *Historical Conduct of Loan Accounts and Credit Discipline:*

Past repayment behaviour and account conduct are important qualitative factors.

Borrowers with a satisfactory repayment history and transparent dealings are viewed more favourably. Temporary

stress caused by external circumstances may justify additional support.

However, accounts characterized by persistent defaults, diversion of funds, and poor financial discipline raise concerns regarding the effectiveness of further lending.

Good credit history therefore enhances the prospects of obtaining additional CAPEX finance.

k) Cost Reduction and Operational Efficiency Benefits:

Banks evaluate whether the proposed capital expenditure will result in measurable cost savings.

Investments in energy-efficient machinery, waste reduction systems, automation, and process optimization can substantially lower operating costs and improve profit margins.

If such savings strengthen cash flows and improve debt servicing capacity, additional term loans may be sanctioned.

Therefore, productivity enhancement and cost optimization constitute major considerations.

l) Compliance with Environmental and Regulatory Requirements:

Industries are increasingly required to comply with environmental norms, pollution control regulations, safety standards, and quality certifications.

Non-compliance may result in closure of operations, penalties, or loss of market access. Banks therefore consider additional CAPEX proposals aimed at installing effluent treatment plants, pollution control equipment, safety systems, and quality assurance facilities.

Such investments are viewed as essential for ensuring continuity of business and protecting existing assets.

Hence, regulatory compliance requirements often justify additional term loans.

m) Availability of Adequate Security Coverage:

Additional term loans increase the exposure of banks and therefore necessitate evaluation of security coverage.

Banks assess the value of existing fixed assets, collateral securities, and primary security available for extending additional finance. They may require extension of charge over new assets or insist upon supplementary collateral.

Adequate security coverage reduces credit risk and enhances lender confidence.

Thus, security considerations play an important role in CAPEX financing decisions.

n) Industry Outlook and Sectoral Prospects:

Banks analyse the overall prospects of the industry in which the borrower operates.

Industries experiencing growth, favourable government policies, export opportunities, and technological advancement are more likely to attract additional CAPEX support. Conversely, sectors facing structural decline, intense competition, or technological disruption present higher risks.

Sectoral analysis helps banks determine whether fresh investments will generate sustainable returns.

Therefore, industry outlook significantly influences restructuring decisions.

o) Completion of Bottleneck Removal and Debottlenecking Measures:

Many enterprises suffer from operational inefficiencies due to bottlenecks in production processes.

Investment in balancing equipment, auxiliary facilities, storage systems, and logistics infrastructure can remove

such bottlenecks and increase effective production capacity.

Banks evaluate whether such investments would result in substantial improvements in output and profitability. Where debottlenecking measures offer high returns with limited investment, additional term loans are often considered viable.

Thus, bottleneck removal contributes positively to restructuring proposals.

p) Impact of Inflation and Escalation in Project Costs:

Projects may experience cost escalations due to inflation, increase in import prices, changes in taxation, or delays in execution.

Banks assess whether additional capital expenditure is required to complete projects and whether the revised project cost remains economically viable.

Where cost overruns are reasonable and future returns remain attractive, supplementary term loans may be sanctioned to preserve the value of existing investments.

Therefore, inflationary and cost escalation factors influence CAPEX decisions.

q) Regulatory Guidelines and Prudential Considerations:

Banks must ensure that additional term loans comply with regulatory guidelines, exposure norms, and internal credit policies.

They examine the impact of fresh lending on asset classification, provisioning requirements, capital adequacy, and risk management standards.

Additional exposure is sanctioned only when it contributes to improved recovery prospects and remains consistent with prudential norms.

Thus, regulatory considerations form an essential part of the appraisal process.

r) Monitoring and Post-Disbursement Supervision:

The sanction of additional term loans is accompanied by rigorous monitoring mechanisms.

Banks monitor implementation schedules, utilization of funds, progress of modernization, installation of machinery, and achievement of projected benefits. Independent engineers and technical experts may be appointed to verify progress.

Continuous monitoring ensures that the additional funds are utilized for intended purposes and that the expected operational improvements are achieved.

Such supervision enhances the probability of successful restructuring.

s) Integration with the Overall Resolution Plan:

Additional CAPEX funding is never viewed in isolation. It forms part of the overall restructuring and revival strategy.

Banks integrate fresh term loans with measures such as rescheduling of existing debt, Working Capital Term Loan (WCTL), Funded Interest Term Loan (FITL), additional working capital support, promoter contribution, and operational restructuring.

The objective is to create a balanced and sustainable financial structure capable of supporting long-term growth and profitability.

Thus, CAPEX financing becomes an integral component of the comprehensive resolution framework.

Hence, sanctioning additional term loans for capital expenditure during restructuring is a strategic decision aimed at restoring the productive capacity and competitiveness of stressed enterprises. Banks consider numerous factors including techno-economic viability, market demand, operational efficiency, modernization requirements, promoter commitment, cash flow generation, security coverage, and industry prospects before extending such support.

The guiding principle behind additional CAPEX financing is that fresh investment should create incremental value, improve profitability, strengthen debt servicing capacity, and maximize recovery prospects. When supported by sound viability analysis and effective monitoring, additional term loans for capital expenditure become powerful instruments for transforming distressed but viable enterprises into sustainable and profitable businesses.

Promoters' Contribution in Share Capital During Restructuring of Units Financed by Banks: Circumstances Necessitating Such Contribution and the Methodology Adopted for Its Determination:

Restructuring of stressed loan accounts is based on the principle that revival of a financially distressed unit should not become the sole responsibility of the lending banks. Since restructuring invariably involves sacrifices by lenders in the form of rescheduling of debts, reduction in repayment burden, capitalization of interest, conversion of irregular working capital into term loans, or infusion of additional funds, banks expect the promoters to demonstrate their commitment towards the revival of the enterprise by bringing additional capital into the business.

Promoters' contribution in share capital is therefore considered an essential element of a restructuring package. It reflects the confidence of the promoters in the future prospects of the business and ensures that the risks and sacrifices are shared equitably between lenders and owners. Consequently, banks insist upon additional promoters' contribution in several circumstances and determine the quantum of such contribution after undertaking detailed financial and viability assessments.

a) Importance of Promoters' Contribution in Restructuring:

Promoters are the owners and beneficiaries of the enterprise. Therefore, banks expect them to bear a proportionate share of the burden when the business encounters financial difficulties.

Additional contribution by promoters strengthens the net worth of the company and improves the debt-equity ratio. It reduces the dependence on external borrowings and enhances the confidence of lenders regarding the seriousness and commitment of the management.

From the bank's perspective, restructuring becomes more meaningful when promoters themselves are willing to invest fresh capital rather than relying entirely on concessions from lenders. Consequently, promoter contribution is viewed as a measure of both financial commitment and moral responsibility.

b) Circumstances Where Banks Insist Upon Promoters' Contribution:

Banks generally insist on promoters bringing additional capital whenever the restructuring package involves sacrifices by lenders or enhancement of credit exposure.

If banks are converting unpaid interest into Funded Interest Term Loan (FITL), extending repayment periods, granting moratoriums, providing additional working capital support, or sanctioning fresh term loans, they expect promoters to contribute additional equity. This ensures that promoters also participate in the revival process.

Similarly, where accumulated losses have eroded net worth or where the company has become overleveraged, infusion of fresh share capital becomes necessary to restore financial stability.

Thus, promoter contribution becomes an integral part of the restructuring package whenever revival requires financial support from banks.

c) Circumstances Involving Erosion of Net Worth:

One of the most common reasons for insisting upon promoter contribution is erosion of net worth due to accumulated losses.

Continuous losses reduce shareholders' funds and increase the debt burden of the company. Such erosion adversely affects the debt-equity ratio and weakens the financial structure.

Banks expect promoters to restore part of the lost net worth by infusing fresh equity capital. This improves the capital base of the company and provides greater protection to lenders.

Accordingly, the extent of erosion in net worth becomes an important factor in determining promoter contribution.

d) Additional Funding by Banks Necessitates Promoters' Contribution:

Whenever banks provide additional working capital facilities or sanction fresh term loans for capital expenditure, they generally insist upon corresponding equity contribution by promoters.

The rationale behind this requirement is that the entire burden of revival should not be borne by lenders. Promoters should also demonstrate confidence in the future of the business by contributing their own resources.

The ratio between debt and equity is maintained at acceptable levels by ensuring that promoters contribute a reasonable proportion of the additional funds required for revival.

Therefore, fresh lending by banks is frequently accompanied by mandatory promoter contribution.

e) Cases Involving Cost Overruns in Projects:

Projects often suffer from cost escalations due to inflation, delays, changes in specifications, or unforeseen circumstances.

Where additional investment is necessary to complete projects, banks expect promoters to bring in a portion of the additional cost from their own sources. Such contribution ensures that promoters have adequate financial stake in the project.

Banks may not be willing to finance the entire cost overrun because doing so would increase the leverage of the enterprise and expose lenders to higher risks.

Thus, project cost overruns are one of the important circumstances requiring promoter contribution.

f) Weak Debt-Equity Ratio and Financial Leverage:

Banks closely examine the debt-equity ratio of the company while restructuring loans.

Highly leveraged companies with excessive debt and inadequate equity pose higher risks. Therefore, banks insist upon infusion of additional share capital to strengthen the capital structure and improve solvency.

Fresh equity contribution reduces dependence on borrowed funds and enhances the capacity of the enterprise to absorb future losses and uncertainties.

Accordingly, weak debt-equity ratios often necessitate additional promoter contribution.

g) Cases Involving Negative Tangible Net Worth:

When accumulated losses exceed shareholders' funds, the company may suffer from negative tangible net worth.

Negative net worth indicates financial weakness and reduces the confidence of lenders and stakeholders. In such situations, banks generally insist upon substantial equity infusion to restore positive net worth.

The amount of contribution required depends upon the extent of erosion and the level of capital necessary to support sustainable operations.

Restoration of positive net worth is therefore one of the important objectives behind promoter contribution.

h) Promoters' Contribution as an Indicator of Commitment:

Banks treat promoter contribution as a reflection of management's confidence in the business.

Promoters who are willing to invest additional funds demonstrate their commitment towards revival and signal their belief in the future prospects of the enterprise.

On the contrary, reluctance to bring fresh capital raises doubts regarding the viability of the business and the sincerity of the management. Banks become cautious when promoters seek concessions from lenders while avoiding financial participation themselves.

Therefore, promoter contribution is regarded as an important qualitative parameter in restructuring decisions.

i) Determination Based on Debt Sacrifice by Banks:

Banks often calculate promoter contribution by comparing it with the sacrifices being made by lenders.

If banks are granting interest concessions, extending repayment periods, providing moratoriums, or converting interest into FITL, the present value of such sacrifices is estimated. Promoters may be required to bring in a certain percentage of the sacrifice amount as fresh equity.

The underlying principle is that both lenders and promoters should share the burden of rehabilitation in a fair and balanced manner.

Thus, lender sacrifice becomes one of the bases for determining promoter contribution.

j) Calculation Based on Total Cost of Restructuring Package:

Banks generally estimate the total funds required for revival, which may include:

- ✱ Additional working capital requirements.
- ✱ Capital expenditure requirements.
- ✱ Funding of interest liabilities.
- ✱ Margin requirements.
- ✱ Provision for contingencies.
- ✱ Cash losses during the stabilization period.

The aggregate requirement constitutes the total restructuring package. Promoters are then required to contribute a specified portion of the package through equity or unsecured loans subordinated to bank debt.

The percentage may vary depending upon the risk profile, industry, and viability of the project.

k) Calculation Based on Debt-Equity Norms:

Banks often determine promoter contribution by maintaining a desired debt-equity ratio.

For example, if after restructuring the projected debt-equity ratio exceeds acceptable levels, additional share capital is required to restore balance. The amount of contribution is calculated by rearranging the capital structure to achieve the target debt-equity ratio.

Industries and projects may have different acceptable leverage norms, and banks determine promoter contribution accordingly.

Thus, debt-equity considerations play a significant role in determining the amount to be infused.

l) Calculation Based on Margin Requirements:

Additional working capital support and capital expenditure financing generally require margin contribution from promoters.

Banks may finance only a certain percentage of the requirement and insist that the balance amount be brought in by promoters as equity.

For instance, where additional capital expenditure of ₹20 crore is proposed and banks agree to finance 75%, promoters may be required to bring the remaining 25%, amounting to ₹5 crore, as share capital contribution.

Margin requirements therefore influence the quantum of promoter contribution.

m) Promoters' Contribution Linked to Cash Losses During Rehabilitation:

Many restructuring packages provide for rehabilitation periods during which the enterprise may continue to incur losses before reaching break-even.

Banks estimate the likely cash losses during this period and may require promoters to contribute funds to meet a part of these losses.

Such contribution reduces dependence on external borrowings and demonstrates the willingness of promoters to share the burden of revival.

Hence, estimated cash losses become another basis for calculating promoter contribution.

n) Sources from Which Promoters May Bring Contribution:

Banks generally insist that promoter contribution should come from genuine and identifiable sources.

The contribution may be brought in through fresh equity shares, share premium, unsecured loans subordinated to bank debt, conversion of personal deposits, sale of non-core assets, or introduction of personal funds.

Banks verify the source of funds to ensure that the contribution is not financed indirectly through borrowings from other institutions or through diversion of company funds.

Transparency in the source of contribution is therefore essential.

o) Staggered Infusion of Promoters' Contribution:

In certain cases, banks permit promoters to bring their contribution in phases linked to the implementation schedule of the restructuring package.

The timing and stages of infusion are clearly specified in the sanction terms. Disbursement of additional bank finance may be made conditional upon completion of promoter contribution.

This approach ensures that promoters fulfil their commitments before availing the benefits of restructuring.

Thus, staggered infusion provides flexibility while safeguarding the interests of lenders.

p) Promoters' Contribution in Consortium and Multiple Banking Arrangements:

In consortium financing arrangements, all lenders jointly determine the amount of promoter contribution.

The lead bank generally coordinates with member banks to ensure uniformity in requirements and monitoring. The promoters' contribution forms part of the Joint Lenders' Forum or Inter-Creditor Agreement approved restructuring package.

Such coordination prevents disparities among lenders and ensures equitable treatment.

q) *Regulatory Expectations and Prudential Norms:*

Regulatory frameworks and prudential guidelines emphasize the importance of promoter contribution in restructuring exercises.

Banks are expected to ensure that promoters bear an appropriate share of the sacrifice and demonstrate commitment towards revival. Excessive concessions without corresponding contribution from promoters may result in moral hazard and weaken credit discipline.

Therefore, promoter contribution is regarded as an important safeguard in restructuring frameworks.

r) *Monitoring Utilization of Promoters' Contribution:*

Banks continuously monitor whether the promoters have actually infused the committed funds and whether such funds have been utilized for intended purposes.

Chartered Accountant certificates, bank statements, share allotment records, and statutory filings are examined to verify compliance.

Failure to bring the committed contribution may result in withdrawal of restructuring benefits or suspension of additional disbursements.

Thus, monitoring forms an essential component of promoter contribution arrangements.

To Sum Up:

Promoters' contribution in share capital is one of the cornerstones of successful restructuring. It reflects the promoters' confidence, commitment, and willingness to share the burden of rehabilitation with lenders. Banks insist upon such contribution particularly in situations involving additional funding, erosion of net worth, project cost overruns, weak debt-equity ratios, and lender sacrifices.

The quantum of contribution is determined based on factors such as debt-equity norms, total restructuring cost, lender sacrifice, margin requirements, projected cash losses, and regulatory expectations. Ultimately, promoter contribution strengthens the financial structure of the enterprise, improves lender confidence, and enhances the probability of successful revival and long-term sustainability of the restructured unit.

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Chapter 4

Verification and Appraisal Process in Loan Restructuring

Synopsis:

This chapter comprehensively explains the verification and appraisal process undertaken by banks before approving restructuring of stressed loan accounts. It emphasizes that restructuring is not granted merely on the borrower's request but only after a rigorous assessment of the causes of financial stress, account conduct, financial performance, cash-flow generation capacity, debt servicing ability, industry outlook, management quality, and overall business viability. The chapter discusses the importance of independent verification through GST returns, income tax records, CRILC data, Techno-Economic Viability (TEV) studies, Independent Credit Evaluation (ICE), forensic audits, collateral valuation, sensitivity analysis, and comparison with alternative recovery mechanisms such as SARFAESI, Asset Reconstruction Companies (ARCs), and insolvency proceedings under the Insolvency and Bankruptcy Code, 2016. It further outlines the eligibility criteria for restructuring, circumstances leading to rejection of proposals, and the extensive documentation required from corporate borrowers. The chapter concludes that banks approve restructuring only when genuine temporary stress, promoter commitment, operational viability, adequate security, and sustainable future cash flows are demonstrated, thereby ensuring compliance with RBI's Prudential Framework for Resolution of Stressed Assets and preventing evergreening of stressed accounts.

When a corporate borrower submits a restructuring proposal to banks, the proposal is not accepted merely on the basis of the borrower's request. Banks undertake an extensive and multi-dimensional verification process to determine whether the financial stress is temporary, whether the business remains viable, and whether restructuring would maximize recovery compared to other alternatives such as enforcement, sale to Asset Reconstruction Companies (ARCs), or insolvency proceedings under the Insolvency and Bankruptcy Code, 2016. The entire exercise is guided by the RBI's Prudential Framework for Resolution of Stressed Assets and the Board-approved policies of the lending institutions.

a) Preliminary Examination of the Restructuring Proposal:

The process begins with scrutiny of the restructuring application submitted by the corporate borrower. Banks examine whether the proposal contains all necessary information, including:

- ✓ Reasons for financial stress.
- ✓ Details of existing credit facilities.
- ✓ Cash flow projections.
- ✓ Audited financial statements.
- ✓ Details of security and collateral.
- ✓ Business revival plans.

- ✓ Additional funding requirements.
- ✓ Promoters' contribution and commitment.
- ✓ Projections of profitability and debt servicing capability.

The objective at this stage is to ascertain whether the proposal deserves detailed examination or whether the account has already become fundamentally unviable.

b) Verification of the Causes of Stress:

Banks do not rely solely upon the explanations given by the borrower. They independently verify the reasons for deterioration in financial performance.

The credit monitoring department studies whether the stress has arisen because of:

- ✓ Economic slowdown.
- ✓ Sectoral downturn.
- ✓ Cost overruns.
- ✓ Delays in project execution.
- ✓ Supply chain disruptions.
- ✓ Delayed receivables.
- ✓ Increase in raw material prices.
- ✓ Foreign exchange losses.
- ✓ Changes in government policies.

At the same time, banks investigate whether the stress has been caused by:

- ✓ Diversion of funds.
- ✓ Siphoning of funds.
- ✓ Fraudulent transactions.
- ✓ Related-party dealings.
- ✓ Poor financial discipline.
- ✓ Excessive withdrawals by promoters.

Accounts involving fraud or wilful default are generally excluded from restructuring benefits.

- ✱ **Detailed Financial Analysis:** The bank's credit officers and risk management teams undertake detailed financial analysis covering several years. They examine:
- ✱ **Profitability Trends:** Banks analyse sales turnover, gross profit margins, operating profits, EBITDA, and net profits to determine whether the business can recover.
- ✱ **Leverage Position:** Debt-equity ratio, total outside liabilities, and gearing levels are examined to assess whether the capital structure is sustainable.
- ✱ **Liquidity Position:** Working capital cycle, inventory levels, receivables, current ratio, and operating cash

flows are scrutinized.

- ★ **Debt Servicing Capacity:** Debt Service Coverage Ratio (DSCR), Interest Coverage Ratio (ICR), Fixed Charge Coverage Ratio (FCCR), and EBITDA adequacy are analysed to determine whether the borrower can service the restructured debt.
- ★ **Net Worth Position:** Erosion of net worth and accumulated losses are examined to understand the extent of financial deterioration.

a) Examination of Account Conduct:

Banks study the operation of loan accounts and current accounts maintained by the borrower. They examine:

- ✓ Frequency of cheque returns.
- ✓ Irregular drawings in cash credit accounts.
- ✓ Over-utilization of limits.
- ✓ Delays in submission of stock statements.
- ✓ Non-payment of statutory dues.
- ✓ Delays in servicing interest and instalments.
- ✓ Routing of transactions through other banks.

The account conduct provides valuable insights into the borrower's financial discipline and repayment intentions.

b) Independent Verification of Financial Information:

Banks cross-check financial information using:

- ✓ GST returns.
- ✓ Income Tax returns.
- ✓ TDS statements.
- ✓ MCA filings under the Companies Act, 2013.
- ✓ Bank account statements.
- ✓ Credit bureau reports.
- ✓ Information available with the Central Repository of Information on Large Credits (CRILC).

This process helps detect inconsistencies and ensures that projections are based on reliable information.

c) Assessment of Industry and Market Conditions:

Banks evaluate the external environment in which the borrower operates. They study:

- ✓ Industry growth prospects.
- ✓ Demand patterns.
- ✓ Competition.
- ✓ Technological developments.

- ✓ Regulatory changes.
- ✓ Commodity price movements.
- ✓ Global market trends.

A company suffering from temporary cyclical stress may be considered suitable for restructuring, whereas a business facing permanent technological obsolescence may not qualify.

d) *Evaluation of Management and Promoters:*

The integrity, competence, and commitment of promoters are critical factors in restructuring decisions. Banks verify:

- ✓ Past repayment behaviour.
- ✓ Track record of management.
- ✓ Corporate governance standards.
- ✓ Litigation history.
- ✓ Related-party transactions.
- ✓ Willingness to infuse additional equity.

Promoters are often required to bring additional capital or provide personal guarantees as evidence of their commitment to the revival of the business.

e) *Techno-Economic Viability (TEV) Study:*

For large and complex accounts, banks appoint independent agencies to conduct Techno-Economic Viability studies.

The TEV study evaluates:

- ✓ Technical feasibility of operations.
- ✓ Capacity utilization.
- ✓ Demand forecasts.
- ✓ Cost structures.
- ✓ Projected profitability.
- ✓ Cash flow estimates.
- ✓ Break-even analysis.
- ✓ Sustainability of debt.

The study determines whether the business can survive and service the revised debt obligations.

f) *Independent Credit Evaluation (ICE):*

For large exposures above the thresholds prescribed by RBI, lenders obtain Independent Credit Evaluation from RBI-authorized credit rating agencies.

Independent Credit Evaluation assesses:

- ✓ Viability of the business.
- ✓ Sustainability of debt.
- ✓ Adequacy of restructuring measures.
- ✓ Risks associated with the proposal.

This independent opinion prevents evergreening of stressed assets.

g) *Verification through Forensic Audit:*

Where irregularities are suspected, banks may appoint forensic auditors to investigate:

- ✓ Diversion or siphoning of funds.
- ✓ Related-party transactions.
- ✓ End use of funds.
- ✓ Fraudulent activities.

Misrepresentation of financial statements.

Adverse findings in forensic audits may result in rejection of restructuring proposals and initiation of recovery proceedings.

h) *Valuation of Securities and Collateral:*

Banks reassess the value of primary and collateral securities through approved valuers. They verify:

- ✓ Current market value.
- ✓ Realizable value.
- ✓ Distress sale value.
- ✓ Insurance coverage.
- ✓ Charge registration with the Registrar of Companies.

The adequacy of security coverage influences the restructuring package and additional funding decisions.

i) *Cash Flow Projections and Sensitivity Analysis:*

Banks independently test the assumptions underlying the projections submitted by the borrower.

They examine:

- ✓ Revenue growth assumptions.
- ✓ Capacity utilization levels.
- ✓ Raw material costs.
- ✓ Interest rates.
- ✓ Exchange rate sensitivity.
- ✓ Break-even levels.

Stress scenarios are applied to determine whether the borrower can withstand adverse conditions and still service debt.

j) Verification in Consortium and Multiple Banking Arrangements:

Where several banks are involved, lead banks coordinate the restructuring exercise. Information is shared among consortium members, and common lenders' meetings are held.

Joint lenders examine:

- ✓ Aggregate exposure.
- ✓ Security sharing arrangements.
- ✓ Inter-creditor agreements.
- ✓ Additional funding requirements.
- ✓ Debt sustainability.

Decisions are taken collectively in accordance with RBI guidelines.

k) Comparison with Alternative Recovery Options:

Banks compare restructuring with other alternatives such as:

- ✓ SARFAESI proceedings.
- ✓ Debt Recovery Tribunal actions.
- ✓ Sale to Asset Reconstruction Companies.
- ✓ One-Time Settlement.
- ✓ Proceedings under the Insolvency and Bankruptcy Code.

Restructuring is approved only if the expected recovery from a revived business exceeds the recovery obtainable through liquidation or legal enforcement.

l) Internal Credit Risk Assessment:

The proposal is subjected to scrutiny by:

- ✓ Relationship Managers.
- ✓ Credit Monitoring Departments.
- ✓ Risk Management Departments.
- ✓ Stressed Asset Management Branches.
- ✓ Credit Committees.
- ✓ Board-level Committees for large exposures.

Several layers of examination ensure objectivity and compliance with RBI guidelines.

m) Final Approval and Implementation:

After satisfying themselves regarding viability, lenders approve a Resolution Plan involving:

- ✓ Rescheduling of repayments.
- ✓ Moratoriums.
- ✓ Conversion of debt into equity or preference shares.
- ✓ Additional working capital support.
- ✓ Modification of interest rates.
- ✓ Infusion of promoter contribution.

The restructuring package is implemented only after completion of documentation and execution of necessary agreements.

Below is a comprehensive specimen application that may be submitted by a Corporate Borrower to its lending bank(s) seeking restructuring of credit facilities due to economic slowdown, geopolitical disturbances, supply-chain disruptions, commodity price volatility, and other external factors. The actual contents should be customized based on the borrower's facts and the bank's requirements.

APPLICATION FOR RESTRUCTURING OF CREDIT FACILITIES

Date: _____

To

The Asst. General Manager (Credit)

_____ Bank Limited

_____ Branch / Corporate Banking Branch

Dear Sir/Madam,

Subject: Request for Restructuring of Existing Credit Facilities under RBI Prudential Framework for Resolution of Stressed Assets

We, M/s _____ Limited, are maintaining various credit facilities with your Bank under the sanction arrangements detailed below. We have always maintained a satisfactory relationship with the Bank and have been servicing our obligations regularly. However, owing to extraordinary developments in the economic and geopolitical environment, our operations and cash flows have been adversely affected, resulting in temporary financial stress.

Accordingly, we request the Bank to consider restructuring of our existing credit facilities in accordance with the RBI Prudential Framework for Resolution of Stressed Assets and the Bank's Board-approved policy for resolution of stressed accounts.

1. Particulars of the Borrower

Particulars	Details
Name of Company	
CIN	
Date of Incorporation	
Registered Office	
Corporate Office	
Constitution	Public Limited / Private Limited
Industry	
Promoters	
Existing Banking Arrangement	Sole Banking / Consortium / Multiple Banking
Lead Bank	
Statutory Auditors	
Credit Rating	
GSTIN	
PAN	

2. Existing Credit Facilities

Facility	Sanctioned Limit (₹ Crores)	Outstanding (₹ Crores)
Cash Credit		
Working Capital Demand Loan		
Term Loan-I		
Term Loan-II		
Bank Guarantee		
Letter of Credit		
Other Facilities		
Total Exposure		

3. Background and Performance of the Company

The Company has been engaged in the business of _____ since _____. During the last several years, the Company has achieved consistent growth and maintained satisfactory relations with all lenders. The Company has established a strong customer base and possesses adequate infrastructure, technical capabilities, and experienced management personnel.

However, during the financial year _____, the Company has encountered severe challenges due to factors beyond its control.

4. Reasons for Financial Stress

The present stress is temporary and has arisen primarily due to external factors, namely:

(a) Economic Slowdown

Reduction in domestic and international demand has resulted in lower sales and delayed realization of receivables.

(b) Geopolitical Disturbances

International conflicts and geopolitical tensions have adversely affected global trade, logistics, shipping schedules, and availability of raw materials.

(c) Supply Chain Disruptions

Import restrictions and transportation bottlenecks have caused delays in procurement of critical inputs and escalation in production costs.

(d) Commodity Price Volatility

Sharp increases in prices of raw materials and energy costs have adversely affected operating margins.

(e) Delayed Receivables

Extended credit periods and delayed collections from major customers have affected working capital cycles.

(f) Increase in Interest Rates

Rising borrowing costs have increased finance charges and placed pressure on cash flows.

The above circumstances have resulted in temporary liquidity constraints and have affected our ability to service debt obligations in accordance with the original repayment schedule.

5. Present Position of the Company

Despite temporary stress, the Company continues to operate as a going concern and possesses:

- ✓ Strong market position.
- ✓ Established customer relationships.
- ✓ Positive order book.
- ✓ Adequate production facilities.
- ✓ Experienced management team.
- ✓ Long-term business prospects.

The Company expects improvement in business conditions during the forthcoming period.

6. Proposed Resolution and Restructuring Package

We request the Bank to consider the following restructuring measures:

Working Capital Facilities

- ✱ Continuation of existing working capital limits.
- ✱ Conversion of irregular portion into Working Capital Term Loan.

- ✱ Enhancement of working capital limits to support operations.

Term Loans

- ✱ Extension of repayment period from _____ years to _____ years.
- ✱ Moratorium on principal repayments for _____ months.
- ✱ Rescheduling of instalments based on projected cash flows.

Interest Servicing

- ✱ Funding of accrued interest through FITL (Funded Interest Term Loan).
- ✱ Rationalization of interest rates as considered appropriate by the Bank.

Additional Finance

- ✱ Additional working capital assistance of ₹ _____ Crores.
- ✱ Need-based support for operational revival.

7. Promoters' Contribution

The promoters are fully committed to revival of the Company and undertake to:

- ✱ Infuse additional equity of ₹ _____ Crores.
- ✱ Bring unsecured loans of ₹ _____ Crores.
- ✱ Continue personal guarantees.
- ✱ Extend full cooperation to lenders.

8. Projected Financial Performance

Based on expected recovery in economic activity and stabilization of geopolitical conditions, the Company expects:

Particulars	FY ____	FY ____	FY ____
Revenue			
EBITDA			
Profit Before Tax			
Cash Accruals			
DSCR			

Detailed projected financial statements and cash-flow estimates are enclosed.

9. Security Position

The existing securities available to the Bank are summarized below:

Particulars	Estimated Value (₹ Crores)
Land and Building	

Particulars	Estimated Value (₹ Crores)
Plant and Machinery	
Current Assets	
Collateral Securities	
Personal Guarantees	
Total Security Cover	

The Company undertakes to provide such additional security or documentation as may be required by the Bank.

10. Declaration

We hereby confirm that:

1. The stress experienced by the Company is temporary and has arisen due to external economic and geopolitical factors.
2. No funds have been diverted or siphoned off.
3. The Company remains fundamentally viable and capable of servicing debt under the proposed restructuring.
4. All information and projections furnished herein are true and correct.
5. We shall extend full cooperation for Techno-Economic Viability Study, Independent Credit Evaluation, forensic examination, or any other review considered necessary by the Bank.
6. We undertake to comply with all terms and conditions stipulated by the lenders.

In view of the above, we request the Bank to kindly consider our proposal sympathetically and approve restructuring of the existing credit facilities to enable the Company to overcome temporary financial stress and continue as a viable going concern.

Thanking you,

For _____ Limited

Managing Director & Chief Financial Officer

Authorized Signatory

Enclosures

1. Board Resolution authorizing submission of restructuring proposal.
2. Audited financial statements for the last three years.
3. Provisional financial statements.
4. Cash-flow projections.
5. CMA data.

6. Stock statements.
7. GST returns.
8. Income Tax returns.
9. Details of debt obligations.
10. List of creditors and debtors.
11. Details of securities and collateral.
12. Projected profitability and DSCR statements.
13. Order book position.
14. Business revival plan.
15. Promoters' commitment letter.
16. Any other information required by the Bank.

This specimen may be suitably modified for sole banking, consortium lending, or multiple banking arrangements and aligned with the RBI Prudential Framework for Resolution of Stressed Assets and the specific bank's restructuring policy.

Assessment of Eligibility Criteria of a Corporate Borrower's for Restructuring of Credit Facilities by the Banks:

The restructuring of corporate credit facilities is not a routine exercise or a matter of right available to borrowers. Under the RBI's Prudential Framework for Resolution of Stressed Assets, banks are expected to distinguish between **temporary financial stress** and **fundamental business failure**. Therefore, whenever a corporate borrower submits an application for restructuring, the bank undertakes a detailed and multi-layered assessment to determine whether the borrower and its credit facilities are eligible for restructuring and whether restructuring would result in better recovery than liquidation or insolvency proceedings.

a) Preliminary Scrutiny of the Application:

The process starts with a preliminary scrutiny of the restructuring proposal submitted by the borrower. The bank examines whether the application is complete in all respects and whether it contains:

- ✓ Reasons for financial stress.
- ✓ Details of existing credit facilities.
- ✓ Audited financial statements.
- ✓ Provisional financial statements.
- ✓ Cash flow projections.
- ✓ CMA data.
- ✓ Revival strategy.
- ✓ Details of promoters' contribution.
- ✓ Additional finance requirements.

- ✓ Information regarding security and collateral.
- ✓ Existing liabilities with all lenders.

At this stage, the bank determines whether the proposal deserves detailed examination or should be rejected outright.

b) *Determination of the Nature of Financial Stress:*

The most important consideration is identifying whether the stress is temporary or permanent.

Banks evaluate whether the difficulties have arisen because of:

- ✓ Economic slowdown.
- ✓ Geopolitical disturbances.
- ✓ Industry-wide recession.
- ✓ Delays in receivables.
- ✓ Commodity price fluctuations.
- ✓ Project implementation delays.
- ✓ Supply chain disruptions.
- ✓ Regulatory changes.
- ✓ Foreign exchange losses.
- ✓ Temporary liquidity mismatches.

Stress arising from external factors is viewed differently from stress caused by poor management, diversion of funds, fraudulent activities, or obsolete business models.

The objective is to determine whether the business can recover under improved economic conditions.

- ✱ **Verification of Account Conduct:** Banks analyse the conduct of all loan accounts maintained by the borrower. They examine:
- ✱ **Repayment Track Record:** Whether the borrower had been regular in servicing obligations before the occurrence of stress.
- ✱ **Operation of Working Capital Accounts:** Frequency of irregular drawings, excess utilization, devolvement of Letters of Credit, invocation of Bank Guarantees, and cheque returns are studied.
- ✱ **Submission of Financial Information:** Banks examine whether stock statements, insurance policies, financial statements, and statutory compliance certificates have been submitted regularly.
- ✱ **Relationship with the Bank:** Long-standing and satisfactory banking relationships strengthen the case for restructuring. Borrowers with a history of persistent defaults and poor financial discipline may not qualify for restructuring.
- ✱ **Analysis of Financial Performance:** Banks conduct a detailed analysis of historical financial performance covering at least three to five years.
- ✱ **Revenue Trends:** The bank studies whether the decline in turnover is temporary or permanent.

- ★ **Profitability Analysis:** Gross profit margins, EBITDA margins, operating profits, and net profits are examined to understand whether the business remains operationally viable.
- ★ **Liquidity Position:** Current ratio, quick ratio, inventory turnover, and receivable cycles are analysed.
- ★ **Leverage Position:** Debt-equity ratio, total outside liabilities to net worth ratio, and gearing levels are studied to determine whether the capital structure is sustainable.
- ★ **Cash Flow Adequacy:** Cash accruals are evaluated to ascertain whether the borrower can service the revised debt obligations after restructuring.

c) Examination of Industry Outlook:

The viability of a borrower cannot be assessed in isolation from the industry in which it operates.

Banks study:

- ✓ Industry growth prospects.
- ✓ Demand conditions.
- ✓ Competition.
- ✓ Technological changes.
- ✓ Regulatory environment.
- ✓ Commodity price trends.
- ✓ Global developments affecting the industry.

Companies operating in industries suffering temporary cyclical downturns are considered differently from those belonging to industries facing structural decline.

d) Assessment of Business Viability:

The bank examines whether the core business remains commercially viable.

The following factors are analysed:

- ✓ Capacity utilization.
- ✓ Order book position.
- ✓ Customer base.
- ✓ Market share.
- ✓ Product competitiveness.
- ✓ Availability of raw materials.
- ✓ Cost structure.
- ✓ Production efficiency.

If the business can generate positive operating profits after restructuring, it is considered operationally viable.

e) Cash Flow Projections and Debt Servicing Capacity:

The future ability of the borrower to service debt constitutes the foundation of restructuring.

Banks independently verify projected financial statements and estimate:

- ✓ Sales growth.
- ✓ Operating profits.
- ✓ Working capital requirements.
- ✓ Interest obligations.
- ✓ Principal repayments.

The following ratios are studied:

- ✱ **Debt Service Coverage Ratio (DSCR):** A DSCR above acceptable levels indicates the ability to service debt under the revised schedule.
- ✱ **Interest Coverage Ratio (ICR):** The bank evaluates whether operating profits are sufficient to cover interest obligations.
- ✱ **Fixed Charge Coverage Ratio:** This ratio measures the ability to meet fixed commitments.
- ✱ **EBITDA Adequacy:** The bank ensures that cash generation is sufficient to sustain operations and debt repayments. Only sustainable debt structures are approved.
- ✱ **Assessment of Promoters and Management:** Successful restructuring depends largely upon the commitment and capability of promoters.

Banks examine:

- ✱ **Track Record of Promoters:** Past repayment history and business performance are reviewed.
- ✱ **Corporate Governance Standards:** Transparency and integrity of management are evaluated.
- ✱ **Additional Capital Contribution:** Promoters are generally required to infuse fresh equity or unsecured loans to demonstrate commitment.
- ✱ **Personal Guarantees:** Continuation or strengthening of guarantees may be insisted upon.
- ✱ **Management Capability:** The experience and competence of management are assessed to determine their ability to implement the revival plan.

f) Verification of End Use of Funds:

Banks ascertain whether funds have been utilized for their intended purposes.

This may involve:

- ✓ Scrutiny of bank statements.
- ✓ Examination of invoices.
- ✓ Review of project expenditures.
- ✓ Cross-verification with statutory records.

Where diversion or siphoning of funds is suspected, restructuring proposals are generally rejected.

g) *Independent Techno-Economic Viability (TEV) Study:*

For large corporate exposures, banks often appoint specialized agencies to conduct Techno-Economic Viability studies.

The TEV study examines:

- ✓ Technical feasibility.
- ✓ Market demand.
- ✓ Production capacity.
- ✓ Cost assumptions.
- ✓ Financial projections.
- ✓ Break-even analysis.
- ✓ Debt sustainability.

A favourable TEV report significantly strengthens the restructuring proposal.

h) *Independent Credit Evaluation (ICE):*

For exposures above RBI-prescribed thresholds, Independent Credit Evaluation by authorized credit rating agencies is mandatory.

The ICE report evaluates:

- ✓ Business viability.
- ✓ Debt sustainability.
- ✓ Credit risks.
- ✓ Adequacy of proposed restructuring measures.

This independent assessment helps prevent evergreening of stressed assets.

i) *Forensic Audit:*

Where there are indications of irregularities, banks may commission forensic audits to examine:

- ✓ Diversion of funds.
- ✓ Siphoning of funds.
- ✓ Related-party transactions.
- ✓ Fraudulent activities.
- ✓ Manipulation of financial statements.

Accounts classified as fraud or involving wilful defaults are generally ineligible for restructuring.

j) *Valuation of Securities:*

Banks reassess:

- ✓ Land and buildings.
- ✓ Plant and machinery.
- ✓ Current assets.
- ✓ Collateral securities.

Fresh valuation reports are obtained to determine:

- ✓ Market value.
- ✓ Realizable value.
- ✓ Distress value.

Though restructuring is cash-flow based, adequate security coverage improves recovery prospects.

k) Evaluation of Additional Funding Requirements

Banks assess whether additional working capital or term finance is necessary for revival.

They determine:

- ✓ Quantum of additional funds required.
- ✓ Sources of contribution from promoters.
- ✓ Debt sustainability after additional finance.

Restructuring is meaningful only if the borrower possesses sufficient liquidity to continue operations.

l) Comparison with Alternative Recovery Options

Banks compare restructuring with:

- ✓ SARFAESI proceedings.
- ✓ Debt Recovery Tribunal actions.
- ✓ Sale to Asset Reconstruction Companies.
- ✓ One-Time Settlement.
- ✓ Proceedings under the Insolvency and Bankruptcy Code.

Restructuring is preferred only when expected recoveries from a going concern exceed liquidation values.

m) Eligibility Conditions Generally Favouring Restructuring

Banks normally consider restructuring where:

- ✓ Stress is temporary.
- ✓ Business remains viable.
- ✓ Cash flows are expected to improve.
- ✓ Promoters are committed.
- ✓ Additional capital infusion is available.

- ✓ No fraud or wilful default exists.
- ✓ Recovery prospects are superior to liquidation.

n) Circumstances Making the Proposal Ineligible

Restructuring proposals are generally rejected where:

- ✓ Fraud has been established.
- ✓ Wilful default has been declared.
- ✓ Funds have been siphoned off.
- ✓ Business has become technologically obsolete.
- ✓ Promoters are unwilling to contribute.
- ✓ Cash flow projections are unrealistic.
- ✓ Negative net worth and accumulated losses make revival impossible.
- ✓ Liquidation value exceeds going-concern value.

o) Multi-Level Internal Approval Process

After detailed assessment, the proposal is examined by:

- ✓ Relationship Managers.
- ✓ Credit Department.
- ✓ Risk Management Department.
- ✓ Stressed Asset Management Vertical.
- ✓ Credit Committee.

Executive Committee or Board-level Committee for large exposures.

Only after obtaining approvals from competent authorities is the Resolution Plan implemented.

Top of Form

Reasons for Declining or Rejecting Restructuring Proposals:

Restructuring of credit facilities is intended to revive fundamentally viable businesses experiencing temporary financial stress. It is not designed to postpone inevitable losses or to facilitate evergreening of stressed assets. Therefore, while evaluating a restructuring proposal submitted by a corporate borrower, banks undertake extensive financial, operational, managerial, legal, and forensic assessments. If the proposal fails to satisfy the prudential norms prescribed by the Reserve Bank of India (RBI) or the bank's internal credit policy, the restructuring request may be declined.

The following are the major reasons that may lead banks to reject a restructuring proposal.

a) Fundamental Unviability of the Business

The most important reason for rejection is the absence of long-term viability. Banks are concerned not merely with present financial stress but with the future sustainability of the business.

If the enterprise is unable to generate sufficient cash flows even after restructuring, the proposed package merely postpones default rather than solving the problem. Businesses suffering from structural weaknesses, obsolete products, declining demand, technological obsolescence, or permanent loss of competitiveness are generally considered unsuitable for restructuring.

When the business itself lacks future prospects, banks may prefer recovery proceedings or insolvency mechanisms rather than restructuring.

b) Negative Techno-Economic Viability (TEV) Study

For medium and large corporate accounts, banks often commission Techno-Economic Viability studies through independent consultants.

The restructuring proposal may be rejected when the TEV report reveals:

- ✓ Inadequate market demand.
- ✓ Excessive production costs.
- ✓ Poor capacity utilization.
- ✓ Unsustainable debt levels.
- ✓ Weak profitability projections.
- ✓ Inability to generate sufficient cash accruals.

A negative TEV report substantially weakens the borrower's case for restructuring.

c) Unsustainable Cash Flow Projections

Banks independently verify the financial projections submitted by the borrower.

The proposal may be rejected if:

- ✓ Sales assumptions are unrealistic.
- ✓ Profit margins are overstated.
- ✓ Working capital requirements are underestimated.
- ✓ Debt Service Coverage Ratio (DSCR) remains inadequate.
- ✓ Cash accruals are insufficient to meet revised repayment obligations.

Since restructuring is based primarily on future cash flows, unrealistic projections often result in rejection.

d) Wilful Default

Borrowers categorized as wilful defaulters are generally not eligible for restructuring.

A borrower may be classified as a wilful defaulter if:

- ✓ It has the capacity to repay but deliberately avoids repayment.
- ✓ Funds have been diverted from sanctioned purposes.
- ✓ Assets charged to lenders have been disposed of without permission.
- ✓ Funds have been siphoned off for unrelated activities.

Banks are prohibited from extending restructuring benefits to wilful defaulters except under exceptional circumstances and subject to regulatory guidelines.

e) Fraud and Diversion of Funds

Where forensic audits reveal:

- ✓ Fraudulent transactions.
- ✓ Manipulation of financial statements.
- ✓ Siphoning of funds.
- ✓ Diversion of funds to group companies.
- ✓ Related-party transactions detrimental to lenders, the restructuring proposal is generally rejected.

Fraud accounts are treated separately under RBI guidelines and are ordinarily ineligible for rehabilitation packages.

f) Lack of Promoters' Commitment

Successful restructuring requires strong support from promoters.

Banks may reject proposals when promoters are unwilling to:

- ✓ Infuse additional capital.
- ✓ Bring unsecured loans.
- ✓ Provide personal guarantees.
- ✓ Offer additional security.
- ✓ Share the burden of revival.

If promoters expect lenders alone to absorb losses without making their own contribution, banks may consider the restructuring proposal unacceptable.

g) Persistent Poor Track Record

Banks examine the historical conduct of the borrower.

Repeated instances of:

- ✓ Continuous irregularities.
- ✓ Chronic overdrawing.
- ✓ Non-submission of stock statements.
- ✓ Delays in servicing obligations.
- ✓ Frequent restructuring requests.
- ✓ Failure of earlier restructuring packages, indicate weak financial discipline and may lead to rejection.

h) Adverse Industry Outlook

Even a well-managed company may face difficulties if the industry itself suffers from structural decline.

Examples include industries affected by:

- ✓ Technological obsolescence.
- ✓ Permanent reduction in demand.
- ✓ Regulatory prohibitions.
- ✓ Environmental restrictions.
- ✓ Intense global competition.

Banks generally avoid restructuring where the industry outlook does not support future recovery.

i) Inadequate Security Coverage

Although restructuring decisions are cash-flow driven, security coverage remains an important consideration.

The proposal may be rejected if:

- ✓ Security values have eroded substantially.
- ✓ Primary assets are obsolete.
- ✓ Collateral values are inadequate.
- ✓ Insurance coverage is absent.
- ✓ Security creation is incomplete.

Poor security cover increases the probability of loss to lenders.

j) Excessive Leverage and Erosion of Net Worth

Banks analyse the capital structure of the borrower.

The restructuring proposal may be declined when:

- ✓ Debt-equity ratio is excessively high.
- ✓ Net worth is completely eroded.
- ✓ Accumulated losses exceed shareholders' funds.
- ✓ Capital structure becomes unsustainable.

In such situations, revival through restructuring may become impractical.

k) Inability to Obtain Consensus Among Lenders

In consortium or multiple banking arrangements, restructuring requires coordination among lenders.

The proposal may fail because:

- ✓ Member banks disagree on viability.
- ✓ Additional funding requirements are not acceptable.
- ✓ Inter-creditor disputes arise.
- ✓ Required voting thresholds are not achieved.

Lack of consensus among lenders often prevents implementation of restructuring packages.

l) Adverse Independent Credit Evaluation (ICE)

For large exposures, RBI requires Independent Credit Evaluation by authorized credit rating agencies.

Negative findings regarding:

- ✓ Business viability.
- ✓ Debt sustainability.
- ✓ Promoters' capability.
- ✓ Industry outlook may lead banks to reject the restructuring proposal.

m) Unsatisfactory Account Conduct

Banks carefully study account operations.

Frequent occurrences of:

- ✓ Excess drawings.
- ✓ Cheque returns.
- ✓ Devolvement of letters of credit.
- ✓ Invocation of guarantees.
- ✓ Diversion of business to other banks indicate weak financial discipline and adversely affect restructuring prospects.

n) Non-Compliance with Regulatory Requirements

The proposal may be rejected when the borrower fails to provide:

- ✓ Audited financial statements.
- ✓ GST returns.
- ✓ Income tax returns.
- ✓ Stock statements.
- ✓ CMA data.
- ✓ Projected cash flows.
- ✓ Statutory compliance certificates.

Incomplete information prevents proper assessment and delays decision-making.

o) Failure of Earlier Restructuring Packages

Banks consider the history of previous restructuring.

Repeated failure of earlier packages suggests that:

- ✓ Stress is structural rather than temporary.

- ✓ Management has been unable to implement corrective measures.
- ✓ Revival prospects are weak.

Such accounts are often referred for recovery or insolvency proceedings.

p) Legal and Regulatory Issues

Banks may decline restructuring where:

- ✓ Serious litigation threatens business continuity.
- ✓ Environmental clearances are permanently denied.
- ✓ Government licenses are cancelled.
- ✓ Statutory violations exist.
- ✓ Regulatory actions affect operations.

These uncertainties may adversely affect future cash flows.

q) Better Recovery Through Insolvency or Liquidation

Banks compare restructuring with alternative recovery mechanisms such as:

- ✓ SARFAESI proceedings.
- ✓ Debt Recovery Tribunal proceedings.
- ✓ Assignment to Asset Reconstruction Companies.
- ✓ Corporate Insolvency Resolution Process under the Insolvency and Bankruptcy Code, 2016.

If estimated recovery under insolvency or liquidation exceeds recovery expected under restructuring, banks may reject the restructuring proposal.

r) Lack of Additional Working Capital Support Feasibility

Some businesses require fresh funding to revive operations.

The proposal may be rejected if:

- ✓ Additional finance required is excessive.
- ✓ Cash flows cannot support fresh debt.
- ✓ Lenders are unwilling to increase exposure.
- ✓ Promoters are unable to contribute.

Without adequate liquidity support, restructuring becomes ineffective.

s) Classification as Fraud Account or Red-Flagged Account

Accounts under:

- ✓ Fraud investigation,
- ✓ Red-Flagged Account (RFA) status,

- ✓ Enforcement Directorate proceedings,
- ✓ Serious Fraud Investigation Office investigations are generally not considered suitable for restructuring until the issues are resolved.

Documents Required from a Corporate Borrower for Restructuring:

When a corporate borrower approaches a bank for restructuring of its credit facilities, the bank is required under the RBI's Prudential Framework for Resolution of Stressed Assets to undertake a comprehensive viability assessment. Accordingly, banks insist upon submission of a large number of financial, legal, operational, technical, and security-related documents. These documents enable the bank to evaluate the borrower's present financial condition, future cash-generating capacity, management commitment, adequacy of security, and overall viability of the proposed restructuring package.

The following are the important documents generally required and their purpose from the bank's perspective.

1. Formal Application for Restructuring

Purpose

This document constitutes the borrower's official request for restructuring and provides the broad reasons for financial stress. It forms the basis for initiating the restructuring process and records the borrower's commitment to revive the business.

2. Certified Board Resolution

Purpose

The Board Resolution authorizes submission of the restructuring proposal and empowers designated directors or officials to negotiate with lenders and execute necessary documents.

Bank's Objective

To ensure that the restructuring proposal has been duly approved by the Board of Directors and is legally binding upon the company.

3. Detailed Note on Reasons for Financial Stress

Purpose

Explains the causes that led to the borrower's inability to service debt.

Bank's Objective

To ascertain whether the stress is:

- ✓ Temporary or permanent.
- ✓ Internal or external.
- ✓ Reversible or structural.

Examples include:

- ✓ Economic slowdown.
- ✓ Geopolitical disturbances.
- ✓ Supply chain disruptions.



- ✓ Commodity price increases.
- ✓ Delayed receivables.

4. Business Revival Plan

Purpose

Contains detailed strategies proposed for restoring profitability.

Bank's Objective

To evaluate the practicality of the revival measures and determine whether the company can return to normal operations.

5. Audited Financial Statements for the Last Three to Five Years

Documents

- ✓ Balance Sheets
- ✓ Profit and Loss Accounts
- ✓ Cash Flow Statements
- ✓ Schedules and Notes to Accounts
- ✓ Auditor's Reports

Bank's Objective

To examine:

- ✓ Profitability trends.
- ✓ Growth pattern.
- ✓ Capital structure.
- ✓ Cash generation capability.
- ✓ Erosion of net worth.

6. Latest Provisional Financial Statements

Purpose

Provide the most recent financial position.

Bank's Objective

To understand current performance and assess deterioration after the last audited accounts.

7. Cash Flow Projections

Purpose

To estimate future cash generation.

Bank's Objective

To determine:

- ✓ Debt servicing capability.
- ✓ Working capital requirements.
- ✓ Sustainability of the proposed restructuring.

Generally, projections are sought for 5 to 10 years.

8. Projected Financial Statements

Documents

- ✓ Projected Balance Sheets
- ✓ Projected Profit and Loss Accounts
- ✓ Projected Cash Flows

Bank's Objective

To assess future viability and repayment capacity under various scenarios.

9. CMA Data (Credit Monitoring Arrangement Data)

Purpose

Provides detailed estimates regarding:

- ✓ Sales
- ✓ Working capital
- ✓ Inventory levels
- ✓ Receivables
- ✓ Profitability

Bank's Objective

To assess operating cycle and working capital requirements.

10. Statement of Existing Credit Facilities

Purpose

Provides complete details of:

- ✓ Fund-based facilities.
- ✓ Non-fund-based facilities.
- ✓ Outstanding balances.
- ✓ Repayment schedules.

Bank's Objective

To understand the overall exposure and liabilities.

11. Consortium/Multiple Banking Exposure Statement

Purpose

Details borrowings from all lenders.

Bank's Objective

To evaluate aggregate indebtedness and lender-wise exposure.

12. Details of Security and Collateral

Documents

- ✓ List of primary securities.
- ✓ List of collateral securities.
- ✓ Valuation reports.
- ✓ Title deeds.

Bank's Objective

To ascertain security coverage and recovery prospects.

13. Latest Stock Statements

Purpose

Provide inventory position.

Bank's Objective

To verify:

- ✓ Adequacy of current assets.
- ✓ Drawing power calculations.
- ✓ Working capital utilization.

14. Debtors and Creditors Ageing Analysis

Purpose

Shows receivables and payables age-wise.

Bank's Objective

To understand:

- ✓ Collection efficiency.
- ✓ Quality of receivables.
- ✓ Liquidity position.

15. GST Returns

Documents

- ✓ GSTR-1
- ✓ GSTR-3B
- ✓ Annual Returns

Bank's Objective

To verify:

- ✓ Sales turnover.
- ✓ Revenue trends.
- ✓ Compliance status.

Banks cross-check financial statements with GST filings.

16. Income Tax Returns

Purpose

To verify declared income and profits.

Bank's Objective

To detect inconsistencies between audited accounts and tax filings.

17. Bank Statements of All Accounts

Period

Generally, 12 months to 24 months.

Bank's Objective

To examine:

- ✓ Fund flow patterns.
- ✓ Diversion of funds.
- ✓ Related-party transactions.
- ✓ Routing of business.

18. Details of Related Party Transactions

Purpose

Provides information regarding dealings with group entities.

Bank's Objective

To detect:

- ✓ Diversion of funds.
- ✓ Preferential transactions.
- ✓ Transfer pricing issues.

19. Details of Contingent Liabilities

Purpose

Discloses:

- ✓ Guarantees.
- ✓ Letters of credit.
- ✓ Legal liabilities.

Bank's Objective

To identify hidden obligations and future risks.

20. List of Major Customers and Suppliers

Purpose

Provides details of dependence on key parties.

Bank's Objective

To assess:

- ✓ Market concentration risks.
- ✓ Sustainability of operations.

21. Order Book Position

Purpose

Shows pending orders and contracts.

Bank's Objective

To evaluate future revenue visibility and business prospects.

22. Capacity Utilization Statement

Purpose

Indicates installed and utilized production capacities.

Bank's Objective

To determine whether the business can generate additional revenues after restructuring.

23. Details of Pending Litigation

Documents

- ✓ Court cases.
- ✓ Arbitration proceedings.
- ✓ Regulatory proceedings.

Bank's Objective

To assess legal risks affecting business continuity.

24. Statutory Dues Statement

Includes

- ✓ GST liabilities.
- ✓ Income tax dues.
- ✓ Provident Fund dues.
- ✓ ESI liabilities.

Bank's Objective

To ascertain statutory compliance and identify potential claims.

25. Insurance Policies

Purpose

Evidence of insurance coverage on charged assets.

Bank's Objective

To protect the security against unforeseen risks.

26. Fixed Asset Register

Purpose

Contains details of:

- ✓ Land.
- ✓ Buildings.
- ✓ Plant and machinery.
- ✓ Equipment.

Bank's Objective

To verify asset values and security coverage.

27. Details of Promoters' Net Worth

Documents

- ✓ Personal balance sheets.
- ✓ Asset and liability statements.

Bank's Objective

To evaluate promoters' financial strength and ability to support the company.

28. Commitment Letter from Promoters

Purpose

Provides commitment for:

- ✓ Additional equity infusion.
- ✓ Unsecured loans.
- ✓ Personal guarantees.

Bank's Objective

To ensure promoters share the sacrifice and demonstrate confidence in the business.

29. Personal Guarantees and Declarations

Purpose

Provide additional comfort to lenders.

Bank's Objective

To strengthen recovery prospects.

30. Details of Group Companies

Purpose

Provides information regarding associate concerns.

Bank's Objective

To understand interconnected exposures and risks.

31. Information on Investments and Subsidiaries

Purpose

To identify:

- ✓ Non-core investments.
- ✓ Possibility of asset monetization.

Bank's Objective

To assess sources of internal restructuring.

32. Forensic Audit Reports (if available)

Purpose

To disclose previous investigations.

Bank's Objective

To ensure absence of:

- ✓ Fraud.
- ✓ Diversion of funds.
- ✓ Siphoning of funds.

33. Techno-Economic Viability (TEV) Report

Purpose

Independent assessment of business viability.

Bank's Objective

To evaluate:

- ✓ Technical feasibility.
- ✓ Market prospects.
- ✓ Profitability.
- ✓ Debt sustainability.

Generally mandatory for large exposures.

34. Credit Rating Reports

Purpose

External assessment of credit quality.

Bank's Objective

To understand the risk profile of the borrower.

35. Independent Valuation Reports

Purpose

Determine:

- ✓ Market value.
- ✓ Realizable value.
- ✓ Distress value.

Bank's Objective

To estimate recovery potential.

36. Cash Flow Sensitivity Analysis

Purpose

Analyses adverse scenarios.

Bank's Objective

To determine whether the company can survive under stressed conditions.

37. Information from Information Utilities and Credit Information Companies

Includes

- ✓ CIBIL reports.

- ✓ CRILC information.

Bank's Objective

To verify:

- ✓ Default history.
- ✓ Exposure with other lenders.
- ✓ Overall indebtedness.

38. Independent Engineer's Report (for Project Finance Accounts)**Purpose**

Assessment of project status.

Bank's Objective

To evaluate:

- ✓ Stage of completion.
- ✓ Cost overruns.
- ✓ Technical viability.

39. Environmental and Regulatory Clearances**Purpose**

Evidence of statutory approvals.

Bank's Objective

To ensure there are no impediments affecting business operations.

40. Proposed Restructuring Package**Includes**

Requests for:

- ✓ Moratorium.
- ✓ Rescheduling.
- ✓ Conversion of interest into FITL.
- ✓ Additional working capital.
- ✓ Interest concessions.

Bank's Objective

To examine whether the proposed package is commercially viable and sustainable.

Additional Documents Required in Consortium Accounts

Banks may additionally require:

- ✓ Inter-Creditor Agreement (ICA).
- ✓ Minutes of Joint Lenders' Meetings.
- ✓ Lead Bank assessment reports.
- ✓ Independent Credit Evaluation (ICE) reports.
- ✓ Common Security Sharing Agreements.
- ✓ Pari-passu charge documents.

To Sum Up:

Banks verify restructuring proposals submitted by corporate borrowers through a rigorous process involving financial analysis, account conduct examination, independent verification of information, industry assessment, techno-economic viability studies, independent credit evaluations, forensic audits, collateral valuation, and sensitivity analysis. The guiding principle under RBI's Prudential Framework is that restructuring should revive viable businesses and maximize recovery rather than merely postpone recognition of losses. Consequently, restructuring is approved only when the borrower's proposal demonstrates genuine financial stress, promoter commitment, operational viability, and sustainable future cash flows capable of servicing the restructured debt.

Banks assess the eligibility of a corporate borrower's restructuring application through a comprehensive process involving financial analysis, viability studies, industry assessment, cash flow projections, management evaluation, collateral valuation, forensic examination, and comparison with alternative recovery mechanisms. The guiding principle under RBI's Prudential Framework is that restructuring should revive fundamentally viable businesses and maximize recoveries while preventing evergreening of stressed assets. Consequently, restructuring is extended only to borrowers whose businesses are capable of generating sustainable cash flows and demonstrating a realistic prospect of long-term revival.

Banks reject restructuring proposals when they conclude that the borrower's financial difficulties are permanent rather than temporary, the business lacks viability, cash flows are unsustainable, promoters are not committed, or there are concerns regarding fraud, wilful default, diversion of funds, or poor industry prospects. The fundamental principle underlying RBI's Prudential Framework is that restructuring should revive viable businesses and maximize recoveries, not merely postpone losses or facilitate evergreening of stressed assets. Therefore, only those corporate borrowers demonstrating genuine stress, management commitment, sustainable cash flows, and realistic revival prospects are considered eligible for restructuring, while unviable accounts are directed toward recovery mechanisms or insolvency resolution under the Insolvency and Bankruptcy Code, 2016.

From the bank's perspective, the documents required for restructuring serve four fundamental purposes:

- (1) **Verification of the genuineness of stress:** To determine whether the financial difficulties are caused by temporary external factors or by fraud, diversion of funds, or permanent business failure.
- (2) **Assessment of future viability:** To evaluate whether the company can generate sufficient cash flows after restructuring and service the revised debt obligations.
- (3) **Protection of the bank's interests:** To ascertain security coverage, promoters' commitment, legal enforceability, and recovery prospects.
- (4) **Compliance with RBI Prudential Framework:** To ensure that restructuring is based on objective analysis and does not amount to evergreening of stressed assets.

Accordingly, banks insist upon an exhaustive set of financial, operational, legal, technical, and security-related documents before approving restructuring of corporate credit facilities. Such documentation forms the foundation

for preparing a viable Resolution Plan under the RBI Prudential Framework for Resolution of Stressed Assets.

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3. Indian Banks' Association, *Guidelines on Restructuring and Rehabilitation of Stressed Borrower Accounts*.
4. Insolvency and Bankruptcy Code, 2016, Government of India.
5. Reserve Bank of India, *Framework for Techno-Economic Viability (TEV), Independent Credit Evaluation (ICE), and Resolution Planning of Stressed Assets*.

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Chapter 5

Significance of Techno-Economic Viability (TEV) Studies (In Restructuring)

Synopsis:

This chapter highlights the critical role of the Techno-Economic Viability (TEV) Report in the restructuring of stressed corporate loan accounts and explains why it serves as the cornerstone of decision-making under the RBI's Prudential Framework for Resolution of Stressed Assets. The chapter describes how an independent TEV study evaluates the technical feasibility, economic viability, market potential, operational efficiency, cost structure, cash-flow generation capacity, debt sustainability, security coverage, promoter commitment, and future business prospects of a borrower seeking restructuring. It emphasizes that the TEV Report enables banks to distinguish between temporary financial stress and fundamental business failure, assess whether restructuring will maximize recovery compared to insolvency or liquidation, prevent evergreening of stressed assets, and design sustainable resolution plans incorporating moratoriums, WCTL, FITL, additional funding, and promoter contributions. The chapter further details the extensive financial, operational, technical, legal, and managerial information required for conducting a TEV study and outlines the structure of a comprehensive TEV Report covering industry analysis, technical evaluation, financial projections, sensitivity analysis, debt-servicing capability, risk assessment, and restructuring recommendations. Ultimately, the chapter concludes that the TEV Report provides an objective basis for determining whether a stressed enterprise is technically, economically, commercially, and financially viable, thereby guiding lenders in approving, modifying, or rejecting restructuring proposals.

The Techno-Economic Viability (TEV) Report is one of the most important instruments used by banks while considering restructuring of stressed corporate accounts. Under the RBI's Prudential Framework for Resolution of Stressed Assets, restructuring should be extended only to fundamentally viable businesses. Since banks themselves may not possess specialized expertise in technical, market, operational, and economic evaluation of complex businesses, they generally appoint independent TEV consultants to undertake a comprehensive study of the borrower and submit an objective report.

From a banker's perspective, a TEV Report is not merely an appraisal document; it is a **decision-making tool** that helps determine whether restructuring would revive the borrower or merely postpone an inevitable default.

a) Independent Validation of the Borrower's Revival Proposal:

Corporate borrowers generally submit optimistic projections and revival plans while seeking restructuring. Banks cannot rely solely on these projections because there is a possibility of overestimating sales, underestimating costs, or understating risks.

The TEV consultant independently examines:

- ✓ Existing operations.

- ✓ Industry conditions.
- ✓ Production capabilities.
- ✓ Market prospects.
- ✓ Financial projections.

Thus, the TEV report serves as an independent validation mechanism and protects banks from accepting unrealistic proposals.

b) *Determination of Fundamental Viability:* The most important question before lenders is:

“Is the stress temporary or is the business fundamentally unviable?” The TEV study provides the answer.

c) *The consultant evaluates whether:*

- ✓ The products manufactured by the company continue to have market demand.
- ✓ The technology employed is current and competitive.
- ✓ Production facilities are adequate.
- ✓ Capacity utilization can improve.
- ✓ The company can generate profits after restructuring.

If the business itself lacks viability, banks may prefer insolvency proceedings rather than restructuring.

d) *Thus, the TEV report helps distinguish between:*

- ✱ **Viable Businesses:** Suitable for restructuring.
- ✱ **Unviable Businesses:** Suitable for recovery or insolvency proceedings.

e) *Assessment of Technical Feasibility:*

Many stressed accounts involve manufacturing, infrastructure, engineering, steel, power, cement, textile, or other industrial sectors.

The TEV consultant examines:

- ✓ Installed production capacity.
- ✓ Age and condition of machinery.
- ✓ Maintenance requirements.
- ✓ Technological obsolescence.
- ✓ Production bottlenecks.
- ✓ Availability of raw materials.
- ✓ Power and utility requirements.

Banks utilize this information to determine whether operations can continue efficiently after restructuring.

For example, if plant and machinery have become obsolete and replacement costs are prohibitive, restructuring

may not be advisable.

f) Evaluation of Market Potential:

Even technically sound units may fail if there is no demand for their products.

The TEV report evaluates:

- ✓ Industry growth.
- ✓ Competition.
- ✓ Demand forecasts.
- ✓ Customer base.
- ✓ Export potential.
- ✓ Government policies.
- ✓ Import substitution opportunities.
- ✓ Market share.

This enables banks to assess future revenue-generating capability.

A positive market outlook strengthens the case for restructuring.

g) Verification of Cost Structure:

TEV consultants critically analyse:

- ✓ Raw material costs.
- ✓ Employee expenses.
- ✓ Manufacturing overheads.
- ✓ Energy costs.
- ✓ Transportation costs.
- ✓ Administrative expenses.

The purpose is to determine whether profitability can be restored after restructuring.

Banks use this analysis to identify areas where cost rationalization measures may improve viability.

h) Independent Cash Flow Analysis:

Since restructuring is based primarily on future cash generation, the TEV report evaluates:

- ✓ Sales projections.
- ✓ EBITDA.
- ✓ Net profits.
- ✓ Cash accruals.

- ✓ Working capital requirements.
- ✓ Capital expenditure requirements.

The consultant independently verifies whether projected cash flows are realistic.

Banks use these projections to design:

- ✓ Revised repayment schedules.
- ✓ Moratorium periods.
- ✓ Additional finance requirements.
- ✓ Working capital limits.

Thus, the TEV report becomes the foundation for preparing the Resolution Plan.

i) Determination of Debt Sustainability:

One of the principal objectives of restructuring is to ensure that debt becomes sustainable.

j) The TEV study examines:

- ✱ **Debt Service Coverage Ratio (DSCR):** Whether future cash flows are adequate to service principal and interest.
- ✱ **Interest Coverage Ratio:** Ability to meet interest obligations.
- ✱ **Debt-Equity Ratio:** Capital structure sustainability.
- ✱ **Break-Even Analysis:** Minimum operating levels required for profitability.
- ✱ **Fixed Charge Coverage Ratio:** Ability to meet fixed financial commitments.

Banks rely heavily on these ratios to decide whether restructuring should be undertaken.

k) Assessment of Additional Funding Requirement:

Many stressed businesses require fresh working capital support to revive operations.

The TEV report determines:

- ✓ Quantum of additional working capital required.
- ✓ Need for capex funding.
- ✓ Promoters' contribution.
- ✓ Margin requirements.

This helps banks avoid both over-financing and under-financing.

Without adequate liquidity support, restructuring packages often fail.

l) Evaluation of Promoters' Commitment:

The TEV consultant examines:

- ✓ Promoters' background.
- ✓ Management capability.
- ✓ Corporate governance.
- ✓ Financial contribution.
- ✓ Experience in the industry.

Banks prefer restructuring where promoters demonstrate commitment through:

- ✓ Fresh equity infusion.
- ✓ Additional guarantees.
- ✓ Unsecured loans.

Weak promoter support generally reduces the chances of successful restructuring.

m) Security Coverage and Asset Evaluation:

The TEV report evaluates:

- ✓ Fixed assets.
- ✓ Current assets.
- ✓ Security cover.
- ✓ Realizable values.

Banks use these findings to estimate recovery prospects and determine whether additional collateral is required.

n) Sensitivity Analysis and Stress Testing:

Perhaps one of the most valuable features of a TEV report is sensitivity analysis.

The consultant examines the impact of:

- ✓ Decline in sales.
- ✓ Increase in raw material costs.
- ✓ Exchange rate fluctuations.
- ✓ Increase in interest rates.
- ✓ Delays in project implementation.

Banks use these scenarios to assess whether the borrower can withstand adverse conditions after restructuring.

This minimizes future restructuring failures.

o) Comparison with Alternative Recovery Mechanisms:

The TEV study enables banks to compare:

Recovery Through Restructuring

Versus

Recovery Through

- ✓ SARFAESI proceedings.
- ✓ Debt Recovery Tribunal.
- ✓ Assignment to Asset Reconstruction Companies.
- ✓ Insolvency proceedings under IBC.
- ✓ Liquidation.

If the going-concern value exceeds liquidation value, restructuring becomes preferable.

Thus, the TEV report supports value maximization.

p) Prevention of Evergreening:

RBI discourages evergreening of stressed assets.

The TEV report protects banks from:

- ✓ Cosmetic restructuring.
- ✓ Repeated postponement of defaults.
- ✓ Unrealistic assumptions.

Artificial asset classification improvements.

By providing an independent and objective assessment, the report ensures that restructuring is based on genuine viability rather than temporary accounting adjustments.

q) Assistance in Structuring the Resolution Plan

Banks use the TEV findings for designing:

- ✱ **Repayment Schedule:** Determining the revised tenure and instalments.
- ✱ **Moratorium Period:** Deciding principal and interest moratorium.
- ✱ **FITL Structure:** Conversion of unpaid interest into Funded Interest Term Loans.
- ✱ **Additional Working Capital:** Assessing the amount required.
- ✱ **Promoters' Contribution:** Fixing the minimum contribution.
- ✱ **Security Enhancement:** Requirement of additional collateral.
- ✱ **Monitoring Mechanism:** Post-restructuring performance benchmarks.

Thus, the TEV report becomes the backbone of the restructuring package.

r) Facilitating Consortium Decisions

In consortium and multiple banking arrangements, lenders may have differing opinions.

A professionally prepared TEV report:

- ✱ Provides a common basis for decision-making.
- ✱ Reduces disagreements among lenders.
- ✱ Facilitates consensus.
- ✱ Supports Inter-Creditor Agreement mechanisms.

Therefore, TEV studies are indispensable in large consortium accounts.

S) Protection Against Future Accountability

Bank officials approving restructuring are subject to scrutiny by:

- ✱ Internal Auditors.
- ✱ RBI Inspectors.
- ✱ Statutory Auditors.
- ✱ Vigilance Authorities.
- ✱ CVC.
- ✱ CAG.
- ✱ Investigating Agencies.

A TEV report prepared by an independent expert provides documentary evidence that:

- ✱ Proper due diligence was conducted.
- ✱ Viability was objectively assessed.
- ✱ Decisions were commercially justified.

Thus, the report protects decision-makers against allegations of arbitrary or imprudent lending.

t) Role of Cost Accountants in TEV Studies

Considering their expertise in:

- ✱ Cost structures.
- ✱ Capacity utilization.
- ✱ Product costing.
- ✱ Break-even analysis.
- ✱ Cash flow projections.
- ✱ Working capital assessment.
- ✱ Profitability analysis.
- ✱ Operational efficiency,

Cost Accountants are particularly suited for conducting TEV studies and evaluating restructuring proposals. Their analytical capabilities enable lenders to determine the sustainability of operations and prepare realistic restructuring packages.

Techno-Economic Viability (TEV) Report:

A Techno-Economic Viability (TEV) Report is an independent and comprehensive study undertaken by professionals or consultants to determine whether a stressed corporate borrower can be revived through restructuring of credit facilities. The report serves as the foundation for preparation of a Resolution Plan under the RBI Prudential Framework for Resolution of Stressed Assets.

The TEV study Integrates technical, operational, commercial, financial, managerial, and economic analyses. Accordingly, the consultant is required to collect extensive information from the corporate borrower and other independent sources. The quality and completeness of data collected determine the reliability of the TEV report and ultimately influence the bank's restructuring decision.

PART I: DATA TO BE COLLECTED FROM THE CORPORATE BORROWER:

25. General and Corporate Information:

Documents Required

- ✓ Certificate of Incorporation.
- ✓ Memorandum and Articles of Association.
- ✓ PAN, GST Registration.
- ✓ CIN details.
- ✓ Organization structure.
- ✓ Details of promoters and directors.
- ✓ Shareholding pattern.
- ✓ Group companies and subsidiaries.
- ✓ Management profile.
- ✓ Key managerial personnel details.

Purpose

To understand the ownership structure, management capability, and group exposure.

B. Banking and Borrowing Details:

Information Required

- ✓ Names of consortium/multiple banks.
- ✓ Fund-based facilities.
- ✓ Non-fund-based facilities.
- ✓ Security details.

- ✓ Outstanding balances.
- ✓ Repayment schedules.
- ✓ Overdues and irregularities.
- ✓ Existing covenants.
- ✓ External Commercial Borrowings (ECB).
- ✓ Unsecured loans.

Purpose

To ascertain the debt burden and financing structure.

C. Historical Financial Information:**Documents**

- ✓ Audited Financial Statements for 3-5 years.
- ✓ Balance Sheets.
- ✓ Profit and Loss Accounts.
- ✓ Cash Flow Statements.
- ✓ Notes to Accounts.
- ✓ Auditor's Reports.

Purpose

To evaluate:

- ✓ Sales trends.
- ✓ Profitability.
- ✓ Cash generation.
- ✓ Capital structure.
- ✓ Working capital management.

D. Current Financial Position:**Documents**

- ✓ Latest provisional financial statements.
- ✓ Trial balance.
- ✓ Debtors list.
- ✓ Creditors list.
- ✓ Inventory statements.

- ✓ Ageing analysis.

Purpose

To determine present financial stress and liquidity position.

E. Cost and Management Accounting Data:

Information Required

- ✓ Product-wise cost sheets.
- ✓ Cost audit reports.
- ✓ Cost records.
- ✓ Variable and fixed cost analysis.
- ✓ Product contribution statements.
- ✓ Segment profitability.

Purpose

To understand operational efficiency and cost structure.

F. Production Data:

Information Required

- ✓ Installed capacity.
- ✓ Licensed capacity.
- ✓ Actual capacity utilization.
- ✓ Production records.
- ✓ Machine utilization.
- ✓ Rejection rates.
- ✓ Downtime analysis.

Purpose

To assess operational efficiency and identify bottlenecks.

G. Sales and Marketing Information:

Information Required

- ✓ Product mix.
- ✓ Major customers.
- ✓ Order book position.
- ✓ Export sales.



- ✓ Domestic sales.
- ✓ Customer concentration.
- ✓ Sales realization trends.
- ✓ Market share.

Purpose

To evaluate revenue sustainability.

H. Working Capital Information:

Documents

- ✓ Stock statements.
- ✓ Inventory classification.
- ✓ Receivable ageing.
- ✓ Payable ageing.
- ✓ Operating cycle analysis.

Purpose

To assess liquidity and working capital requirements.

25. Fixed Assets Information:

Documents

- ✓ Fixed Asset Register.
- ✓ Land documents.
- ✓ Building details.
- ✓ Plant and machinery details.
- ✓ Age-wise machinery schedule.

Purpose

To assess productive assets and security coverage.

J. Technical Information:

Information Required

- ✓ Manufacturing process.
- ✓ Technology employed.
- ✓ Machinery specifications.
- ✓ Production bottlenecks.

- ✓ Technical collaborations.
- ✓ Quality certifications.

Purpose

To evaluate technical feasibility.

K. Human Resource Data:

Information Required

- ✓ Employee strength.
- ✓ Salary structure.
- ✓ Labour productivity.
- ✓ Industrial relations.
- ✓ Wage agreements.

Purpose

To assess workforce adequacy and labour risks.

L. Legal Information:

Documents

- ✓ Litigation details.
- ✓ Arbitration cases.
- ✓ Environmental clearances.
- ✓ Government licenses.
- ✓ Regulatory approvals.

Purpose

To identify legal risks.

M. Taxation and Statutory Compliance Data:

Documents

- ✓ GST Returns.
- ✓ Income Tax Returns.
- ✓ PF and ESI records.
- ✓ Statutory dues statements.

Purpose

To ascertain statutory compliance.

N. Cash Flow Projections:**Information Required**

- ✓ Sales projections.
- ✓ Cost assumptions.
- ✓ Working capital assumptions.
- ✓ Capex requirements.

Purpose

To evaluate debt servicing capability.

O. Promoters' Contribution:**Documents**

- ✓ Net worth statements.
- ✓ Personal assets and liabilities.
- ✓ Undertakings for additional contribution.

Purpose

To assess promoters' commitment.

PART II: DETAILED CHAPTERIZATION OF TEV REPORT:***Chapter 1 – Executive Summary:***

This chapter provides:

- ✓ Objective of the assignment.
- ✓ Scope of work.
- ✓ Summary findings.
- ✓ Overall opinion on viability.
- ✓ Recommendations.

Chapter 2 – Terms of Reference:

Contains:

- ✓ Appointment details.
- ✓ Objectives of TEV study.
- ✓ Scope and limitations.
- ✓ Methodology adopted.

Chapter 3 – Background of the Company:

Includes:

- ✓ History of the company.
- ✓ Business activities.
- ✓ Promoters' profile.
- ✓ Shareholding pattern.
- ✓ Organization structure.

Chapter 4 – Existing Banking Arrangements:

Contains:

- ✓ Consortium members.
- ✓ Credit facilities.
- ✓ Outstanding balances.
- ✓ Security structure.
- ✓ Asset classification status.

Chapter 5 – Causes of Stress:

Analysis of:

- ✓ Economic slowdown.
- ✓ Geopolitical disturbances.
- ✓ Industry recession.
- ✓ Cost overruns.
- ✓ Delayed receivables.
- ✓ Foreign exchange losses.
- ✓ Internal deficiencies.

The chapter distinguishes temporary stress from structural weakness.

Chapter 6 – Industry Analysis:

Includes:

- ✓ Industry overview.
- ✓ Market size.
- ✓ Demand trends.
- ✓ Competition.



- ✓ Government policies.
- ✓ SWOT analysis.

Chapter 7 – Technical Evaluation:

Contains:

- ✓ Manufacturing process.
- ✓ Installed capacity.
- ✓ Capacity utilization.
- ✓ Plant and machinery.
- ✓ Technical bottlenecks.
- ✓ Technology assessment.

Chapter 8 – Operational Analysis:

Includes:

- ✓ Production performance.
- ✓ Input-output ratios.
- ✓ Capacity utilization.
- ✓ Labour productivity.
- ✓ Quality parameters.

Chapter 9 – Cost Structure Analysis:

Prepared mainly using Cost Accounting principles.

Includes:

- ✓ Fixed costs.
- ✓ Variable costs.
- ✓ Product-wise costing.
- ✓ Contribution analysis.
- ✓ Break-even analysis.

Chapter 10 – Sales and Marketing Analysis:

Contains:

- ✓ Customer profile.
- ✓ Product mix.
- ✓ Market share.

- ✓ Order book.
- ✓ Export prospects.
- ✓ Revenue trends.

Chapter 11 – Financial Performance Analysis:

Includes:

- ✓ Trend analysis.
- ✓ Comparative statements.
- ✓ Ratio analysis.
- ✓ Profitability analysis.
- ✓ Fund flow analysis.
- ✓ Cash flow analysis.

Chapter 12 – Working Capital Assessment:

Contains:

- ✓ Operating cycle analysis.
- ✓ Inventory norms.
- ✓ Debtor norms.
- ✓ Creditor norms.
- ✓ Current ratio analysis.

Chapter 13 – Security and Asset Coverage Analysis:

Includes:

- ✓ Fixed asset valuation.
- ✓ Current asset valuation.
- ✓ Collateral security.
- ✓ Realizable values.

Chapter 14 – Promoters and Management Evaluation:

Contains:

- ✓ Experience of promoters.
- ✓ Track record.
- ✓ Governance practices.
- ✓ Commitment to revival.

Chapter 15 – Future Business Prospects:

Analysis of:

- ✓ Market opportunities.
- ✓ Capacity utilization projections.
- ✓ Industry outlook.
- ✓ Competitive position.

Chapter 16 – Projected Financial Statements:

Generally prepared for 5 to 10 years.

Includes:

- ✓ Projected Balance Sheets.
- ✓ Profit and Loss Accounts.
- ✓ Cash Flow Statements.

Chapter 17 – Ratio Analysis and Debt Servicing Capability:

Contains:

- ✓ DSCR.
- ✓ Interest Coverage Ratio.
- ✓ Debt Equity Ratio.
- ✓ Current Ratio.
- ✓ EBITDA Margin.
- ✓ Fixed Charge Coverage Ratio.

Chapter 18 – Break-Even Analysis:

Includes:

- ✓ Break-even sales.
- ✓ Margin of safety.
- ✓ Contribution analysis.

This chapter is particularly suitable for Cost Accountants.

Chapter 19 – Sensitivity Analysis:

Examines impact of:

- ✓ Fall in sales.
- ✓ Increase in raw material prices.

- ✓ Increase in interest rates.
- ✓ Exchange rate fluctuations.

Chapter 20 – Additional Funding Requirement:

Determines:

- ✓ Additional working capital.
- ✓ Term loan requirements.
- ✓ Promoters' contribution.

Chapter 21 – Viability and Debt Sustainability Analysis:

Evaluates:

- ✓ Sustainable debt.
- ✓ Repayment capability.
- ✓ Debt restructuring options.

Chapter 22 – Proposed Restructuring Package:

Provides recommendations on:

Working Capital

- ✓ WCTL.
- ✓ Additional limits.

Term Loans

- ✓ Extension of tenure.
- ✓ Rescheduling.

FITL

- ✓ Conversion of unpaid interest.

Moratorium

- ✓ Principal and interest deferment.

Additional Security

- ✓ Collateral enhancement.

Promoters' Contribution

- ✓ Equity infusion.

Chapter 23 – Risk Analysis:

Identifies:

- ✓ Market risks.
- ✓ Operational risks.
- ✓ Financial risks.
- ✓ Regulatory risks.

Chapter 24 – Monitoring Mechanism:

Specifies:

- ✓ Key performance indicators.
- ✓ Monitoring frequency.
- ✓ Reporting requirements.
- ✓ Covenants.

Chapter 25 – Conclusions and Recommendations:

The final chapter provides an independent opinion:

Whether the Unit is:

- ✓ Technically Viable.
- ✓ Economically Viable.
- ✓ Financially Viable.
- ✓ Commercially Viable.

Whether the Stress is:

- ✓ Temporary or permanent.

Whether Restructuring is:

- ✓ Recommended.
- ✓ Recommended with modifications.
- ✓ Not recommended.

Role of Cost Accountants in TEV Studies:

Among all professionals, Cost Accountants possess specialized expertise in:

- ✓ Cost records and cost audit.
- ✓ Capacity utilization analysis.
- ✓ Product costing.
- ✓ Contribution analysis.
- ✓ Break-even analysis.

- ✓ Working capital assessment.
- ✓ Cash flow projections.
- ✓ Operational efficiency studies.
- ✓ Profitability and segment analysis.
- ✓ Margin analysis and sensitivity studies.

Consequently, Cost Accountants are particularly well equipped to prepare comprehensive TEV Reports for restructuring of corporate loans and to assist banks in evaluating the long-term viability and debt-servicing capability of stressed corporate borrowers. Such TEV Reports form the backbone of Resolution Plans under the RBI Prudential Framework and help lenders distinguish viable businesses from accounts requiring recovery or insolvency proceedings.

To Sum Up:

The Techno-Economic Viability (TEV) Report is the cornerstone of corporate debt restructuring. It provides an independent and objective assessment of the borrower's technical capabilities, market prospects, operational efficiency, cash flow generation, and debt-servicing capacity. From a banker's perspective, the TEV report is indispensable because it helps distinguish viable businesses from unviable ones, prevents evergreening, facilitates preparation of sustainable Resolution Plans, and protects lenders from avoidable losses. In essence, the TEV Report enables banks to answer the most critical question in restructuring:

“Will restructuring revive the borrower and maximize recovery, or will it merely postpone the default?”

The answer provided by the TEV study ultimately determines whether the restructuring proposal is approved, modified, or rejected.

References:

1. Reserve Bank of India (RBI), *Prudential Framework for Resolution of Stressed Assets*, Circular dated 7 June 2019.
2. Reserve Bank of India, *Master Circular on Income Recognition, Asset Classification and Provisioning (IRAC) Norms*.
3. Indian Banks' Association, *Guidelines on Corporate Debt Restructuring and Resolution of Stressed Assets*.
4. Insolvency and Bankruptcy Code, 2016, Government of India.
5. Institute of Cost Accountants of India, *Guidance on Cost Analysis, Viability Assessment, and TEV Studies for Corporate Restructuring*.

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Chapter 6

Step-by-Step Process of Bank Loan Restructuring

Synopsis:

The chapter titled “Step-by-Step Process of Bank Loan Restructuring” explains the comprehensive framework followed by banks while restructuring stressed corporate loan accounts under the Reserve Bank of India (RBI) Prudential Framework for Resolution of Stressed Assets. The process begins with the identification of financial stress and assessment of business viability through financial analysis, industry evaluation, Techno-Economic Viability (TEV) studies, and Independent Credit Evaluation (ICE). Based on projected cash flows, banks determine sustainable debt and formulate a restructuring package that may include extension of loan tenure, moratorium on repayments, conversion of irregular working capital into Working Capital Term Loans (WCTL), capitalization of unpaid interest through Funded Interest Term Loans (FITL), sanction of additional working capital or term loans, promoter contribution, interest rationalization, debt-equity conversion, and strengthening of security structures. The chapter further discusses documentation requirements, post-restructuring monitoring mechanisms, asset classification under RBI’s IRAC norms, and the implications of the Expected Credit Loss (ECL) framework effective from 1 April 2027. It also compares bank loan restructuring with the Base Resolution Plan (BRP) under the Pre-Packaged Insolvency Resolution Process (PPIRP) of the Insolvency and Bankruptcy Code, highlighting differences in legal framework, creditor involvement, and resolution objectives. Overall, the chapter emphasizes that restructuring is intended to restore the viability of stressed businesses, ensure sustainable debt servicing, maximize recovery for lenders, and prevent value destruction through insolvency or liquidation.

When banks restructure corporate loans under the RBI Prudential Framework for Resolution of Stressed Assets, the objective is not merely to postpone repayments but to create a sustainable debt structure aligned with the borrower’s future cash-generating capacity. Therefore, the restructuring package is designed on a case-to-case basis after examining the Techno-Economic Viability (TEV) Report, cash flow projections, Independent Credit Evaluation (ICE), and the recommendations of the lenders.

The restructuring package may involve extension of term loan repayment periods, conversion of irregular working capital into Working Capital Term Loans (WCTL), capitalization of interest through Funded Interest Term Loans (FITL), sanction of additional working capital, infusion of promoter contribution, and strengthening of security structure.

Step 1 – Identification of Financial Stress

- ✦ The process begins when:
- ✦ The account shows incipient stress.
- ✦ Repayment obligations are becoming difficult.
- ✦ Cash flows have deteriorated.
- ✦ The borrower submits a restructuring proposal.

- ✦ Lenders themselves identify stress through monitoring mechanisms.

Banks then examine whether the stress is temporary and whether the business remains fundamentally viable.

Step 2 – Viability Assessment

Banks undertake:

Financial Analysis

Assessment of:

- ✦ Historical financial performance.
- ✦ Profitability.
- ✦ Cash flows.
- ✦ Working capital cycle.

Technical Evaluation

Assessment of:

- ✦ Production facilities.
- ✦ Capacity utilization.
- ✦ Technology.

Industry Analysis

Assessment of:

- ✦ Market conditions.
- ✦ Industry outlook.
- ✦ Demand forecasts.

TEV Study

Independent consultants evaluate:

- ✦ Technical feasibility.
- ✦ Economic viability.
- ✦ Debt sustainability.

Only viable businesses are considered for restructuring.

Step 3 – Determination of Sustainable Debt

Banks determine:

Sustainable Debt

Debt which can be serviced comfortably from future cash flows.

Unsustainable Portion

Debt that cannot be serviced under the existing repayment structure.

The restructuring package is then designed around the borrower's repayment capacity.

Step 4 – Extension of Existing Term Loan Repayment Period

Yes. In most restructuring cases, the tenure of existing term loans is increased.

For example:

Original tenure: 7 years.

Balance repayment period: 3 years.

Revised repayment period: 8 to 10 years.

The objective is to reduce annual repayment obligations and align them with projected cash flows.

Banks may:

- ✱ Reschedule instalments.
- ✱ Reduce the amount of each instalment.
- ✱ Introduce ballooning repayments.
- ✱ Synchronize repayments with seasonal cash flows.

Longer repayment periods improve Debt Service Coverage Ratio (DSCR).

Step 5 – Grant of Moratorium

Banks frequently provide:

Principal Moratorium

6 months to 2 years.

Interest Moratorium

In certain cases, temporary deferment of interest servicing.

Moratorium enables the borrower to stabilize operations and generate cash flows before repayment obligations commence.

Step 6 – Conversion of Overdrawn Working Capital into WCTL

Where cash credit limits have become irregular due to accumulated losses or working capital shortages, banks often segregate the excess portion.

Example:

Cash Credit Limit: ₹100 Crores

Outstanding: ₹130 Crores

Excess Irregular Portion: ₹30 Crores

The excess ₹30 Crores may be converted into:

Working Capital Term Loan (WCTL)

The WCTL is repayable over 3–7 years.

This restores regularity in the cash credit account and prevents operational disruptions.

Step 7 – Capitalization of Interest Through FITL

Where interest remains unpaid during the stress period, banks may convert accumulated interest into:

Funded Interest Term Loan (FITL)

Example:

Unpaid Interest: ₹12 Crores

FITL created: ₹12 Crores

Repayment period: 4–8 years

Thus, instead of immediate payment, interest arrears are funded and repaid gradually.

FITL reduces immediate liquidity pressure on the borrower.

Step 8 – Additional Working Capital Support

In many restructuring cases, existing working capital becomes inadequate due to:

- ✱ Increase in receivables.
- ✱ Higher inventory requirements.
- ✱ Escalation in input costs.
- ✱ Business expansion requirements.

Banks assess additional working capital requirements through:

- ✱ Operating cycle analysis.
- ✱ CMA data.
- ✱ Cash flow projections.
- ✱ TEV recommendations.

Additional working capital may be sanctioned in the form of:

Enhanced Cash Credit Limits.

Working Capital Demand Loans.

Export Packing Credit.

Bill Discounting Limits.

Without fresh liquidity support, restructuring may fail.

Step 9 – Additional Term Loan for Capex

Where modernization or completion of projects is required, banks may sanction:

Additional Term Loans

for:

- ✱ Balancing equipment.
- ✱ Modernization.
- ✱ Cost overruns.
- ✱ Completion of partially completed projects.

Fresh funding is sanctioned only when it enhances viability.

Step 10 – Promoters' Contribution

Banks insist that promoters share the sacrifice.

Promoters may be required to bring:

Fresh Equity.

Unsecured Loans.

Preference Share Capital.

Additional Guarantees.

The promoters' contribution demonstrates confidence and commitment towards revival.

Step 11 – Reduction or Rationalization of Interest Rates

Banks may:

- ✱ Reduce spreads.
- ✱ Link rates to external benchmarks.
- ✱ Rationalize pricing.

However, outright waiver of interest is uncommon except under settlement arrangements.

The objective is to improve debt servicing capability.

Step 12 – Conversion of Debt into Equity or Preference Shares

Banks may convert a portion of debt into:

Equity Shares.

Compulsorily Convertible Preference Shares.

Optionally Convertible Instruments.

This reduces immediate repayment burden and improves leverage ratios.

Such conversion is generally adopted in large corporate accounts.

Step 13 – Strengthening of Security Structure

Banks may insist upon:

Additional Collateral Security.

Personal Guarantees.

Corporate Guarantees.

Charge on Additional Assets.

Escrow Mechanism for Receivables.

Trust and Retention Accounts (TRA).

These measures enhance recovery prospects.

Step 14 – Inter-Creditor Agreement in Consortium Accounts

Where multiple lenders are involved:

- ✦ Joint lenders meetings are held.
- ✦ Common restructuring package is prepared.
- ✦ Voting thresholds are achieved.
- ✦ Inter-Creditor Agreement (ICA) provisions are followed.

All lenders implement the package simultaneously.

Step 15 – Documentation

Fresh documentation includes:

Supplemental Loan Agreements.

Revised Sanction Letters.

WCTL Agreements.

FITL Agreements.

Security Creation Documents.

Charge Registration with ROC.

Promoters' Undertakings.

Escrow Agreements.

Step 16 – Post-Restructuring Monitoring

Banks continuously monitor:

Sales.

Capacity Utilization.

EBITDA.

Cash Flows.

DSCR.

Stock Levels.

Debtors.

Compliance with Covenants.

Quarterly reviews are generally undertaken.

Illustration of Typical Restructuring Package

Particulars	Before Restructuring	After Restructuring
Term Loan	₹300 Crores	₹300 Crores
Balance Repayment	3 years	8 years
Moratorium	Nil	1 year
CC Limit	₹100 Crores	₹100 Crores
Excess Outstanding	₹30 Crores	Converted to WCTL
Unpaid Interest	₹15 Crores	Converted into FITL
Additional Working Capital	Nil	₹25 Crores
Promoters' Contribution	Nil	₹20 Crores
Additional Security	Existing	Enhanced

Typical Sequence Followed by Banks

Borrower's Request



Financial Analysis



TEV Study



Independent Credit Evaluation



Determination of Sustainable Debt



Design of Restructuring Package



Promoters' Contribution



Approval by Credit Committee/Consortium



Documentation



Implementation



Monitoring

Asset Classification of Restructured Accounts under RBI IRAC Norms:

The classification of restructured loans under the Income Recognition, Asset Classification and Provisioning (IRACP) Norms issued by the Reserve Bank of India is governed primarily by the Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances and the Prudential Framework for Resolution of Stressed Assets dated 7 June 2019 (as amended). The fundamental principle followed by RBI is that restructuring should not result in artificial upgradation of asset quality or evergreening of stressed assets.

Principle Governing Asset Classification

Restructuring by itself does not automatically upgrade the asset classification of a borrower. The classification of the account after restructuring depends upon:

- ✱ The asset classification of the account on the date of implementation of the Resolution Plan.
- ✱ Whether the restructuring is implemented within the timelines prescribed by RBI.
- ✱ Whether the account demonstrates satisfactory performance during the monitoring period.
- ✱ Whether additional finance has been granted.
- ✱ Whether there is any subsequent default after restructuring.

Classification of Standard Accounts Undergoing Restructuring

If the borrower's account is classified as a **Standard Asset** on the date of invocation and implementation of the Resolution Plan, the account may continue to be classified as a Standard Asset, subject to RBI conditions.

However, such accounts are generally subjected to higher provisioning requirements because restructuring indicates the presence of financial stress.

The account will continue to remain standard if:

- ✱ The Resolution Plan is implemented within RBI-prescribed timelines.
- ✱ There is no deterioration in asset classification before implementation.
- ✱ The borrower adheres to the revised repayment schedule.

Classification of SMA Accounts

Accounts classified as:

- ✱ SMA-0
- ✱ SMA-1
- ✱ SMA-2

before implementation of restructuring may continue in the same category or may retain standard status, provided the Resolution Plan is implemented within the stipulated period and the account does not slip into NPA before implementation.

Classification of NPA Accounts Undergoing Restructuring

If the account is already classified as:

Sub-standard Asset

or

Doubtful Asset

before restructuring, restructuring does not result in automatic upgradation.

The account will continue to retain the same classification as on the date of implementation.

For example:

Classification Before Restructuring	Classification After Restructuring
Standard Asset	Standard Asset
SMA-2	Standard Asset/SMA status
Sub-standard Asset	Sub-standard Asset
Doubtful Asset	Doubtful Asset
Loss Asset	Loss Asset

Thus, restructuring does not wipe out the existing classification.

Asset Classification of Additional Finance

Banks often provide:

- ✱ Additional Working Capital.
- ✱ Working Capital Term Loan (WCTL).
- ✱ Funded Interest Term Loan (FITL).
- ✱ Additional Term Loans.

The classification of additional finance generally follows the classification of the existing restructured account.

For example:

If the existing account is Sub-standard, then:

- ✱ Additional Working Capital,

- ✱ WCTL,
- ✱ FITL,

will also generally carry Sub-standard classification.

Monitoring Period after Restructuring

After implementation of the Resolution Plan, the borrower enters into a monitoring period.

The account is closely monitored to determine:

- ✱ Adherence to revised repayment schedules.
- ✱ Timely servicing of interest.
- ✱ Improvement in cash flows.
- ✱ Compliance with covenants.

The account must demonstrate satisfactory performance throughout the monitoring period before any upgradation can be considered.

Conditions for Upgradation of NPA Accounts

A restructured NPA account may be upgraded to Standard Asset only when:

All facilities demonstrate satisfactory performance.

Interest and instalments are serviced as per revised terms.

There is no overdue beyond the prescribed period.

The borrower completes the monitoring period successfully.

Only after satisfactory performance can the account migrate from:

Sub-standard → Standard.

Treatment of FITL and WCTL

Funded Interest Term Loan (FITL)

Interest that remains unpaid is funded and converted into FITL.

The asset classification of FITL follows that of the original account.

Therefore:

If the original account is Sub-standard,

FITL also remains Sub-standard.

Working Capital Term Loan (WCTL)

Irregular working capital borrowings may be segregated and converted into WCTL.

WCTL carries the same asset classification as the underlying account.

Hence:

- ✱ Standard account → WCTL remains Standard.
- ✱ NPA account → WCTL also remains NPA.

Classification Where Restructuring Fails

If the borrower fails to comply with the revised repayment schedule, the account shall be classified in accordance with IRAC norms based on the revised due dates.

The account may deteriorate as follows:

Standard → Sub-standard.

Sub-standard → Doubtful.

Doubtful → Loss Asset.

Thus, restructuring does not grant immunity from future classification norms.

Income Recognition after Restructuring

Standard Restructured Accounts

Interest income may be recognized on an accrual basis.

NPA Restructured Accounts

Interest income can be recognized only on realization basis.

Accrued but unrealized interest cannot be booked as income.

Provisioning Requirements

Provisioning depends upon:

Standard Restructured Accounts

Subject to standard asset provisioning and additional provisions prescribed by RBI.

Sub-standard Accounts

Provisioning generally starts from 15% and higher, depending upon security coverage.

Doubtful Assets

Provisioning varies according to:

- ✱ Duration in doubtful category.
- ✱ Secured and unsecured portions.

Loss Assets

100% provisioning is required.

Banks may also be required to maintain provisions under the Prudential Framework until successful implementation and satisfactory performance.

Asset Classification of Debt Converted into Equity

Where part of debt is converted into:

- ✱ Equity shares,
- ✱ Preference shares,
- ✱ Other instruments,

the asset classification of such converted instruments generally follows the classification of the restructured advance.

Illustrative Examples

Example 1: Standard Account

Outstanding Exposure: ₹500 Crores

Classification before restructuring: Standard

Restructuring implemented within timelines.

Term loan tenure extended by 5 years.

FITL created: ₹20 Crores.

Additional Working Capital: ₹40 Crores.

Classification

Existing account: Standard

FITL: Standard

Additional finance: Standard

Example 2: Sub-standard Account

Outstanding Exposure: ₹800 Crores

Classification before restructuring: Sub-standard

WCTL: ₹60 Crores

FITL: ₹30 Crores

Additional Working Capital: ₹50 Crores

Classification

All facilities remain Sub-standard.

After satisfactory performance during monitoring period, the account may be upgraded to Standard.

Special Mention Accounts (SMA)

Accounts under:

- ✱ SMA-0
- ✱ SMA-1
- ✱ SMA-2

that are restructured before becoming NPAs may continue as Standard Assets, provided the Resolution Plan is implemented within RBI timelines and the borrower performs satisfactorily.

Fundamental Principle under RBI IRAC Norms

Restructuring does not automatically improve asset classification.

Rather, RBI follows the principle:

“Asset classification reflects the borrower’s credit discipline and repayment behaviour and should not be altered merely because the repayment terms have been modified.”

Accordingly, restructuring should not become a mechanism for evergreening stressed assets.

Classification of Restructured Corporate Loans under Expected Credit Loss (ECL) Norms w.e.f. 1 April 2027:

With effect from **1 April 2027**, banks and other regulated entities will move from the existing incurred-loss provisioning framework to the **Expected Credit Loss (ECL) framework**, introducing a three-stage approach based on changes in credit risk. The existing 90-day NPA recognition norm will continue to operate in parallel. Under the ECL framework, restructuring of loans assumes great significance because restructuring itself is a strong indicator of increase in credit risk and, therefore, affects staging and provisioning requirements.

Fundamental Principle under ECL Framework

Under the ECL regime, classification is based on:

1. Whether credit risk has increased significantly since initial recognition.
2. Whether the asset has become credit-impaired.
3. Whether restructuring indicates deterioration in the borrower’s repayment capacity.

Accordingly, loans are classified into:

- ✱ Stage 1 – Performing Assets
- ✱ Stage 2 – Assets with Significant Increase in Credit Risk (SICR)
- ✱ Stage 3 – Credit-Impaired Assets

Stage 1 requires 12-month ECL, while Stages 2 and 3 require Lifetime ECL provisioning. Stage 3 corresponds broadly to NPA assets.

Treatment of Restructured Accounts

Unlike the present IRAC system, under ECL norms the focus shifts from overdue status alone to deterioration in credit quality.

Restructuring generally signifies that:

- ✱ Original contractual cash flows could not be honoured.
- ✱ Repayment terms have been modified because of financial stress.
- ✱ Credit risk has increased compared to initial recognition.

Therefore, restructuring itself may trigger migration from Stage 1 to Stage 2 or Stage 3.

Stage 1 Classification

A restructured account may remain in Stage 1 only in exceptional circumstances where:

- ✱ Modification is insignificant.
- ✱ There is no evidence of financial difficulty.
- ✱ Credit risk has not increased significantly.
- ✱ The borrower continues to demonstrate strong repayment capacity.

Such cases are expected to be uncommon in corporate restructuring.

Provisioning Requirement

12-month Expected Credit Loss.

Stage 2 Classification – Most Restructured Standard Accounts

In practice, most restructured corporate accounts that are not NPAs are likely to migrate to Stage 2 because restructuring itself indicates a Significant Increase in Credit Risk (SICR).

Examples include:

Extension of repayment tenure.

Moratorium on principal repayments.

Conversion of irregular working capital into WCTL.

FITL creation.

Additional finance due to stress.

Concessional repayment schedules.

Although the account may continue to be a standard asset under IRAC norms, under ECL it will generally be classified under Stage 2.

Provisioning Requirement

Lifetime Expected Credit Loss.

RBI has prescribed a minimum provisioning floor for Stage 2 assets, which is substantially higher than existing standard asset provisioning requirements.

Stage 3 Classification

Where restructuring is undertaken after the account has already become:

- ✱ Sub-standard,
- ✱ Doubtful,
- ✱ NPA,

or where objective evidence of impairment exists, the account will fall under Stage 3.

Examples:

Corporate account overdue beyond 90 days.

Cash flows substantially impaired.

Borrower under severe financial distress.

Insolvency proceedings initiated.

Restructuring after NPA classification.

Significant debt sacrifice by lenders.

Stage 3 assets are credit-impaired assets.

Provisioning Requirement

Lifetime Expected Credit Loss with higher loss estimates.

Classification of WCTL under ECL

Suppose:

Cash Credit Limit: ₹100 Crores

Outstanding: ₹130 Crores

Excess ₹30 Crores converted into WCTL.

The bank will assess:

- ✱ Whether restructuring indicates significant increase in risk.
- ✱ Whether repayment capability has weakened.

Normally:

WCTL will migrate to Stage 2.

If the account is already NPA:

WCTL will be classified under Stage 3.

Classification of FITL

Suppose unpaid interest of ₹20 Crores is converted into FITL.

The very need to fund unpaid interest indicates deterioration in repayment capacity.

Therefore:

FITL created in standard stressed accounts will generally fall under Stage 2.

FITL relating to NPA accounts will fall under Stage 3.

Additional Working Capital Sanctioned During Restructuring

Additional working capital sanctioned as part of the Resolution Plan does not automatically qualify for Stage 1.

Banks examine:

- ✱ Overall borrower risk.

- ✱ Probability of default.
- ✱ Cash flow projections.
- ✱ Recovery prospects.

Normally:

Underlying Account	Additional Finance
Stage 2	Stage 2
Stage 3	Stage 3

Thus, additional finance generally follows the risk profile of the existing exposure.

Significant Increase in Credit Risk (SICR) Indicators

Banks will evaluate:

- ✓ Internal Credit Rating Downgrade.
- ✓ Extension of repayment period.
- ✓ Moratorium granted.
- ✓ Decline in EBITDA.
- ✓ Weak DSCR.
- ✓ Increase in leverage.
- ✓ Adverse industry outlook.
- ✓ Delays in financial reporting.
- ✓ Decline in security values.
- ✓ Stress arising from geopolitical events.
- ✓ Weak operating cash flows.
- ✓ Reduction in capacity utilization.

If these indicators exist, Stage 2 classification becomes appropriate.

Can a Restructured Account Return to Stage 1?

Yes.

After restructuring, if:

- ✱ Performance improves.
- ✱ Credit quality stabilizes.
- ✱ Risk indicators normalize.
- ✱ Revised repayment obligations are serviced satisfactorily for a sustained period,

the account may migrate from Stage 2 back to Stage 1.

However, such migration requires strong evidence that the significant increase in credit risk no longer exists.

Illustration 1 – Standard Restructuring

Outstanding Exposure: ₹500 Crores

Original Term Loan: 7 years

Revised Term Loan: 12 years

Moratorium: 1 year

FITL: ₹15 Crores

Additional Working Capital: ₹40 Crores

Account regular under IRAC.

ECL Classification

Likely Stage 2.

Provision:

Lifetime ECL.

Illustration 2 – NPA Account

Exposure: ₹800 Crores

Sub-standard Asset

WCTL: ₹60 Crores

FITL: ₹30 Crores

Additional Working Capital: ₹50 Crores

ECL Classification

Entire exposure:

Stage 3.

Provision:

Lifetime ECL based on impairment estimates.

Relationship between IRAC and ECL

Particulars	IRAC Framework	ECL Framework
Basis	Past default	Forward-looking risk
Standard Asset	Standard	Stage 1 or Stage 2
Significant Risk Increase	Not separately recognized	Stage 2
NPA	Sub-standard/Doubtful	Stage 3
Provisioning	Incurred loss	Expected loss

Particulars	IRAC Framework	ECL Framework
Restructuring	Classification largely unchanged	Usually, migration to Stage 2
Focus	Delinquency	Credit risk deterioration

Practical Impact on Corporate Restructuring

Under the ECL regime effective from 1 April 2027:

Restructuring will no longer be viewed merely as modification of repayment terms.

Instead, it will be treated as a major credit risk event.

Consequently:

- ✦ Most restructured standard corporate accounts are likely to move to Stage 2.
- ✦ NPA restructured accounts will remain in Stage 3.
- ✦ WCTL, FITL and additional finance will generally inherit the stage of the underlying account.
- ✦ Lifetime ECL provisioning will be required for Stages 2 and 3.
- ✦ Banks will rely heavily on TEV reports, internal ratings, probability of default models and cash-flow assessments while determining staging.

Difference between Restructuring of Corporate Loans by Banks and the Base Resolution Plan under Pre-Packaged Insolvency Resolution Process (PPIRP) under the Insolvency and Bankruptcy Code, 2016:

Although both restructuring of corporate loans by banks and the Base Resolution Plan (BRP) under the Pre-Packaged Insolvency Resolution Process (PPIRP) aim at revival of a financially stressed business, they differ significantly in terms of legal framework, control over the enterprise, participants involved, approval mechanisms, creditor rights, and consequences of failure. While bank restructuring is primarily a contractual and prudential exercise governed by RBI guidelines, the Base Resolution Plan under PPIRP is a statutory insolvency process governed by the Insolvency and Bankruptcy Code, 2016 (IBC).

Nature of the Framework

Restructuring by banks is governed by the RBI's Prudential Framework for Resolution of Stressed Assets. It is essentially a commercial arrangement between lenders and borrowers designed to resolve stress before insolvency becomes necessary. The emphasis is on preserving economic value and avoiding judicial proceedings.

On the other hand, the Base Resolution Plan under PPIRP is a legal mechanism provided under Chapter III-A of the Insolvency and Bankruptcy Code, 2016. It is a formal insolvency resolution process involving the Adjudicating Authority, namely the National Company Law Tribunal (NCLT), and operates within a statutory framework.

Stage at Which the Process is Initiated

Corporate loan restructuring is generally undertaken at the stage of incipient stress or after occurrence of default but before insolvency proceedings become inevitable. The borrower may continue to be a standard asset, Special Mention Account (SMA), or even a Non-Performing Asset (NPA).

PPIRP, however, commences only after the occurrence of a default and when the Corporate Debtor satisfies the eligibility conditions prescribed under the IBC. Thus, PPIRP is essentially an insolvency resolution mechanism, whereas bank restructuring is a pre-insolvency mechanism.

Objective

The objective of bank restructuring is to modify the terms of loans and facilitate repayment through revised cash flows. It seeks to maximize recoveries while maintaining the banking relationship and avoiding insolvency proceedings.

The objective of PPIRP is broader. It seeks to resolve insolvency, preserve the Corporate Debtor as a going concern, maximize the value of assets, balance stakeholder interests, and provide a legally binding resolution framework under judicial supervision.

Preparation of the Resolution Plan

In bank restructuring, the restructuring package is normally prepared by the borrower in consultation with lenders, financial consultants, or techno-economic viability experts. Banks evaluate viability and negotiate revised terms.

In PPIRP, the Corporate Debtor itself prepares the Base Resolution Plan with the assistance of a Resolution Professional. The plan is submitted to the Committee of Creditors (CoC) after commencement of the PPIRP. Thus, the BRP is debtor-driven but creditor-approved.

Role of Resolution Professional

Under RBI restructuring, there is no requirement for appointment of a Resolution Professional. Banks may engage consultants, auditors, valuers, or TEV agencies, but the process remains outside the IBC framework.

In PPIRP, appointment of a Resolution Professional is mandatory. The Resolution Professional conducts the process, verifies claims, constitutes the Committee of Creditors, supervises management, and facilitates consideration of the Base Resolution Plan and competing resolution plans.

Management and Control of the Corporate Debtor

In loan restructuring, management remains entirely with the promoters and existing board. Banks do not interfere in day-to-day management except through monitoring and covenants.

PPIRP follows the concept of “debtor-in-possession with creditor oversight.” The existing management generally continues to manage the affairs of the Corporate Debtor, but under the supervision of the Resolution Professional and the Committee of Creditors. In certain circumstances, management can be transferred to the Resolution Professional.

Role of Creditors

Under RBI restructuring, lenders negotiate among themselves and with the borrower. Decisions in consortium or multiple banking arrangements are governed by the Inter-Creditor Agreement (ICA).

In PPIRP, the Committee of Creditors exercises statutory powers. Approval of the Base Resolution Plan requires at least 66% voting share of financial creditors. The CoC may also invite competing plans where necessary.

Competitive Bidding

Bank restructuring does not involve competitive bidding. The revised package is negotiated directly between lenders and the borrower.

In PPIRP, if the Base Resolution Plan impairs operational creditors or does not provide for full payment of claims, the Committee of Creditors may invite competing resolution plans. Thus, market-based competition forms part of the PPIRP framework.

Approval Authority

Restructuring by banks is approved internally by competent sanctioning authorities and lenders in accordance with

RBI guidelines.

In PPIRP, after approval by the Committee of Creditors, the resolution plan must be approved by the National Company Law Tribunal. Upon approval by the NCLT, the plan becomes legally binding on all stakeholders.

Moratorium

Bank restructuring does not automatically provide a statutory moratorium. Banks may agree not to initiate recovery proceedings during negotiations, but creditors outside the restructuring arrangement remain free to enforce their claims.

PPIRP provides a statutory moratorium under Section 14 of the IBC. During the moratorium period, suits, recovery proceedings, foreclosures, and enforcement actions are prohibited.

Treatment of Operational Creditors

Under RBI restructuring, operational creditors are generally outside the restructuring framework unless separate arrangements are made.

In PPIRP, operational creditors form part of the insolvency resolution process and are entitled to receive payments in accordance with Section 30 of the IBC and the approved resolution plan.

Binding Effect

Bank restructuring arrangements are binding only on participating lenders and the borrower.

An approved resolution plan under PPIRP is binding on:

- ✦ Financial creditors;
- ✦ Operational creditors;
- ✦ Employees and workmen;
- ✦ Government authorities;
- ✦ Shareholders;
- ✦ Guarantors;

All stakeholders connected with the Corporate Debtor.

Consequences of Failure

Failure of a restructuring package may result in:

- ✦ Classification of the account as NPA;
- ✦ Recovery proceedings under the SARFAESI Act;
- ✦ Proceedings before Debt Recovery Tribunals;
- ✦ Reference to insolvency under the IBC.

Failure of PPIRP may lead to commencement of Corporate Insolvency Resolution Process (CIRP) under Chapter II of the IBC, which is a more creditor-driven process and may ultimately culminate in liquidation.

Haircuts and Capital Restructuring

Bank restructuring mainly involves:

- ✱ Rescheduling of debt;
- ✱ Moratorium;
- ✱ Additional finance;
- ✱ Interest modification;
- ✱ Conversion of debt into equity.

In PPIRP, the Base Resolution Plan may provide for:

- ✱ Haircuts for creditors;
- ✱ Reduction of share capital;
- ✱ Change in ownership;
- ✱ Merger or demerger;
- ✱ Infusion of fresh capital;
- ✱ Settlement of statutory liabilities;
- ✱ Corporate reorganization measures.

Thus, the scope of PPIRP is much wider than simple loan restructuring.

Judicial Involvement

Bank restructuring is an out-of-court mechanism and does not ordinarily require intervention by judicial authorities.

PPIRP is a statutory process under the IBC and involves continuous supervision by the National Company Law Tribunal, making it a formal insolvency resolution process.

Comparative Summary

Particulars	RBI Loan Restructuring	PPIRP Base Resolution Plan
Governing Law	RBI Prudential Framework	IBC, 2016
Nature	Contractual and commercial	Statutory insolvency process
Role of RP	Not required	Mandatory
NCLT Approval	Not required	Mandatory
Moratorium	No statutory moratorium	Statutory moratorium available
Competitive Plans	No	Possible
Binding Effect	Participating lenders	All stakeholders
Management Control	Promoters continue	Debtor-in-possession with creditor oversight
Objective	Debt restructuring	Insolvency resolution
Failure Leads To	Recovery or IBC	CIRP or liquidation

To Sum Up:

While restructuring corporate loans, banks commonly extend the tenure of existing term loans, grant moratoriums, convert excess working capital irregularities into Working Capital Term Loans (WCTL), capitalize unpaid interest through Funded Interest Term Loans (FITL), and provide additional working capital support wherever necessary. The exact package depends upon the borrower's projected cash flows, recommendations of the Techno-Economic Viability (TEV) study, debt sustainability analysis, and promoters' commitment. The underlying principle followed by banks under the RBI Prudential Framework is that the restructured debt should become sustainable and enable the corporate borrower to revive operations while maximizing recovery for lenders and avoiding value destruction through insolvency or liquidation.

Under RBI IRAC norms, restructured accounts retain their pre-restructuring asset classification and are upgraded only after demonstrating satisfactory performance under the revised terms. Standard accounts generally continue as Standard Assets, whereas NPA accounts continue in their existing categories until they establish sustained repayment capability. Additional facilities such as Working Capital Term Loans (WCTL), Funded Interest Term Loans (FITL), and additional working capital ordinarily inherit the classification of the underlying exposure. Thus, RBI's IRAC framework ensures that restructuring serves as a genuine rehabilitation mechanism rather than a tool for masking stress or postponing recognition of credit impairment.

Under the RBI's ECL framework effective from **1 April 2027**, restructuring of corporate loans will generally be regarded as evidence of a **Significant Increase in Credit Risk (SICR)**. Therefore, most restructured but still performing accounts are expected to migrate from Stage 1 to Stage 2 and attract Lifetime Expected Credit Loss provisioning, while restructured NPA accounts will remain in Stage 3 as credit-impaired assets. Thus, unlike the present IRAC norms, the ECL framework introduces a forward-looking approach wherein restructuring itself becomes a critical trigger for higher provisioning and enhanced risk recognition.

Restructuring of corporate loans by banks under RBI guidelines and the Base Resolution Plan under PPIRP under the IBC, 2016 are both mechanisms aimed at preserving viable businesses, but they operate at different stages and under entirely different legal frameworks. Bank restructuring is a voluntary, out-of-court, lender-driven exercise intended to resolve stress before insolvency. In contrast, the Base Resolution Plan under PPIRP is a formal insolvency resolution mechanism involving a Resolution Professional, Committee of Creditors, and approval of the National Company Law Tribunal. While restructuring focuses primarily on modifying debt obligations, PPIRP provides a comprehensive legal framework for corporate reorganization and resolution of insolvency, with binding effect on all stakeholders.

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Chapter 7

Evaluation of Sales Projections in Restructuring Proposals

Synopsis:

The chapter “Evaluation of Sales Projections in Restructuring Proposals” highlights the critical importance of realistic and evidence-based sales projections in corporate financing and bank loan restructuring. Since projected sales form the foundation for estimating profitability, cash flows, debt servicing capacity, working capital requirements, and overall business viability, banks undertake a comprehensive evaluation of numerous factors before accepting projected revenues. These factors include historical sales performance, capacity utilization, market demand, competition, industry dynamics, pricing strategies, customer relationships, receivables management, working capital adequacy, management quality, technological capabilities, regulatory environment, ESG considerations, macroeconomic conditions, and the availability of financial and operational resources. The chapter emphasizes that consultants preparing restructuring proposals must support projections with authentic data such as audited financial statements, GST returns, industry reports, order books, technical studies, and market surveys. Banks independently verify these assumptions through due diligence, sensitivity analysis, and stress testing to ensure that projections are realistic and sustainable. The chapter further explains that unrealistic sales estimates can distort financial projections, impair credibility, lead to rejection of financing or restructuring proposals, and ultimately jeopardize business revival efforts. Therefore, prudent, conservative, and scientifically prepared sales projections are indispensable for successful restructuring, sustainable debt servicing, and long-term financial stability.

One of the most critical aspects of corporate lending is the assessment of future sales and revenue generation capability of the borrowing entity. Since repayment capacity of a corporate borrower primarily depends upon its ability to generate cash flows from business operations, banks devote considerable attention to estimating realistic sales projections before sanctioning loans. Whether the lending is in the form of working capital finance, project finance, term loans, or structured finance, projected sales constitute the foundation for determining operating profits, cash accruals, debt servicing capability, and overall viability of the credit proposal.

Banks generally do not rely solely on the projections submitted by the borrower. Instead, they undertake an independent appraisal based on several quantitative and qualitative parameters. Historical performance, production capacity, industry demand, market structure, competitive position, economic conditions, technological developments, and regulatory factors are carefully examined to arrive at a reasonable estimate of future sales. Such projections are indispensable not only at the time of sanction but also during annual reviews and renewal of credit facilities.

a) *Historical Sales Performance as the Starting Point:*

The first and foremost factor considered by banks is the historical sales performance of the company. Past trends provide valuable insights into the stability and growth pattern of the enterprise. Banks generally analyse audited financial statements for the previous three to five years and examine the compound annual growth rate (CAGR), seasonal variations, and consistency in revenue generation.

Historical sales data help banks understand the ability of management to sustain growth under varying market

conditions. If the company has demonstrated steady growth over several years, banks may consider moderate expansion in future sales estimates. Conversely, if revenues have been volatile or declining, projections submitted by the borrower are subjected to closer scrutiny. Extraordinary growth assumptions unsupported by historical trends are usually moderated by banks while preparing their own assessment.

b) Capacity Utilization of Plant and Machinery:

Sales projections are closely linked to the productive capacity of the enterprise. Banks analyse installed capacity, actual production achieved in previous years, and the level of capacity utilization. The relationship between production and sales becomes particularly important in manufacturing industries where revenue generation depends upon the output capability of machinery and equipment.

If a company has been operating at only sixty percent capacity utilization and proposes substantial growth without any expansion in plant capacity, banks evaluate whether higher utilization levels are practically achievable. On the other hand, where fresh capital expenditure has increased installed capacity, banks estimate the additional sales potential arising from such expansion. Technical feasibility studies, industry benchmarks, and operating efficiencies are considered to determine whether projected production and sales are realistic.

c) Demand and Supply Conditions in the Market:

The future demand for products and services significantly influences sales projections. Banks undertake an assessment of industry demand, customer preferences, market trends, demographic factors, and economic growth prospects. They also evaluate the supply side by studying existing producers, imports, substitutes, and availability of raw materials.

Where demand is increasing faster than supply, businesses may enjoy greater opportunities for growth. In contrast, excess supply or market saturation may limit sales expansion. Banks therefore study industry reports, sectoral analyses, government policies, and economic forecasts to understand the demand-supply dynamics. Special attention is given to cyclical industries such as steel, cement, automobiles, textiles, and real estate, where demand fluctuates with economic cycles.

d) Nature of Market Competition:

The structure of the market in which the corporate operates plays a significant role in determining sales projections. Under conditions of perfect competition, numerous producers offer similar products, resulting in intense price competition and relatively lower profit margins. In such cases, banks adopt conservative assumptions while estimating sales growth because market share gains are difficult to achieve.

Conversely, companies enjoying monopoly or oligopoly positions possess greater pricing power and stronger control over market share. Enterprises having patented products, strong brand value, technological superiority, or regulatory advantages often command a dominant market position. Banks recognize such competitive advantages and may assign higher confidence to the sustainability of projected revenues.

e) Industry Position and Market Share:

Apart from overall market conditions, banks assess the borrower's standing within the industry. Market leaders generally possess established distribution networks, diversified customer bases, and stronger bargaining power. Such entities are better positioned to withstand economic downturns and competitive pressures.

Banks examine whether the company has been able to maintain or improve its market share over time. A declining market share despite industry growth may indicate operational inefficiencies or increasing competition. Conversely, increasing market share demonstrates the company's ability to capture business opportunities and supports higher sales assumptions.

f) Order Book Position and Customer Relationships:

For infrastructure companies, engineering firms, and capital goods manufacturers, banks closely examine the existing order book. Confirmed orders provide visibility regarding future revenues and significantly enhance the reliability of sales projections. Long-term contracts with reputed customers reduce uncertainty and contribute to stable cash flows.

Customer concentration risk is also evaluated. Dependence on a limited number of buyers exposes the company to significant risks if one or more customers reduce purchases. Diversified customer relationships provide greater confidence in achieving projected sales.

g) Macroeconomic Environment and Economic Growth:

Corporate revenues are closely associated with the overall economic environment. Factors such as GDP growth, inflation, interest rates, exchange rates, government expenditure, and consumer confidence affect business performance. During periods of economic expansion, industries generally experience higher demand and improved profitability. During recessions or economic slowdowns, consumption and investment activities decline, adversely impacting sales.

Banks incorporate macroeconomic forecasts into their projections and stress-test the borrower's assumptions under different economic scenarios. Such analysis enables lenders to assess the resilience of the borrower's cash flows under adverse conditions.

h) Technological Changes and Innovation:

Rapid technological developments can significantly influence the future prospects of businesses. Companies investing in modern technology and innovation may achieve higher productivity, improved quality, and greater market acceptance. Conversely, outdated technology can lead to declining competitiveness and lower sales.

Banks evaluate the technological capabilities of the borrower, research and development initiatives, and adaptability to changing customer preferences. Industries such as electronics, pharmaceuticals, telecommunications, and renewable energy are particularly susceptible to technological disruptions.

i) Government Policies and Regulatory Environment:

Government policies relating to taxation, tariffs, subsidies, environmental regulations, and sector-specific reforms have a direct bearing on corporate revenues. Incentive schemes and infrastructure spending may create growth opportunities for certain industries, whereas stringent regulations or higher taxes may adversely affect demand.

Banks therefore monitor policy developments and assess their implications on the borrower's business model. Regulatory uncertainties are carefully factored into sales estimates, particularly in sectors such as power, mining, pharmaceuticals, telecommunications, and financial services.

j) Raw Material Availability and Supply Chain Factors:

The continuity of production depends upon the availability of raw materials and the efficiency of the supply chain. Disruptions arising from geopolitical tensions, transportation bottlenecks, import restrictions, or natural disasters can affect production and sales volumes.

Banks evaluate the borrower's procurement arrangements, supplier relationships, inventory management practices, and dependency on imported inputs. Stable supply chains enhance confidence in projected sales and operational continuity.

k) Management Capability and Corporate Governance:

The competence and integrity of the management team are equally important determinants of future business performance. Experienced promoters with proven execution capabilities inspire greater confidence among lenders. Banks examine the track record of promoters, succession planning, corporate governance standards, and strategic

vision of the management.

Strong governance practices, transparent disclosures, and effective internal controls contribute positively to the credibility of projections. Conversely, weak management or frequent changes in leadership may increase uncertainty and lead to conservative sales estimates.

l) Impact of ESG and Sustainability Factors:

With the growing emphasis on Environmental, Social, and Governance (ESG) principles, banks are increasingly incorporating sustainability considerations into credit appraisal. Businesses exposed to climate risks, environmental liabilities, or social controversies may face disruptions affecting future revenues. Companies adopting sustainable practices and transitioning toward low-carbon operations are expected to enjoy better growth prospects and enhanced market acceptance.

Consequently, ESG considerations are gradually becoming an important component in projecting future sales and assessing long-term business sustainability.

m) Sensitivity Analysis and Stress Testing:

Banks do not rely exclusively on optimistic scenarios. They perform sensitivity analysis and stress testing by considering adverse situations such as lower sales volumes, reduction in prices, increase in input costs, and delays in project implementation. These exercises help determine whether the borrower can withstand unfavourable conditions and continue servicing debt obligations.

The projected sales are therefore subjected to prudential adjustments and conservative assumptions to ensure that debt servicing remains comfortable even under stressed circumstances.

Other Factors Considered by Banks While Arriving at Corporate Sales Projections:

Apart from historical sales performance, capacity utilization, market demand, and competitive conditions, banks also consider several other critical factors that directly influence the ability of a corporate borrower to manufacture, market, and sell its products. These factors assume greater importance in project finance, working capital assessment, and long-term credit appraisal, as they determine whether the projected sales can be translated into actual cash flows.

a) Regulatory Approvals and Government Licences:

The existence of necessary licences, permits, and statutory approvals is one of the most important prerequisites for achieving projected sales. Banks carefully examine whether the borrower possesses all the required permissions from Central and State Governments and various regulatory authorities. In many industries, the ability to commence production or expand operations depends entirely upon obtaining statutory clearances.

Manufacturing units may require industrial licences, environmental clearances, pollution control board approvals, mining leases, factory licences, electricity connections, import-export licences, drug manufacturing licences, food safety registrations, telecommunications licences, or sector-specific permissions. Delays in obtaining such approvals can postpone commercial production and adversely affect projected revenues.

For example, a pharmaceutical company cannot market a new product without obtaining approvals from regulatory authorities, while mining companies cannot commence operations without mining leases and environmental clearances. Similarly, power projects require multiple approvals from various agencies before achieving commercial operations. Therefore, banks generally verify the status of all statutory approvals before accepting sales projections and may adopt conservative assumptions where approvals are pending.

b) Availability of Capital and Sources of Funds:

Projected sales can only be achieved if adequate financial resources are available for procurement of raw materials,

payment of wages, operating expenses, and expansion requirements. Banks therefore evaluate the overall capital structure and the availability of long-term and short-term sources of funds.

The contribution of promoters, equity capital, retained earnings, term loans, working capital facilities, external commercial borrowings, venture capital investments, and other funding sources are carefully analysed. Even if market demand is strong, inadequate financial resources may constrain production and sales growth.

Banks assess whether the borrower possesses sufficient margin money and whether promoters are capable of infusing additional funds whenever required. Companies with weak capital structures or excessive leverage may face liquidity constraints, which can hamper their ability to achieve projected turnover. Consequently, projected sales are correlated with the availability and sustainability of financial resources.

c) Working Capital Adequacy:

Manufacturing and trading operations require continuous investment in inventories, receivables, and operating expenses. Growth in sales invariably necessitates a proportionate increase in working capital requirements. Banks therefore assess whether adequate working capital limits are available to support the projected level of operations.

Higher sales without corresponding working capital support may lead to shortages of raw materials, delays in production, inability to extend credit to customers, and disruption in supply chains. Hence, while accepting sales projections, banks ensure that the projected current assets and working capital cycle are consistent with the proposed level of business operations.

d) Availability and Stability of Workforce:

Human resources constitute one of the most vital factors influencing production and sales. Banks evaluate the availability of skilled, semi-skilled, and unskilled manpower required for operating the manufacturing facilities. Industries that depend heavily on technical expertise and specialized labour are particularly vulnerable to workforce shortages.

The quality of management personnel, engineers, technicians, supervisors, and labour productivity are considered while assessing the feasibility of projected sales. Labour unrest, strikes, high employee turnover, or shortages of skilled workers may affect production schedules and ultimately reduce sales realization.

For labour-intensive industries such as textiles, construction, leather, gems and jewellery, and food processing, workforce availability becomes an important determinant of future revenues. Banks therefore study industrial relations, employee welfare policies, and labour market conditions before arriving at sales projections.

e) Availability of Raw Materials and Inputs:

Sales growth is closely linked to uninterrupted availability of raw materials and other production inputs. Banks examine the source of procurement, dependency on imports, supplier concentration, transportation facilities, and price volatility. Companies relying upon scarce or imported raw materials may face supply disruptions and cost escalations, which could adversely affect production and sales.

Long-term supply agreements and diversified supplier networks enhance the confidence of lenders regarding the borrower's ability to achieve projected turnover. Conversely, excessive dependence on a single supplier or imported inputs may lead to conservative estimates in the credit appraisal process.

f) Infrastructure and Utility Support:

Adequate infrastructure facilities such as power, water, transportation, warehousing, and logistics support are essential for maintaining uninterrupted production and distribution. Banks assess whether the manufacturing unit has reliable access to these facilities.

Power shortages, inadequate transportation networks, port congestion, and poor logistics infrastructure can restrict

production capacity and delay delivery schedules. Consequently, banks evaluate the adequacy of infrastructure support while estimating future sales, especially for large manufacturing and infrastructure projects.

g) Technology and Production Efficiency:

Modern machinery and technological advancement significantly influence productivity and product quality. Banks analyse whether the technology employed by the company is current and capable of meeting customer expectations. Obsolete machinery and outdated production processes may reduce competitiveness and adversely impact sales growth.

Companies adopting automation, digital manufacturing, artificial intelligence, and advanced production techniques generally enjoy higher efficiency and lower costs, enabling them to capture greater market share. Such technological advantages positively influence the sales projections made by banks.

h) Distribution Network and Marketing Capabilities:

Even if production capabilities are adequate, projected sales cannot materialize without an effective distribution and marketing system. Banks therefore study the borrower's dealer network, sales channels, logistics arrangements, export markets, and customer relationships.

Companies with established brands, extensive distribution networks, and diversified customer bases are generally better positioned to achieve higher revenues. Strong marketing capabilities and brand recognition provide greater confidence regarding the sustainability of projected sales.

i) Foreign Exchange and International Trade Factors:

For export-oriented companies and businesses dependent on imported inputs, fluctuations in foreign exchange rates significantly influence sales and profitability. Banks analyse currency risks, export competitiveness, trade policies, customs duties, and geopolitical developments.

Changes in international demand, tariffs, sanctions, and global economic conditions may affect the realization of projected revenues. Therefore, banks incorporate these factors while assessing sales estimates for internationally exposed industries.

j) Availability of Supporting Group Companies and Promoter Strength:

In several corporate groups, sales growth and operational stability are supported by group entities and promoter resources. Banks evaluate the financial strength of promoters, inter-company support arrangements, and the capability of the group to provide additional funds in times of stress.

Strong promoter backing and diversified group businesses enhance confidence in the projected sales, whereas weak promoter support may increase uncertainty and lead to conservative assumptions.

k) ESG, Climate Risks and Sustainability Considerations:

Increasingly, banks are examining environmental, social, and governance (ESG) factors while projecting future revenues. Industries vulnerable to climate risks, stringent environmental regulations, carbon taxation, and social concerns may experience changes in demand patterns and operating costs.

Companies adopting sustainable manufacturing practices, renewable energy sources, and responsible business models are expected to enjoy long-term growth opportunities. Therefore, ESG considerations are gradually becoming an integral component of corporate credit appraisal and sales forecasting.

Significant Factors Considered by Banks While Arriving at Corporate Sales Projections:

Besides production capabilities, government approvals, financial resources, and workforce availability, banks

also evaluate certain qualitative and operational factors which have a direct bearing on the sustainability of sales and realization of cash flows. Since sales alone do not ensure repayment capacity, lenders attach considerable importance to the quality of receivables, credit discipline, market reputation, and the overall financial behaviour of the corporate borrower.

a) Creditworthiness and Reputation in the Market:

One of the important considerations in corporate credit appraisal is the creditworthiness and reputation enjoyed by the borrower among suppliers, creditors, customers, banks, and financial institutions. A company having a good track record in meeting its financial obligations generally commands confidence in the market and enjoys easier access to trade credit and banking facilities.

Banks assess the repayment history of existing borrowings, conduct of accounts, credit ratings assigned by external agencies, and feedback obtained from other lenders under consortium or multiple banking arrangements. Information regarding delays in payments to suppliers, devolvement of letters of credit, invocation of bank guarantees, or frequent restructuring of facilities is carefully examined.

A company possessing a sound reputation and maintaining financial discipline is better positioned to obtain uninterrupted support from creditors and financial institutions, thereby facilitating smooth operations and achievement of projected sales. Conversely, weak credit standing and strained relationships with lenders or suppliers may adversely affect business continuity and reduce the reliability of projected revenues.

b) Trade Credit and Relationship with Creditors:

Banks recognize that suppliers constitute an important source of financing for manufacturing and trading concerns. Therefore, the extent of trade credit available from creditors and the quality of relationships with suppliers are analysed while evaluating sales projections.

Companies enjoying long-standing relationships with suppliers often receive favourable credit terms, uninterrupted supply of raw materials, and better bargaining power. Such arrangements help maintain production schedules and support growth in sales. However, if suppliers insist on advance payments or shorten credit periods due to concerns regarding the borrower's financial health, operational disruptions may arise, thereby affecting sales and profitability.

Consequently, banks study creditor ageing, payment practices, and the availability of trade credit while assessing the sustainability of projected turnover.

c) Credit Policy of the Company:

The credit policy adopted by a company plays a crucial role in determining the volume of sales as well as the quality of receivables. Liberal credit policies may boost sales by attracting customers and increasing market share, but they also expose the company to higher risks of delayed payments and bad debts. On the other hand, stringent credit policies may improve collection efficiency but may restrict business growth.

Banks therefore examine the credit terms offered to customers, average collection periods, discount policies, and procedures followed for evaluating customer creditworthiness. Excessively liberal credit policies resulting in accumulation of overdue receivables are viewed cautiously because sales unsupported by timely collections do not translate into adequate cash flows for servicing debt obligations.

Hence, banks focus not merely on the quantity of sales but also on the quality and realizability of those sales.

d) Recovery Performance of Account Receivables and Debtors:

A substantial portion of corporate sales is made on credit. Therefore, realization of receivables assumes equal importance as the generation of sales itself. Banks carefully analyse debtor ageing statements, collection efficiency,

overdue accounts, and trends in receivable turnover ratios.

If debtors are collected within the stipulated credit period, working capital requirements remain under control and cash flows remain healthy. However, prolonged realization cycles or substantial overdue receivables may indicate underlying problems relating to customer quality, product acceptance, or weaknesses in collection mechanisms.

Banks generally compare the average collection period with industry standards and investigate significant deviations. Persistent delays in recovery may compel banks to adopt conservative assumptions regarding future sales and working capital requirements. In some cases, sales growth without corresponding improvement in collections may be regarded as an indication of potential stress.

e) Quality and Diversification of Customer Base:

Banks also examine whether sales are concentrated among a few customers or spread across a diversified customer base. Excessive dependence on a single customer or limited number of buyers exposes the company to concentration risk. Loss of a major customer may substantially affect revenues and cash flows.

Diversified customers across industries and geographical locations reduce dependency risk and provide greater stability to future sales. Companies having long-term contracts and strong customer relationships generally inspire greater confidence among lenders while projecting revenues.

f) Receivable Cycle and Working Capital Efficiency:

Sales projections are closely linked with the efficiency of the receivable cycle. Banks study the debtor turnover ratio, operating cycle, inventory holding period, and cash conversion cycle to understand how quickly sales are converted into cash.

Even where projected sales appear achievable, inefficient receivable management may create liquidity pressures and increase dependence on bank finance. Therefore, banks ensure that projected turnover is accompanied by corresponding improvements in collection efficiency and working capital management.

g) Information Available Through Credit Information Companies and External Ratings:

Banks obtain valuable information regarding the financial behaviour of borrowers from credit information companies and rating agencies. Reports relating to defaults, repayment history, and overall credit discipline provide insights into the borrower's standing in the financial system.

External credit ratings assigned by recognized agencies also influence the assessment of business prospects and future revenues. Companies enjoying higher ratings are generally considered financially stronger and more capable of sustaining projected growth.

h) Banking Conduct and Account Operations:

The manner in which existing bank accounts are conducted provides important clues regarding operational efficiency and business performance. Banks analyse turnover in accounts, utilization of limits, frequency of overdrawing's, return of cheques, and adherence to sanction terms.

Healthy account conduct and regular servicing of interest and instalments indicate sound financial discipline and strengthen confidence in future sales projections. Irregular operations, excessive utilization, and frequent requests for ad hoc facilities may suggest liquidity stress and lead banks to moderate the projected growth assumptions.

i) Corporate Governance and Financial Transparency:

Transparency in accounting practices and timely submission of financial statements are also important determinants of confidence. Banks prefer companies maintaining high standards of corporate governance, robust internal controls, and transparent disclosures.

Reliable financial reporting enables lenders to accurately assess business prospects and arrive at realistic sales projections. Weak governance structures, frequent qualifications in audit reports, and lack of transparency may raise doubts regarding the authenticity of projected revenues.

Other Critical Factors Considered by Banks While Projecting Corporate Sales:

Apart from the operational, financial, and credit-related aspects, banks also evaluate several market-driven and policy-related factors while arriving at realistic sales projections for corporate borrowers. Since sales and profitability are significantly influenced by pricing decisions, marketing capabilities, geographical market reach, taxation policies, and regulatory changes, banks incorporate these factors into their appraisal process to ensure that the projected revenues are achievable and sustainable over the tenure of the credit facilities.

a) Pricing Strategy and Product Competitiveness:

One of the most important determinants of future sales is the pricing of products and services. Banks carefully examine whether the pricing strategy adopted by the company is competitive and aligned with prevailing market conditions. A product priced excessively high may adversely affect demand and market share, whereas underpricing may increase sales volumes but compress profit margins and weaken debt servicing capabilities.

Banks assess whether the company possesses pricing power arising from strong brands, technological superiority, product differentiation, patents, or dominant market position. Companies operating in highly competitive markets generally have limited flexibility in fixing prices and are compelled to align with industry trends. In contrast, enterprises enjoying monopoly or oligopolistic advantages may have the ability to pass on increases in costs to consumers without significant loss of market share.

The sensitivity of demand to price fluctuations is also analysed. For essential commodities and branded products, demand may remain relatively stable despite moderate price increases. However, in industries characterized by intense competition and availability of substitutes, even small changes in pricing may substantially affect sales volumes. Consequently, banks carefully evaluate the sustainability of pricing assumptions while arriving at projected turnover.

b) Marketing Strategies and Promotional Activities:

Sales growth depends not only on production capacity but also on the effectiveness of marketing strategies adopted by the company. Banks assess the borrower's marketing capabilities, distribution channels, advertising initiatives, brand positioning, and customer acquisition strategies.

Companies with established brands and extensive dealer networks generally enjoy greater market penetration and customer loyalty. Marketing expenditures relating to advertisements, digital platforms, social media campaigns, trade promotions, and customer relationship management are evaluated to determine whether they are capable of supporting the projected increase in sales.

Banks also examine whether the company's products are marketed through wholesalers, retailers, e-commerce platforms, direct sales channels, or export agents. Strong marketing infrastructure and efficient distribution systems enhance confidence regarding the realization of projected revenues.

c) Domestic Market Potential:

For companies catering primarily to domestic markets, banks study the economic environment, consumer behaviour, purchasing power, demographic trends, and industry growth prospects within the country. Population growth, urbanization, rising income levels, and infrastructure development often create opportunities for increased demand in various sectors.

Banks also evaluate the geographical spread of operations, customer diversification, and market penetration across different regions. Companies having a broad domestic presence are generally less vulnerable to regional economic

disturbances and enjoy greater stability in revenue generation.

Government expenditure, public infrastructure projects, and sector-specific development policies also influence domestic demand and consequently affect sales projections prepared by banks.

d) *International Market and Export Potential:*

In the case of export-oriented industries, banks place considerable emphasis on international market conditions. Global demand, geopolitical developments, international competition, exchange rate movements, trade agreements, customs duties, and tariff barriers significantly influence export sales.

Banks examine the borrower's export track record, country-wise customer concentration, long-term contracts, and foreign exchange risk management practices. Companies having diversified export markets and established relationships with overseas customers are generally considered capable of sustaining projected growth.

International economic developments, recessions in major economies, protectionist trade policies, and geopolitical tensions may adversely affect export-oriented businesses. Therefore, banks incorporate these external factors while estimating future revenues.

e) *Impact of GST and Indirect Taxes:*

The Goods and Services Tax (GST) regime has become an important factor influencing corporate sales and cash flows. Banks analyse the impact of GST rates applicable to the borrower's products and services, as higher tax rates may affect demand and pricing competitiveness.

Changes in GST structures, input tax credit mechanisms, reverse charge provisions, and compliance requirements can influence profitability and working capital cycles. Companies with efficient GST compliance systems and proper utilization of input tax credits are generally better positioned to maintain healthy cash flows.

Banks also examine the borrower's GST returns, tax payment records, and reconciliation statements to assess the genuineness of turnover and the extent of tax compliance. Increasingly, GST data is being used as an important source for validating sales figures and evaluating business performance.

f) *Government Taxes and Fiscal Policies:*

Apart from GST, various taxes and government fiscal measures directly influence corporate sales and profitability. Customs duties, excise duties, anti-dumping duties, export incentives, carbon taxes, and state-level levies can significantly affect product pricing and market competitiveness.

Banks analyse the implications of changes in tax policies, subsidy schemes, production-linked incentive programs, and sector-specific incentives. Favourable fiscal policies can stimulate demand and support higher sales growth, whereas increased taxation or withdrawal of incentives may adversely affect business prospects.

Industries such as automobiles, tobacco, petroleum products, steel, chemicals, and consumer goods are particularly sensitive to changes in government taxation policies. Therefore, banks carefully consider the tax environment while preparing their sales estimates.

g) *Inflation and Cost Escalation:*

Inflationary pressures influence both product prices and consumer purchasing power. Rising inflation may increase the cost of raw materials, labour, transportation, and energy, thereby affecting pricing decisions and demand patterns.

Banks evaluate whether the company possesses the ability to pass on increased costs to customers without losing market share. If cost escalation cannot be adequately absorbed or transferred, profit margins and cash flows may deteriorate despite higher sales volumes. Consequently, inflationary trends are incorporated into the assumptions

underlying sales projections.

h) Brand Value and Customer Acceptance:

The market acceptance of products and the strength of brand value are significant determinants of future sales. Strong brands generally enjoy customer loyalty and greater resilience against competitive pressures. Banks examine the company's reputation, product quality, after-sales service, and customer satisfaction levels.

Companies possessing well-established brands and proven product acceptance are considered better positioned to sustain growth and maintain profitability over the long term.

i) Seasonality and Consumer Preferences:

Certain industries experience significant seasonal fluctuations in demand. Agricultural products, textiles, beverages, tourism, air-conditioning equipment, and festive consumer goods are highly influenced by seasonal factors and changing consumer preferences.

Banks study historical trends and consumption patterns to understand the extent of seasonality and its impact on sales realization. Such analysis enables lenders to make realistic assumptions and avoid overestimation of revenues.

j) Digital Transformation and E-Commerce Presence:

The growing importance of digital platforms has transformed marketing and distribution mechanisms. Companies having strong online presence and digital sales channels are often able to reach wider customer bases and improve market penetration.

Banks increasingly examine e-commerce strategies, digital marketing initiatives, and technology adoption while assessing the sustainability of projected sales. Businesses leveraging digital platforms effectively are generally considered more competitive and adaptable to changing market conditions.

Additional Factors Considered by Banks While Projecting Corporate Sales:

Apart from financial, marketing, taxation, and credit-related aspects, banks also examine several operational and technical factors that directly influence the ability of a corporate borrower to sustain production and achieve projected sales. These factors are particularly important in manufacturing industries, where operational efficiency and availability of resources determine the competitiveness and long-term viability of the business. During the credit appraisal process, banks evaluate these parameters in conjunction with industry standards and the borrower's historical performance to arrive at realistic projections.

a) Productivity and Operational Efficiency:

Productivity is one of the most important determinants of sales growth and profitability. Banks assess the efficiency with which the company converts raw materials, labour, and capital into finished products. Higher productivity generally enables a company to manufacture more output with the same level of resources, thereby reducing unit costs and improving competitiveness.

Banks analyse productivity trends over several years and compare them with industry benchmarks. Indicators such as production per employee, machine utilization rates, power consumption per unit of output, wastage levels, and inventory turnover are examined to determine operational efficiency. Companies possessing superior productivity are better positioned to achieve higher sales and withstand competitive pressures. Conversely, low productivity levels may indicate inefficiencies that could adversely affect profitability and cash flow generation.

b) Modernization of Plant and Equipment:

Technological obsolescence can significantly impair a company's ability to compete in the market. Therefore, banks

carefully evaluate the extent of modernization of plant and machinery and the adoption of advanced manufacturing technologies.

Modern equipment generally improves production efficiency, enhances product quality, reduces operating costs, and minimizes wastage. Automation, digital manufacturing systems, robotics, artificial intelligence, and energy-efficient technologies contribute to increased productivity and competitiveness. Companies continuously investing in modernization are more likely to sustain growth and capture larger market shares.

On the other hand, outdated machinery often leads to higher maintenance costs, lower productivity, and inferior product quality, which may ultimately affect sales realization. Consequently, banks examine capital expenditure programs and technological upgradation plans while evaluating future revenues.

c) Availability of Inputs and Raw Materials:

The uninterrupted availability of raw materials and other production inputs is fundamental to achieving projected sales. Banks analyse the source of procurement, dependency on imports, supplier relationships, transportation arrangements, and inventory management practices.

Industries dependent on agricultural commodities, minerals, petroleum products, or imported inputs are exposed to supply disruptions and price volatility. Companies having long-term procurement contracts, diversified suppliers, and efficient logistics systems enjoy greater stability in production and sales.

Banks also evaluate the adequacy of inventories and the company's ability to manage fluctuations in raw material prices. Availability of quality inputs at reasonable costs contributes significantly to the sustainability of projected revenues.

d) Critical Success Factors of the Industry:

Every industry possesses certain key factors that determine competitiveness and long-term survival. Banks identify these critical success factors while appraising corporate proposals. In some industries, technology and innovation may be the primary drivers, whereas in others, brand value, distribution networks, economies of scale, or access to raw materials may be more important.

For example, in the pharmaceutical industry, regulatory approvals and research capabilities are critical. In the automobile sector, product quality and dealer networks assume importance. In the steel and cement industries, economies of scale and access to raw materials are major determinants of success. Banks evaluate whether the borrower possesses the necessary strengths to address these critical factors and sustain projected growth.

e) Number and Diversity of Products Manufactured:

The extent of product diversification is another important aspect considered by banks. Companies manufacturing multiple products catering to different customer segments generally enjoy greater stability in revenues. Diversification reduces dependence on a single product and mitigates risks arising from changes in consumer preferences or market conditions.

Banks assess the contribution of each product to overall revenues and examine whether the product portfolio is adequately diversified. Companies having a broad range of products are better positioned to withstand demand fluctuations in individual segments and maintain consistent growth.

However, excessive diversification without adequate expertise or market support may dilute management focus and adversely affect profitability. Therefore, banks evaluate whether the product mix is aligned with the company's capabilities and market opportunities.

f) Product Life Cycle and Innovation:

Banks also consider the stage of the product life cycle while projecting future sales. Products in the growth stage

generally offer greater opportunities for revenue expansion, whereas mature or declining products may experience stagnation or reduced demand.

Continuous innovation and introduction of new products enable companies to maintain competitiveness and capture emerging opportunities. Banks therefore evaluate research and development capabilities, expenditure on innovation, patent protection, and the company's ability to adapt to changing customer preferences.

Industries characterized by rapid technological changes, such as electronics, pharmaceuticals, telecommunications, and consumer durables, require continuous innovation to sustain sales growth.

g) Quality Standards and Certifications:

The quality of products and compliance with international standards significantly influence market acceptance and export potential. Banks examine whether the company possesses quality certifications such as ISO standards, BIS certification, GMP approvals, HACCP certifications, CE markings, and other industry-specific accreditations.

Companies adhering to stringent quality standards generally enjoy better customer confidence and stronger market positions. High-quality products also facilitate entry into international markets and improve export opportunities, thereby supporting future sales growth.

h) Economies of Scale:

Large-scale production often enables companies to reduce per-unit costs and improve profitability. Banks evaluate whether the borrower enjoys economies of scale in procurement, manufacturing, distribution, and marketing. Economies of scale contribute to cost competitiveness and provide resilience against price fluctuations and competitive pressures.

Companies operating below optimum capacity may experience higher production costs and lower margins, thereby affecting their ability to achieve projected sales and profitability.

i) Availability of Utilities and Supporting Infrastructure:

Apart from raw materials, uninterrupted availability of electricity, water, fuel, transportation facilities, warehousing infrastructure, and communication systems is essential for smooth operations. Banks analyse whether adequate utility support exists to sustain projected production levels.

Power shortages, inadequate logistics facilities, and transportation bottlenecks may disrupt manufacturing activities and delay deliveries, thereby adversely affecting sales. Consequently, infrastructure availability forms an integral part of the appraisal process.

j) Maintenance Practices and Equipment Reliability:

Regular maintenance of machinery and equipment is essential for ensuring uninterrupted production. Banks assess maintenance schedules, breakdown history, replacement policies, and reliability of equipment. Frequent breakdowns and excessive downtime may reduce production volumes and affect the achievement of sales targets.

Companies implementing preventive maintenance systems and asset management practices are generally considered more capable of maintaining stable operations and generating consistent revenues.

k) Availability of Technical Personnel and Specialized Skills:

Modern manufacturing processes often require highly skilled personnel and technical expertise. Banks examine whether the company possesses experienced engineers, technicians, and professionals capable of operating sophisticated machinery and maintaining quality standards.

Shortages of skilled manpower or excessive dependence on a few key individuals may expose the company to

operational risks. Strong technical capabilities enhance confidence regarding the company's ability to achieve projected production and sales levels.

d) Research and Development Capabilities:

Research and development activities play a vital role in sustaining competitiveness and creating new growth opportunities. Banks assess investments made in R&D, product innovation, process improvements, and technological advancements.

Companies emphasizing continuous improvement and innovation are generally better equipped to respond to changing market requirements and maintain long-term sales growth.

Other Strategic and Qualitative Factors Considered by Banks While Arriving at Corporate Sales Projections:

Besides financial, operational, technical, marketing, and regulatory factors, banks also evaluate several strategic and qualitative aspects that influence the long-term sustainability of a corporate borrower. Sales projections are not merely based on production capacity or market demand but are also influenced by management philosophy, profitability objectives, corporate governance standards, ESG practices, shareholder expectations, customer satisfaction, and other intangible factors. These considerations provide insights into the future direction of the company and its ability to sustain growth and generate cash flows for servicing debt obligations.

a) Management Objectives and Strategic Vision:

The future growth of a business is largely determined by the objectives and vision of its management. Banks carefully examine whether the promoters and management are pursuing aggressive expansion, market penetration, diversification, product innovation, or consolidation strategies. The management's long-term plans and commitment towards growth have a direct bearing on future sales projections.

Companies with clear business objectives, well-defined strategies, and competent leadership are generally better positioned to exploit market opportunities and adapt to changing economic conditions. Banks assess strategic plans, annual reports, board policies, and management discussions to understand the future direction of the enterprise. Unrealistic or overly ambitious growth targets without adequate resources are viewed cautiously during the appraisal process.

b) Profitability and Earnings Capacity of the Business:

While sales volume is important, profitability remains equally critical because repayment of loans ultimately depends on the generation of profits and cash flows. Banks therefore evaluate gross profit margins, operating margins, net profits, EBITDA, return on capital employed, and return on equity while arriving at projected sales.

Companies consistently generating healthy profits possess greater internal accruals for funding expansion and meeting debt obligations. Strong profitability also enhances the company's ability to withstand adverse business conditions. Conversely, enterprises experiencing declining margins or recurring losses may face difficulties in sustaining projected growth. Therefore, banks ensure that sales projections are accompanied by reasonable profitability assumptions and are not achieved at the cost of excessive price reductions or deterioration in margins.

c) Environmental, Social and Governance (ESG) Norms:

In recent years, ESG considerations have emerged as important determinants of long-term business sustainability and credit quality. Banks increasingly evaluate the borrower's compliance with environmental regulations, social responsibilities, and governance standards while assessing future prospects.

Environmental factors include carbon emissions, energy efficiency, water management, waste disposal practices, pollution control measures, and climate-related risks. Social aspects encompass employee welfare, labour practices,

community relations, health and safety standards, and human rights considerations. Governance parameters relate to board independence, transparency, ethical practices, internal controls, and risk management systems.

Companies adhering to ESG principles are expected to enjoy better access to markets, lower regulatory risks, improved brand reputation, and enhanced investor confidence. Conversely, businesses exposed to environmental liabilities or governance deficiencies may face litigation, reputational damage, and restrictions on future operations. Consequently, ESG factors are increasingly being integrated into corporate credit appraisal and sales forecasting.

d) Shareholders' and Investors' Decisions:

The expectations and decisions of shareholders, private equity investors, venture capital funds, and institutional investors also influence business growth and future sales. Banks examine the ownership structure and assess whether investors are committed to supporting the company's long-term objectives.

Decisions relating to fresh capital infusion, mergers and acquisitions, diversification, dividend policies, share buybacks, or strategic alliances may significantly affect the financial position and growth prospects of the company. Withdrawal of investor support or disputes among shareholders may adversely impact expansion plans and operational stability.

Strong promoter commitment and continued investor confidence provide additional comfort to banks while evaluating future sales and repayment capacity.

e) Customer Service and After-Sales Support:

Customer satisfaction and after-sales service play a crucial role in sustaining market share and generating repeat business. Banks recognize that product quality alone is insufficient for maintaining long-term relationships with customers. Effective after-sales services, timely maintenance support, warranty obligations, complaint redressal mechanisms, and customer relationship management contribute significantly to brand loyalty and market acceptance.

Industries such as automobiles, consumer durables, electronics, engineering products, and industrial equipment are particularly dependent upon efficient after-sales support. Companies possessing strong service networks and customer support systems generally enjoy higher customer retention and stable sales growth. Therefore, banks take these qualitative factors into account while projecting revenues.

f) Corporate Governance and Ethical Business Practices:

The quality of corporate governance influences investor confidence, business continuity, and long-term growth. Banks evaluate board composition, internal control systems, statutory compliance, audit mechanisms, transparency in financial reporting, and ethical standards followed by the company.

Well-governed companies are generally characterized by prudent decision-making and lower operational risks. Instances of fraud, regulatory violations, or weak governance structures may adversely affect market reputation and impair future sales. Consequently, governance standards constitute an important component of credit assessment.

g) Brand Image and Reputation:

The reputation of the company and its products in the market significantly influence customer preferences and future demand. Strong brands command customer loyalty, premium pricing, and greater resilience during economic downturns. Banks assess the company's goodwill, market recognition, product reliability, and reputation among consumers, suppliers, and stakeholders.

Negative publicity, product failures, or reputational issues can adversely affect customer confidence and reduce sales. Therefore, brand image and goodwill are considered while estimating future revenues.

h) Research, Innovation and Adaptability:

Changing consumer preferences and technological advancements require continuous innovation. Banks evaluate the company's ability to introduce new products, improve existing products, and adapt to evolving market conditions. Organizations possessing strong research and development capabilities are better positioned to sustain competitive advantages and maintain sales growth over the long term.

The ability to anticipate market trends and respond effectively to customer requirements contributes significantly to business sustainability and future profitability.

i) Succession Planning and Continuity of Management:

In promoter-driven businesses, continuity of leadership and succession planning are important considerations. Banks assess whether the company has a capable second line of management and whether business operations are excessively dependent upon a few individuals.

Absence of proper succession planning may expose the company to management risks and uncertainty regarding future operations. Strong institutional structures and professional management enhance confidence in achieving projected growth.

j) Relationships with Stakeholders:

Healthy relationships with employees, suppliers, customers, regulators, lenders, and local communities contribute to the stability and sustainability of operations. Banks evaluate stakeholder management practices and the company's reputation among various interest groups.

Frequent disputes with labour unions, litigation with suppliers, customer dissatisfaction, or adverse regulatory actions may affect production and sales. Therefore, stakeholder relationships are considered as part of the overall credit assessment process.

k) Business Continuity and Risk Management Framework:

Banks increasingly examine whether the borrower possesses adequate risk management systems and business continuity plans. Natural disasters, cyber-attacks, supply chain disruptions, pandemics, and geopolitical uncertainties can significantly affect business operations.

Companies with robust risk management frameworks, insurance coverage, disaster recovery systems, and contingency plans are better equipped to withstand unexpected disruptions and sustain projected revenues.

l) Corporate Culture and Organizational Strength:

The culture of an organization influences employee motivation, innovation, productivity, and customer satisfaction. Banks assess whether the company fosters professionalism, accountability, ethical conduct, and continuous improvement. Strong organizational culture contributes to long-term sustainability and enhances the ability of the company to achieve growth objectives.

In essence, corporate sales projections are influenced by an interconnected network of financial, operational, technological, regulatory, market, managerial, environmental, and behavioural factors. Consequently, prudent bankers increasingly rely on integrated credit appraisal models that combine traditional financial analysis with strategic, ESG, and risk-based assessments to ensure that projected revenues are realistic, sustainable, and capable of supporting long-term debt servicing.

Accurate and Realistic Projection of Corporate Sales-An Essential Responsibility of Consultants in Loan Syndication and Debt Restructuring:

In the present era of risk-based lending and increasingly stringent regulatory norms, the preparation of realistic and achievable financial projections has become one of the most critical components of corporate loan proposals

and restructuring packages. Whether a consultant is engaged for obtaining fresh credit facilities, enhancement of working capital limits, project finance, consortium lending, multiple banking arrangements, or restructuring of stressed loans, the most important element of the proposal is the estimation of future sales and profitability. Since repayment of debt depends primarily upon cash flows generated from business operations, projected sales constitute the foundation for assessing the viability and bankability of a proposal.

Consequently, consultants engaged in arranging finance or restructuring existing borrowings carry a significant professional responsibility. Unrealistic projections not only weaken the credibility of the proposal but may also lead to future stress in loan accounts, eventual restructuring failures, and deterioration of asset quality. Therefore, sales projections should be prepared scientifically, based on verifiable data and supported by reliable sources of information.

a) Need for Realistic Sales Projections in Loan Proposals and Restructuring Packages:

Financial projections are not merely figures inserted into CMA Data or Techno-Economic Viability reports. They represent the expected business performance over the tenor of the loan and form the basis for determining working capital requirements, debt service coverage ratio, break-even levels, internal rate of return, cash accruals, and repayment schedules.

In restructuring proposals, projections assume even greater significance because lenders are expected to assess whether the stressed borrower possesses the ability to revive operations and generate adequate cash flows for servicing the restructured debt. Accordingly, consultants must avoid optimistic assumptions and adopt prudent, conservative, and realistic estimates capable of withstanding adverse economic conditions.

b) Need for Considering Multiple Factors While Estimating Sales:

Corporate sales are influenced by numerous internal and external factors. Therefore, consultants should not rely exclusively on historical growth patterns or management estimates. Sales projections should emerge from a comprehensive analysis involving operational, financial, technological, managerial, market-related, regulatory, environmental, and macroeconomic factors.

The estimation process should take into consideration historical sales trends, capacity utilization of plant and machinery, productivity levels, modernization initiatives, availability of raw materials and utilities, workforce strength, marketing capabilities, pricing strategies, customer base, competition, industry outlook, export opportunities, taxation policies, and government regulations.

Similarly, management objectives, profitability expectations, corporate governance practices, ESG compliance, after-sales service capabilities, and shareholder support should also be evaluated because these factors influence the sustainability of future revenues.

c) Operational and Production Factors to be Examined:

The consultant should thoroughly examine the installed capacity and actual utilization levels achieved during the previous years. Capacity expansion plans, modernization of machinery, automation initiatives, productivity improvements, and technological advancements should be studied to ascertain whether the projected increase in production and sales is feasible.

Availability of raw materials, power, water, fuel, logistics support, and skilled manpower should also be considered. Production bottlenecks, dependence on imported inputs, supply chain vulnerabilities, and maintenance practices require detailed analysis.

Product diversification and the contribution of individual products to overall revenues should be evaluated. Companies having multiple products and diversified customer segments generally exhibit greater stability in sales compared with enterprises dependent on a single product line.

d) Market and Industry Factors Affecting Sales Projections:

The consultant should conduct a comprehensive industry analysis and assess demand-supply conditions prevailing in the market. The degree of competition, market share, pricing power, brand value, and customer preferences should be examined carefully.

Whether the industry operates under conditions of perfect competition, monopolistic competition, oligopoly, or monopoly should also be considered. Market trends, demographic changes, technological disruptions, and changing consumer behaviour have significant implications for future demand.

Export-oriented businesses require analysis of international markets, geopolitical risks, exchange rate fluctuations, customs duties, trade barriers, and global economic conditions.

e) Financial Factors Influencing Projected Sales:

The ability to achieve projected sales depends largely upon the availability of financial resources. Consultants should evaluate the capital structure, promoters' contribution, internal accruals, availability of working capital, and access to external financing.

Creditworthiness of the company in the market and among banks and financial institutions should also be analysed. The conduct of existing loan accounts, repayment track record, relationship with creditors, and credit rating assigned by rating agencies provide valuable insights regarding the financial discipline of the borrower.

Equally important is the assessment of debtors and receivables. The quality of sales should receive as much attention as the quantity of sales. A company may report higher turnover but may face severe liquidity problems if receivables are not realized within reasonable time.

f) Strategic and Managerial Factors:

The quality and competence of management constitute important determinants of business performance. Consultants should understand the objectives of promoters and evaluate whether growth plans are supported by adequate financial and operational resources.

Succession planning, corporate governance standards, transparency in financial reporting, and organizational culture should also be assessed. The existence of a capable second line of management enhances confidence in long-term sustainability.

The support of shareholders, institutional investors, private equity funds, and strategic investors should also be considered while preparing projections, particularly in cases involving expansion or restructuring.

g) Importance of ESG Factors:

Environmental, Social, and Governance (ESG) considerations are increasingly becoming integral to credit appraisal. Banks and financial institutions are gradually integrating climate risks and sustainability considerations into lending decisions.

Consultants should evaluate compliance with environmental laws, pollution control norms, energy efficiency measures, waste management systems, employee welfare policies, social responsibilities, and governance practices.

Industries exposed to climate risks or environmental liabilities may face regulatory restrictions, increased compliance costs, and changing customer preferences. Consequently, ESG factors should form part of the assumptions underlying projected sales.

h) Customer Service and Brand Strength:

Sustainable sales growth depends upon customer satisfaction and retention. Consultants should assess product

quality, customer relationships, warranty obligations, service networks, and after-sales support mechanisms.

Strong brands and efficient customer service systems contribute to repeat business and long-term market acceptance. Companies enjoying customer loyalty are generally better positioned to withstand economic downturns and competitive pressures.

i) Need for Mentioning Sources of Information in Loan Proposals:

One of the weaknesses observed in many loan proposals and restructuring packages is the absence of supporting evidence for assumptions adopted in financial projections. Consultants should clearly disclose the basis and source of each important assumption so that banks can independently verify the reasonableness of projections.

- ✱ **Historical Financial Statements**-Audited balance sheets and profit and loss accounts for the previous three to five years constitute the primary source of information for estimating future sales trends.
- ✱ **GST Returns**-GST returns provide reliable evidence regarding actual turnover and should be used for validating sales figures and growth patterns.
- ✱ **Income Tax Returns**-Income tax returns help verify revenue declarations and profitability trends.
- ✱ **Management Information System Reports**-Monthly production reports, sales registers, inventory records, debtor ageing statements, and internal MIS reports provide valuable operational information.
- ✱ **Industry Reports**-Reports published by industry associations, CRISIL, CARE Ratings, ICRA, India Ratings, FICCI, CII, ASSOCHAM, NITI Aayog, and sectoral studies help assess market demand and industry growth prospects.
- ✱ **Government Publications**-Data released by RBI, Ministry of Commerce and Industry, Ministry of Statistics and Programme Implementation, Directorate General of Foreign Trade, Central Electricity Authority, and other government agencies provide macroeconomic and sectoral information.
- ✱ **Market Surveys**-Independent market studies, feasibility reports, demand assessments, and customer surveys may support assumptions relating to future growth.
- ✱ **Order Book Position**-Confirmed orders, long-term contracts, purchase agreements, and letters of intent constitute important evidence supporting future sales projections.
- ✱ **Credit Information and Rating Reports**-Credit rating reports, bankers' opinions, and information from credit bureaus provide insights into financial discipline and creditworthiness.
- ✱ **Technical and Feasibility Reports**-Project reports prepared by engineers, chartered accountants, cost accountants, technical consultants, and independent experts help establish production capacities and commercial viability.

j) Need for Sensitivity Analysis and Stress Testing:

Consultants should avoid preparing projections based solely on optimistic scenarios. Alternative scenarios involving lower sales growth, higher input costs, delays in capacity utilization, exchange rate fluctuations, and interest rate increases should be examined.

Sensitivity analysis enhances the credibility of projections and demonstrates to lenders that the business can withstand adverse conditions. This assumes particular importance in restructuring proposals where banks are required to assess the borrower's ability to service debt under stressed scenarios.

k) Role of Professional Consultants in Enhancing Credibility:

Professional consultants, including Cost Accountants, Chartered Accountants, Company Secretaries, Engineers,

and management consultants, play a crucial role in bridging the information gap between borrowers and lenders. Their responsibility extends beyond preparation of CMA Data or financial projections. They are expected to ensure that assumptions are evidence-based, reasonable, and supported by authentic information.

Professional ethics require consultants to maintain independence and avoid inflating sales merely to secure higher loan sanctions. Overestimation of revenues often results in excess leverage, diversion of funds, stress in loan accounts, and eventual restructuring failures.

Importance of Accuracy and Authenticity in Corporate Sales Projections for Fresh Financing and Loan Restructuring:

Preparation of projected financial statements is one of the most crucial exercises in obtaining fresh credit facilities or restructuring existing borrowings. Sales projections constitute the foundation for estimating profitability, working capital requirements, cash accruals, debt servicing capability, Debt Service Coverage Ratio (DSCR), Internal Rate of Return (IRR), and other financial parameters which form the basis of lending decisions. Therefore, the accuracy, authenticity, and reasonableness of sales projections assume paramount importance in corporate finance and debt restructuring exercises.

An unrealistic or exaggerated projection may initially create an impression of financial viability, but during appraisal and due diligence, banks and financial institutions invariably subject such projections to detailed scrutiny. If the assumptions underlying the projections are found to be unrealistic, unsupported, or inconsistent with industry conditions, the proposal may lose credibility, resulting in rejection of fresh funding or failure of restructuring proposals. Hence, projections for the next three to five years should always be prepared on the basis of verifiable information, supported by adequate documentary evidence and realistic assumptions.

a) *Wrong Projections Lead to Wrong Financial Information:*

Sales projections are the starting point for preparing projected profit and loss accounts, projected balance sheets, projected cash flow statements, and projected fund flow statements. Consequently, any error or overestimation in sales automatically affects all subsequent financial parameters.

Inflated sales projections may lead to overstatement of production requirements, inventory levels, receivables, profits, cash accruals, net worth, and debt servicing capabilities. As a result, important financial ratios such as Current Ratio, Interest Coverage Ratio, Debt Equity Ratio, DSCR, EBITDA Margin, and Return on Capital Employed may present an unrealistic picture of the borrower's financial position.

Since all these projections are interrelated, an incorrect assumption relating to sales has a cascading effect throughout the financial model, resulting in distorted information and misleading conclusions regarding the viability of the enterprise.

b) *Banks and Financial Institutions Verify the Authenticity of Projections:*

Modern credit appraisal is no longer based merely upon the figures submitted by borrowers or consultants. Banks and financial institutions conduct extensive due diligence and independently verify the assumptions underlying projected financial statements.

Credit appraisal departments compare projected growth with historical performance, industry growth rates, installed capacity, capacity utilization levels, market demand, and macroeconomic conditions. They examine whether the proposed sales increase is technically and commercially achievable.

Financial institutions also cross-check turnover figures with GST returns, audited financial statements, income tax records, stock statements, order books, customer contracts, and market intelligence reports. Industry studies, credit rating reports, and competitor analysis are also used to validate the assumptions adopted in the proposal.

Consequently, projections unsupported by facts and documentary evidence are unlikely to withstand the rigorous

scrutiny of lenders.

c) *Unrealistic Projections Adversely Affect the Credibility of the Borrower:*

Credibility is one of the most important intangible assets in lender-borrower relationships. When projections are found to be overly optimistic or unsupported by reasonable assumptions, lenders may lose confidence in the management as well as the consultants preparing the proposal.

A company that historically recorded annual growth of 8% to 10% but projects growth of 40% to 50% without any expansion in capacity, technological upgradation, or market opportunities is likely to invite skepticism. Similarly, projections showing significant improvements in profitability despite adverse industry conditions are often viewed with caution.

Loss of credibility may not only affect the current proposal but may also impair future relationships with banks and financial institutions.

d) *Impact on Fresh Funding Proposals:*

In proposals for new credit facilities, term loans, project finance, or enhancement of working capital limits, the sanctioning authority relies heavily upon projected cash flows and repayment capacity. If projected sales are unrealistic, the corresponding estimates relating to profits and debt servicing become unreliable.

During appraisal, if the bank finds that the assumptions are not supported by historical performance, industry conditions, market studies, order books, or technical feasibility reports, the proposal may be rejected or the quantum of assistance may be substantially reduced.

Banks are increasingly following risk-based lending practices and are expected to ensure prudent credit decisions. Consequently, exaggerated projections are more likely to weaken the proposal rather than strengthen it.

e) *Impact on Loan Restructuring Proposals:*

The importance of realistic projections becomes even more critical in restructuring cases involving stressed assets. The objective of restructuring is to revive the business and restore the borrower's repayment capacity. Therefore, lenders carefully examine whether the proposed restructuring package is viable and capable of generating sufficient cash flows over the repayment period.

If restructuring proposals are based on unrealistic assumptions regarding sales, profitability, or market conditions, banks may conclude that the stress is not temporary but structural in nature. In such circumstances, lenders may reject the restructuring proposal and explore alternative options such as recovery proceedings, insolvency resolution, or liquidation.

Therefore, overstated projections may defeat the very purpose of restructuring and reduce the chances of revival of the enterprise.

f) *Regulatory Expectations Require Realistic Projections:*

Under the prudential norms prescribed by the Reserve Bank of India, banks are expected to ensure that restructuring packages are based upon credible assumptions and realistic viability studies. Similarly, under Expected Credit Loss (ECL)-based provisioning frameworks and stress testing mechanisms, lenders are required to assess the probability of default on the basis of expected future cash flows.

Consequently, unrealistic projections may not satisfy the requirements of internal risk management frameworks, statutory auditors, concurrent auditors, credit monitoring agencies, rating agencies, and regulatory supervisors. Banks increasingly insist upon independent Techno-Economic Viability (TEV) studies, forensic reviews, and sensitivity analysis before approving large restructuring proposals.

g) *Need for Scientific and Evidence-Based Projections:*

Sales projections for the next three to five years should not be based merely on management optimism. They should emerge from a systematic analysis of multiple factors affecting the business.

Historical sales trends, installed capacity, productivity levels, modernization plans, availability of raw materials, market demand, competition, pricing policies, customer base, export opportunities, working capital availability, government regulations, ESG requirements, taxation policies, and macroeconomic conditions should all be considered while estimating future sales.

Furthermore, assumptions should be corroborated with documentary evidence and independent sources of information. Confirmed orders, long-term contracts, industry reports, government statistics, technical studies, and market surveys provide authenticity and enhance the credibility of the projections.

h) Importance of Sensitivity Analysis and Conservative Assumptions:

Uncertainties are inherent in every business environment. Therefore, projections should not be based solely on best-case scenarios. Consultants should prepare sensitivity analyses considering adverse situations such as lower sales volumes, increase in raw material prices, foreign exchange fluctuations, delays in project implementation, and economic slowdown.

Conservative assumptions improve the reliability of projections and provide confidence to lenders regarding the resilience of the business under stressed conditions. It is always preferable to under-promise and over-perform rather than the reverse.

i) Professional Responsibility of Consultants:

Consultants engaged in arranging finance or restructuring debt have a professional obligation to ensure that projections are realistic and based on verifiable assumptions. Their responsibility extends beyond merely preparing CMA Data or projected financial statements.

Professional integrity demands that consultants avoid inflating revenues merely to justify higher loan requirements or present an artificially favourable picture. Over-optimistic projections may temporarily facilitate submission of proposals, but they ultimately undermine the confidence of lenders and may jeopardize the revival prospects of the company.

Therefore, consultants should clearly disclose the assumptions and sources of information used in preparing projections and maintain proper working papers supporting their conclusions.

Importance of Realistic and Evidence-Based Sales Projections in Corporate Financing and Loan Restructuring:

Projected sales constitute the foundation of every corporate loan proposal, project finance appraisal, working capital assessment, and restructuring package. Since projected sales determine future profitability, cash flows, debt servicing capacity, working capital requirements, and overall viability of the business, their accuracy and authenticity are of paramount importance. Wrong sales projections inevitably result in wrong projected financial statements, distorted financial ratios, and misleading conclusions regarding the borrower's repayment capacity.

Therefore, consultants assisting corporates in obtaining fresh finance or restructuring existing borrowings should not prepare projections merely on the basis of management expectations or optimistic assumptions. Instead, sales projections for the next three to five years should be realistic, achievable, and supported by verifiable data and documentary evidence. The objective should be to arrive at sustainable business performance rather than presenting inflated figures for obtaining higher credit limits or restructuring concessions.

Preparation of realistic projections requires consideration of a large number of interrelated factors. These include historical sales performance, installed capacity, capacity utilization, productivity, modernization of plant and machinery, availability of raw materials and utilities, workforce strength, number and diversity of products,

technological advancements, and production efficiencies. Market-related factors such as demand and supply conditions, competition, market share, pricing policies, marketing strategies, customer preferences, domestic and international market opportunities, export potential, and after-sales services also have a significant influence on future sales.

Financial factors such as availability of capital, working capital support, promoters' contribution, creditworthiness in the market, banking relationships, trade credit from suppliers, collection efficiency of debtors, credit policy of the company, profitability trends, and support from shareholders and investors are equally important. Strategic and qualitative factors like management objectives, corporate governance, organizational culture, succession planning, brand value, customer relationships, innovation capabilities, stakeholder management, and risk management systems also contribute to long-term business sustainability.

Increasingly, environmental, social, and governance (ESG) considerations, climate risks, regulatory requirements, taxation policies including GST, and changing government policies are becoming important determinants of future growth and profitability. Hence, these aspects should also form part of the assumptions underlying projections.

Banks and financial institutions do not rely solely upon the figures submitted by borrowers or consultants. They conduct extensive due diligence and verify the authenticity of projections through historical financial statements, GST returns, income tax records, industry reports, order books, technical studies, market surveys, credit rating reports, and independent information sources. They compare projected growth with industry trends, installed capacities, demand conditions, and macroeconomic factors. Any unrealistic or unsupported assumptions are likely to be detected during appraisal.

Overstated or unrealistic projections adversely affect the credibility of both the borrower and the consultant. In cases of fresh financing, banks may reduce the quantum of assistance or reject the proposal altogether. In restructuring cases involving stressed assets, unrealistic projections may result in rejection of the restructuring package, thereby reducing the chances of revival of the enterprise. Since regulatory frameworks, stress testing requirements, and expected credit loss models emphasize realistic cash flow assessments, prudent projections have become indispensable for successful financing and restructuring.

Accordingly, professional consultants have a significant responsibility to prepare scientific, evidence-based, and conservative projections supported by reliable sources of information. Sensitivity analysis and stress testing should also be carried out to evaluate the impact of adverse scenarios and to ensure the resilience of the business under changing economic conditions.

In essence, preparation of projected sales is both an art and a science. It requires a comprehensive evaluation of operational, financial, technological, market, managerial, strategic, regulatory, ESG, and macroeconomic factors. The credibility and success of any financing or restructuring proposal ultimately depend not upon optimistic estimates, but upon realistic, authentic, and well-supported projections capable of generating sustainable cash flows and ensuring timely repayment of debt. Therefore, accuracy, authenticity, and proper documentation of assumptions and sources of information are the cornerstones of prudent corporate finance and successful debt restructuring.

Sales projections constitute the cornerstone of corporate credit appraisal and form the basis for determining the amount of working capital and term loan requirements. Banks arrive at such projections after a comprehensive analysis of historical performance, capacity utilization, market demand, competitive structure, industry dynamics, technological developments, economic conditions, management quality, and regulatory environment. The objective is to arrive at realistic and sustainable estimates rather than relying merely on the borrower's optimistic assumptions. Through detailed appraisal, sensitivity analysis, and continuous monitoring, banks ensure that projected revenues are capable of supporting debt repayment and maintaining the overall quality of their credit portfolio.

The projection of corporate sales by banks is a multidimensional exercise that extends far beyond historical financial performance and market demand. Factors such as availability of government licences and statutory

approvals, adequacy of capital and working capital, access to raw materials, workforce availability, infrastructure support, technological capabilities, distribution networks, promoter strength, and ESG considerations collectively determine the feasibility of projected revenues. Since the repayment capacity of the borrower ultimately depends upon actual cash generation, banks undertake a comprehensive appraisal of all these factors to ensure that sales projections are realistic, sustainable, and capable of supporting debt servicing throughout the life cycle of the credit facilities.

The process of projecting corporate sales by banks extends beyond estimating production capacity and market demand. Factors such as the company's creditworthiness among creditors and financial institutions, availability of trade credit, quality of banking relationships, appropriateness of credit policies, efficiency in recovery of receivables and debtors, customer diversification, working capital management, and overall financial discipline significantly influence the sustainability of future revenues. Banks recognize that sales figures are meaningful only when they are supported by timely collections and sound financial practices. Therefore, these qualitative factors constitute an integral part of credit appraisal and enable banks to arrive at realistic and dependable sales projections that can support long-term debt servicing and maintain asset quality.

Sales projections in corporate lending are influenced by numerous external and internal factors beyond production capabilities and financial resources. Pricing strategies, marketing effectiveness, domestic and international market opportunities, GST and taxation policies, inflationary trends, brand strength, seasonal demand patterns, and digital transformation collectively determine the future revenue-generating capacity of a business. Banks undertake a comprehensive evaluation of these factors to ensure that projected sales are not merely optimistic estimates but are supported by realistic assumptions and prevailing economic conditions. Such a holistic approach enables lenders to assess repayment capacity accurately and maintain the quality and sustainability of their credit portfolios.

These factors, together with historical performance, capacity utilization, regulatory approvals, availability of funds, workforce, creditworthiness, receivables management, and market dynamics, constitute the comprehensive framework used by banks for arriving at realistic corporate sales projections during credit appraisal and periodic reviews.

Banks arrive at corporate sales projections through a comprehensive assessment of numerous operational and technical factors in addition to financial and market considerations. Productivity, modernization of plant and equipment, availability of raw materials, critical industry success factors, product diversification, innovation, quality standards, economies of scale, infrastructure support, equipment reliability, technical expertise, and research capabilities all influence the ability of a corporate borrower to generate sustainable revenues. These factors collectively determine whether projected sales are realistic and achievable and ultimately form the basis for assessing repayment capacity and maintaining the quality of the bank's credit portfolio. In modern credit appraisal, banks increasingly adopt an integrated approach that combines financial analysis with operational, technological, and strategic considerations to ensure prudent lending decisions.

The estimation of corporate sales by banks is an intricate and multidimensional exercise encompassing not only financial and operational factors but also strategic, qualitative, and sustainability considerations. Management objectives, profitability, ESG norms, shareholder decisions, customer service and after-sales support, corporate governance, brand reputation, innovation, succession planning, stakeholder relationships, risk management practices, and organizational culture all contribute to determining the long-term revenue-generating capacity of a business.

Therefore, while appraising corporate credit proposals, banks adopt a holistic approach that integrates quantitative analysis with qualitative judgment. Such comprehensive evaluation enables banks to arrive at realistic sales projections, assess repayment capacity accurately, and ensure the maintenance of sound asset quality and sustainable growth in their credit portfolios.

Preparation of realistic and sustainable sales projections is both an art and a science. It requires a comprehensive understanding of business operations, industry dynamics, market conditions, financial resources, technological

capabilities, regulatory developments, ESG considerations, and management quality. Consultants assisting corporates in obtaining finance or restructuring existing loans should adopt a holistic approach and consider a multitude of interrelated factors rather than relying solely upon historical growth patterns or management optimism.

Equally important is the need to disclose the basis and source of every major assumption used in the proposal. Supported by audited financial statements, GST data, industry reports, market studies, order books, technical reports, and government publications, such projections enhance the confidence of banks and financial institutions and contribute significantly to prudent lending and successful restructuring. In an era of risk-based supervision, expected credit loss provisioning, and heightened emphasis on sustainability, realistic sales projections backed by reliable sources of information are indispensable for ensuring the long-term viability of corporate borrowers and the quality of bank assets.

Accurate and authentic sales projections constitute the cornerstone of successful credit appraisal and debt restructuring. Since projected sales form the basis for all future financial statements and viability assessments, any error or exaggeration in projections leads to distorted financial information and misleading conclusions. Banks and financial institutions conduct rigorous verification of the assumptions underlying projections and compare them with historical performance, market realities, industry trends, and independent sources of information.

Unrealistic projections often result in loss of credibility, rejection of fresh funding proposals, denial of restructuring packages, and failure of revival efforts. Therefore, projections for the next three to five years should always be prepared with prudence, supported by authentic data and documentary evidence, and subjected to sensitivity analysis. In corporate finance and restructuring, credibility of assumptions is more important than optimism of estimates, because sustainable revival depends not on inflated figures but on realistic expectations and achievable business performance.

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Chapter 8

Illustrative Case Studies on Sales Projections

Synopsis:

This chapter presents a series of illustrative case studies demonstrating how banks, financial institutions, and Techno-Economic Viability (TEV) consultants should prepare and evaluate realistic sales projections for borrowers seeking loan restructuring. Through examples from the pharmaceutical, steel, automobile components, and textile industries, it explains that projected sales should not be based solely on management optimism or installed capacity, but must be supported by historical performance, industry outlook, order book position, capacity utilization, market demand, customer concentration, working capital efficiency, regulatory compliance, export prospects, and documentary evidence. The chapter emphasizes the importance of sensitivity analysis and stress testing under base, moderate, and severe scenarios to assess repayment capacity, restructuring viability, Expected Credit Loss (ECL), and overall credit risk. It concludes that evidence-based and conservative projections prepared through scientific TEV studies enable banks to take prudent lending decisions, improve the sustainability of restructuring packages, and reduce the likelihood of future loan defaults.

Case Study-1:

Determination of Projected Sales for a Corporate Seeking Loan Restructuring Due to Economic Slowdown and Geopolitical Disruptions

Background:

Global Auto Components Limited (GACL) is a medium-sized manufacturing company engaged in the production of automotive components supplied to automobile manufacturers in India and overseas markets.

The company had availed the following credit facilities from a consortium of banks:

Particulars	Amount (₹ Crores)
Term Loan-I	250
Term Loan-II	180
Cash Credit	220
Letter of Credit/BG	100
Total Exposure	750

During the last three years, the company experienced significant financial stress due to:

- ✱ Global economic slowdown.
- ✱ Russia-Ukraine conflict resulting in supply chain disruptions.
- ✱ Increase in freight costs.

- ✱ Sharp rise in steel and aluminium prices.
- ✱ Reduction in export demand.
- ✱ High interest rates.
- ✱ Delayed collections from customers.

Consequently, the company approached the consortium banks seeking:

- ✱ Extension of repayment period.
- ✱ Funding of unpaid interest.
- ✱ Additional working capital support.
- ✱ Restructuring of existing facilities.

Before considering the proposal, the Lead Bank requested the company to submit projected sales for the next five years along with the basis, assumptions, observations, and supporting evidence.

Historical Performance:

Sales Turnover:

Financial Year	Sales (₹ Crores)
FY2022	1,850
FY2023	1,920
FY2024	1,760
FY2025	1,540

Sales have declined by nearly 20% from peak levels.

Profitability Trend:

Year	EBITDA Margin
FY2022	14%
FY2023	12%
FY2024	10%
FY2025	7%

Profitability has continuously deteriorated.

Production Capacity:

Installed Capacity:

50 million auto components annually.

Actual Utilization:

Year	Utilization
FY2023	88%
FY2024	75%
FY2025	62%

Substantial idle capacity exists.

Export Sales:

Exports contribute:

35% of total turnover.

Major destinations:

- ✳ Germany
- ✳ France
- ✳ United Kingdom
- ✳ UAE

Export sales declined by 22% during FY2025.

Customer Profile:

Major Customers:

Customer	Share of Sales
Tata Motors	18%
Mahindra & Mahindra	15%
Ashok Leyland	10%
Overseas Customers	35%
Others	22%

The customer base is diversified.

Receivables Position:

Particulars	Position
Debtors Outstanding	₹420 Crores
Collection Period	118 Days
Industry Average	75 Days

Working capital cycle has significantly stretched.

Raw Material Cost Impact:

Steel and aluminium constitute 60% of production cost.

Increase during FY2025:

✱ Steel prices: +18%

✱ Aluminium prices: +15%

Margins have been adversely affected.

Credit Rating:

Year	Rating
FY2023	A-
FY2024	BBB+
FY2025	BBB

Outlook: Negative

Existing Order Book:

Confirmed Orders Available:

Customer Segment	Order Value (₹ Crores)
Domestic OEMs	650
Export Orders	220
EV Manufacturers	180
Total	1,050

The order book supports future business visibility.

Electric Vehicle Opportunity:

The company recently entered the EV component segment.

Expected contribution:

Year	EV Sales Share
FY2026	5%
FY2027	8%
FY2028	12%
FY2029	15%
FY2030	18%

Management Proposal:

Management projects aggressive recovery.

Year	Sales (₹ Crores)
FY2025	1,540
FY2026	1,925
FY2027	2,406
FY2028	3,008
FY2029	3,760
FY2030	4,700

Growth assumed: 25% annually.

Bank's Concerns:

The consortium banks raised the following concerns:

1. Historical decline in sales.
2. Weak collection efficiency.
3. Reduction in export demand.
4. Downgraded credit rating.
5. Geopolitical uncertainties.
6. Margin pressure due to raw material inflation.
7. High leverage.

Therefore, banks insisted on realistic projections.

Analysis by Independent Consultant:

Positive Factors:

1. Large Idle Capacity

Current utilization is only 62%.

Production can increase without major capital expenditure.

2. Strong Order Book

Confirmed orders worth ₹1,050 Crores.

3. Entry into EV Segment

EV market expected to grow significantly.

4. Established Customer Relationships

Long-standing association with leading automobile manufacturers.

5. Promoters' Support

Promoters agreed to infuse ₹75 Crores.

6. Government Support

PLI Scheme and Make-in-India initiatives support manufacturing growth.

Negative Factors:

1. Economic Slowdown

Global automobile demand remains uncertain.

2. Geopolitical Risks

Export markets remain vulnerable.

3. High Receivable Cycle

118 days versus industry average of 75 days.

4. Credit Rating Downgrade

Reduced borrowing flexibility.

5. Input Cost Volatility

Steel and aluminium prices remain uncertain.

6. High Debt Burden

Existing debt exceeds ₹750 Crores.

Consultant's Assumptions:

Particulars	Impact
Industry Recovery	+8%
Capacity Utilization Improvement	+7%
EV Business Growth	+5%
Export Recovery	+3%
Geopolitical Risks	-3%
Working Capital Constraints	-2%
Competitive Pressure	-2%

Net Sustainable Growth = 12%

Projected Sales Recommended to Banks:

Year	Sales (₹ Crores)
FY2025	1,540
FY2026	1,725
FY2027	1,932

Year	Sales (₹ Crores)
FY2028	2,164
FY2029	2,424
FY2030	2,715

Basis of Arriving at Projected Sales:

The consultant relied upon:

Internal Sources:

- ✱ Audited Financial Statements.
- ✱ GST Returns.
- ✱ Production Reports.
- ✱ Capacity Utilization Data.
- ✱ Debtors Ageing Reports.
- ✱ Customer-wise Sales Analysis.
- ✱ Order Book Position.

External Sources:

- ✱ Automobile Industry Reports.
- ✱ SIAM Industry Statistics.
- ✱ RBI Economic Outlook.
- ✱ Government PLI Scheme Data.
- ✱ Export Market Reports.
- ✱ Credit Rating Agency Reports.

Stress Testing:**Base Case:**

Growth = 12%

FY2030 Sales = ₹2,715 Crores.

Moderate Stress:

Assumptions:

- ✱ Export recovery delayed.
- ✱ Raw material prices increase by 10%.
- ✱ Collection period remains above 100 days.

Growth = 8%

FY2030 Sales = ₹2,263 Crores.

Severe Stress:

Assumptions:

- ✱ Global recession.
- ✱ Export decline by 15%.
- ✱ Steel prices rise further.
- ✱ EV demand lower than expected.

Growth = 4%

FY2030 Sales = ₹1,874 Crores.

Consultant's Final Observations:

1. Management projections of 25% annual growth are not supported by historical performance.
2. Existing idle capacity and order book provide growth opportunities.
3. EV segment offers additional revenue potential.
4. Improvement in working capital management is essential.
5. Export recovery remains uncertain due to geopolitical developments.
6. Promoters' contribution improves confidence.
7. Banks should evaluate viability under stressed scenarios before approving restructuring.

Questions for Discussion:

Question 1

Management projected annual sales growth of 25%, whereas the consultant recommended only 12%.

What factors justify the reduction in projected growth?

Question 2

How should the consultant assess the impact of geopolitical risks and export market uncertainty while preparing five-year sales projections?

Question 3

The company has idle capacity of nearly 38%.

Should this automatically justify higher sales projections? Explain with reasons.

Question 4

How do high receivable levels (118 days) affect:

- ✱ Sales projections,

- ✱ Working capital assessment,
- ✱ Debt servicing capacity, and
- ✱ Restructuring viability?

Question 5

While evaluating the restructuring proposal, should the bank rely upon:

- ✱ Management projections,
- ✱ Consultant's base case,
- ✱ Moderate stress case, or
- ✱ Severe stress case?

Explain which scenario is most appropriate for determining repayment schedules, additional working capital, and restructuring viability.

Answers to the Case Study Questions

Question 1

Facts

- ✱ Actual Sales (FY2025) = ₹420 Crores
- ✱ Management Projection (FY2026) = ₹600 Crores
- ✱ Proposed Growth = 42.86%
- ✱ Capacity Utilization = 82%
- ✱ No Expansion in Plant Capacity
- ✱ Industry Growth = 10%

Analysis:

Since there is no expansion in capacity and the company has historically grown in line with the industry, a growth assumption of 42.86% appears unrealistic.

Additional production possible from better utilization:

82% to 90% utilization = approximately 10% increase.

Industry growth = 10%.

Competition and operational risks require conservative assumptions.

Therefore, sustainable growth may be restricted to 14–16%.

Projected Sales:

₹420 Crores $\times$ 1.15 = **₹483 Crores**

Rounded off:

Projected Sales for FY2026 = ₹480–485 Crores

Conclusion:

The management projection of ₹600 Crores should not be accepted. Consultants should recommend approximately **₹485 Crores**, supported by industry growth and capacity utilization.

Question 2

Facts:

- Present Sales = ₹450 Crores
- Confirmed Order Book = ₹350 Crores
- Industry Growth = 12%
- Capacity Expansion Benefit = 15%

Step 1: Assess Sustainable Growth:

Industry growth = 12%

Capacity expansion benefit = 15%

Competition adjustment = (-7%)

Net sustainable growth $\approx$ 20%

Projected Sales:

FY2026

$₹450 \times 1.20$

= ₹540 Crores

FY2027

$₹540 \times 1.18$

= ₹637 Crores

FY2028

$₹637 \times 1.15$

= ₹733 Crores

Answer

Year	Sales (₹ Crores)
FY2025	450
FY2026	540
FY2027	637
FY2028	733

Conclusion:

Because the company possesses confirmed orders and expanded capacity, moderate growth assumptions are justified.

Question 3**Facts:**

- ✱ Strong market position.
- ✱ Diversified customer base.
- ✱ CARE Rating A+.
- ✱ Average collection period increased from 75 days to 140 days.

Analysis:

Higher sales alone do not guarantee cash generation.

An increase in collection period from 75 days to 140 days indicates:

- ✱ Slow realization of receivables.
- ✱ Increase in working capital requirements.
- ✱ Possible deterioration in debtor quality.
- ✱ Liquidity pressures.

Therefore, banks will not rely merely on turnover growth.

Growth assumptions should be moderated.

Working Capital Impact:

Suppose annual sales = ₹500 Crores.

Receivables:

At 75 days:

$$₹500 \times 75/365 = ₹103 \text{ Crores}$$

At 140 days:

$$₹500 \times 140/365 = ₹192 \text{ Crores}$$

Additional working capital requirement:

$$₹192 - ₹103$$

$$= ₹89 \text{ Crores}$$

Answer:

Consultants should:

- ✱ Reduce projected growth assumptions.

- ✱ Strengthen collection mechanisms.
- ✱ Assess debtor quality.
- ✱ Increase working capital requirements.

Banks will focus on quality of sales rather than quantity of sales.

Question 4

Facts:

- ✱ Proposed Growth = 25%
- ✱ Industry Growth = 9%
- ✱ Capacity Utilization = 95%
- ✱ No modernization
- ✱ No capacity expansion

Analysis:

At 95% capacity utilization, only marginal production increase is possible.

Without:

- ✱ New machinery,
- ✱ Modernization,
- ✱ Additional shifts,
- ✱ Capacity expansion, the company cannot sustain 25% growth.

Should Banks Accept the Projection?

No.

Banks should reject or suitably moderate the projections.

Consultants Should Reconsider:

Operational Factors:

- ✱ Installed capacity.
- ✱ Productivity levels.
- ✱ Additional shifts.

Market Factors:

- ✱ Industry demand.
- ✱ Competition.
- ✱ Market share.



Financial Factors:

- ✳ Working capital availability.
- ✳ Promoter contribution.

Technological Factors:

- ✳ Modernization plans.

Order Book:

- ✳ Long-term contracts.
- ✳ Confirmed purchase orders.

Realistic Growth:

Industry growth = 9%

Operational improvement = 3%

Conservative estimate = 10–12%

If FY2025 sales are ₹500 Crores:

Projected FY2026 Sales:

$₹500 \times 1.11$

= ₹555 Crores rather than ₹625 Crores.

Conclusion:

Banks should not accept the 25% projection because it lacks operational support.

Question 5

Facts:

- ✳ Company under restructuring.
- ✳ Raw material prices are volatile.
- ✳ Export demand declining.
- ✳ Labour shortages affecting production.

Need for Sensitivity Analysis:

Banks require projections under various scenarios rather than relying only on optimistic assumptions.

Base Scenario:

Assumed Growth = 10%

Current Sales = ₹400 Crores

Year	Sales (₹ Crores)
FY2025	400

Year	Sales (₹ Crores)
FY2026	440
FY2027	484
FY2028	532
FY2029	585
FY2030	644

Moderate Stress Scenario:

Assumptions:

- ✳ Raw material cost rises by 8%.
- ✳ Labour shortages continue.
- ✳ Export sales decline by 5%.

Growth reduced to 6%.

Year	Sales (₹ Crores)
FY2025	400
FY2026	424
FY2027	449
FY2028	476
FY2029	505
FY2030	535

Severe Stress Scenario:

Assumptions:

- ✳ Global slowdown.
- ✳ Export decline of 15%.
- ✳ Labour shortages persist.
- ✳ Input costs rise sharply.

Growth reduced to 3%.

Year	Sales (₹ Crores)
FY2025	400
FY2026	412
FY2027	424

Year	Sales (₹ Crores)
FY2028	437
FY2029	450
FY2030	464

Consultants Should Examine:

- ✱ DSCR under each scenario.
- ✱ EBITDA margins.
- ✱ Break-even point.
- ✱ Cash flows.
- ✱ Working capital cycle.
- ✱ Ability to service debt.

Answer:

Restructuring projections should be based on the **moderate or stressed scenario**, not on optimistic assumptions. Conservative estimates enhance credibility and improve the chances of approval by banks.

Overall Conclusion:

The answers demonstrate that projected sales cannot be determined merely by applying a percentage growth rate. Consultants should evaluate:

- ✱ Historical sales trends.
- ✱ Capacity utilization.
- ✱ Order book position.
- ✱ Industry demand and competition.
- ✱ Working capital availability.
- ✱ Quality of receivables.
- ✱ Market share and pricing power.
- ✱ Technology and modernization.
- ✱ Raw material availability.
- ✱ ESG and regulatory factors.
- ✱ Macroeconomic conditions.
- ✱ Sensitivity analysis and stress testing.

Realistic and evidence-based projections improve the credibility of the borrower and increase the probability of obtaining fresh finance or restructuring support from banks and financial institutions.

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Case Study-2:

Determination of Projected Sales for a Pharmaceutical Manufacturing Company Seeking Expansion Finance from Banks

Background:

Medicare Life Sciences Limited (MLSL) is a pharmaceutical manufacturing company engaged in the production of antibiotics, cardiovascular medicines, and nutraceutical products. The company proposes to establish a new production line and seeks the following credit facilities from a consortium of banks:

- ✱ Term Loan: ₹200 Crores
- ✱ Enhancement of Working Capital Limits: ₹120 Crores
- ✱ Non-Fund Based Limits: ₹50 Crores

M/s ABC Advisory Services are appointed to prepare CMA Data and projected financial statements for the next five years.

Management proposes an annual sales growth of 35%, whereas the consultants decide to independently assess various factors before arriving at realistic projected sales.

Historical Performance:

Sales Performance:

Financial Year	Sales (₹ Crores)
FY2022	540
FY2023	585
FY2024	635
FY2025	700

Historical CAGR = 9%

Thus, management's proposed growth of 35% appears aggressive.

Capacity Expansion:

Existing Installed Capacity:

1,800 Million Tablets and Capsules annually.

Current Capacity Utilization = 88%.

Proposed Expansion:

Investment in a new production block = ₹150 Crores.

Capacity after expansion:

2,700 Million Tablets and Capsules.

Expected capacity utilization:



Year-1 = 75%

Year-2 = 82%

Year-3 = 90%

Therefore, expansion supports higher sales.

Regulatory Approvals:

The company possesses:

- ✓ WHO-GMP certification.
- ✓ USFDA approval for one plant.
- ✓ CDSCO approvals.
- ✓ Pollution Control Board clearances.
- ✓ ISO-9001 certification.

Since all approvals are available, regulatory risk is low.

Product Portfolio:

Present products:

Segment	Contribution (%)
Antibiotics	45
Cardiac Drugs	35
Nutraceuticals	20

New oncology products are expected to contribute additional revenues.

Product diversification reduces risk.

✦ **Export Market Potential:**

✦ Present exports:

- ✦ 40% of sales.

Major export destinations:

- ✦ USA
- ✦ South Africa
- ✦ UAE
- ✦ Nigeria
- ✦ Bangladesh

Long-term contracts signed with distributors.

Export demand growth expected:

12%.

R&D Capabilities:

Annual R&D expenditure = ₹35 Crores.

20 patents filed.

Five new products are under development.

This supports sustainable growth.

Industry Growth:

Indian pharmaceutical industry growth = 10%.

Global generic drug market growth = 9%.

Consultants assume overall industry growth of 10%.

Competition:

Major competitors:

Company	Market Position
Sun Pharma	Market Leader
Cipla	Large
Dr. Reddy's	Large
MLSL	Medium-sized

Because of intense competition, growth assumptions are moderated.

Customer Concentration:

No customer contributes more than 8% of turnover.

More than 1,200 customers.

Therefore, customer concentration risk is low.

Receivables Performance:

Average collection period = 90 days.

Industry average = 110 days.

Debtor quality is satisfactory.

Hence sales are convertible into cash flows.

Promoter Support:

Net worth = ₹480 Crores.

Promoters agree to bring additional equity of ₹80 Crores.

Private Equity Fund has committed ₹120 Crores.

Financial support is strong.

ESG Parameters:

Solar power usage = 45%.

Zero liquid discharge system installed.

No environmental litigations.

Green manufacturing initiatives implemented.

This improves export opportunities.

Digital Marketing and Distribution:

Sales network:

✱ 4,500 distributors.

✱ 600 medical representatives.

✱ E-commerce platform launched.

Expected domestic market penetration increase:

15%.

Labour and Technical Personnel:

Employees = 2,800.

R&D scientists = 180.

Industrial relations are cordial.

No strikes during the last 15 years.

Foreign Exchange Risk:

Since 40% of turnover comes from exports, exchange-rate fluctuations are important.

The company hedges 80% of export receivables.

Therefore, forex risk remains moderate.

GST and Tax Compliance:

GST returns are regularly filed.

No tax disputes.

Income Tax assessments completed up to FY2024.

Hence financial transparency is satisfactory.

Management Projection:

Management projects:

35% annual growth.

Year	Sales (₹ Crores)
FY2025	700
FY2026	945
FY2027	1,276
FY2028	1,722
FY2029	2,325
FY2030	3,139

Consultants believe this is unrealistic.

Independent Assessment by Consultants:

Historical Growth

9%

Capacity Expansion Benefit

+15%

Export Growth

+12%

New Product Contribution

+8%

Competition Adjustment

(-8%)

Global Regulatory Risks

(-4%)

Conservative Growth Assumption

≈ 18%

Projected Sales Arrived by Consultants:

Year	Sales (₹ Crores)
FY2025	700
FY2026	826
FY2027	967
FY2028	1,123
FY2029	1,291

Year	Sales (₹ Crores)
FY2030	1,472

Stress Testing:**Base Scenario**

Sales FY2030 = ₹1,472 Crores.

Moderate Stress Scenario:

Assumptions:

- ✱ USFDA inspection delays.
- ✱ Export demand slowdown.
- ✱ Raw material cost increase.

Growth = 12%.

FY2030 Sales = ₹1,233 Crores.

Severe Stress Scenario:

Assumptions:

- ✱ Rupee appreciation.
- ✱ Global recession.
- ✱ Loss of export orders.

Growth = 7%.

FY2030 Sales = ₹982 Crores.

Even under stress conditions, DSCR remains above 1.35.

Therefore, the project is viable.

Consultants' Observations:**Strengths:**

- ✓ Strong R&D capabilities.
- ✓ Diversified products.
- ✓ Export presence.
- ✓ Robust distribution network.
- ✓ Financial support from promoters.
- ✓ Good collection efficiency.
- ✓ ESG-compliant operations.

✓ Strong management.

Risks:

△ Dependence on regulatory approvals.

△ Exchange-rate volatility.

△ USFDA compliance risks.

△ Competition from larger players.

△ Global pricing pressure.

Conclusion:

Although management projected 35% annual growth, the consultants concluded that such assumptions were optimistic. Considering capacity expansion, export opportunities, product diversification, R&D strength, customer base, and competition, they adopted a conservative growth rate of 14%-18%, resulting in projected sales increasing from ₹700 Crores to ₹1,472 Crores over five years.

Banks accepted the projections because they were supported by realistic assumptions and sensitivity analysis.

Questions for Professionals:

Question 1

Medicare Life Sciences Ltd. presently records sales of ₹700 Crores and proposes annual growth of 35%. Historical growth is only 9%, and industry growth is 10%.

How should consultants arrive at a realistic sales projection?

Question 2

A pharmaceutical company receives USFDA approval and adds a new production line increasing capacity by 40%. Current sales are ₹900 Crores.

Industry growth is 10%.

How should projected sales be estimated for the next three years?

Question 3

Exports constitute 50% of sales, but exchange-rate fluctuations and geopolitical tensions threaten overseas demand.

How should consultants incorporate these risks while preparing projected sales and stress scenarios?

Question 4

A company has excellent products and patents but depends on only three customers for 70% of its turnover.

How should customer concentration risk influence sales projections?

Question 5

During credit appraisal, banks find that management projections assume 30% annual growth, while industry reports indicate growth of only 9%.

What additional information and documentary evidence should consultants provide to justify higher projections?

Question 6

How should sensitivity analysis be performed if:

- ✱ Raw material prices rise by 12%,
- ✱ USFDA approvals are delayed,
- ✱ Exports decline by 10%, and
- ✱ Capacity utilization reaches only 70% instead of 90%?

Should banks rely on optimistic projections or stressed projections while sanctioning loans?

Learning Objective:

This case study illustrates that **projected sales in pharmaceutical companies should be based on scientific analysis of capacity, product portfolio, R&D capabilities, export potential, customer diversification, regulatory approvals, ESG compliance, and market conditions rather than management optimism. Realistic projections improve credibility and enhance the chances of obtaining bank finance.**

Answers to the Case Study on Medicare Life Sciences Limited**Answer to Question 1****Facts:**

- ✱ Current Sales = ₹700 Crores
- ✱ Management Projection = 35% growth
- ✱ Historical CAGR = 9%
- ✱ Industry Growth = 10%
- ✱ Capacity Expansion and New Products Available

Analysis:

Consultants should not simply accept management estimates. Growth should be supported by:

Factor	Impact
Historical trend	9%
Industry growth	10%
Capacity expansion	+15%
Export opportunities	+12%
New products	+8%
Competition risk	(-8%)
Regulatory risks	(-4%)

Sustainable Growth:

Approximately 16-18%.

Projected Sales:

FY2026:

$$₹700 \times 1.18$$

$$= ₹826 \text{ Crores}$$

Therefore, a realistic projection is ₹825-830 Crores rather than ₹945 Crores.

Conclusion:

Consultants should adopt conservative assumptions supported by operational and market realities rather than management optimism.

Answer to Question 2

Facts:

- ✱ Current Sales = ₹900 Crores.
- ✱ Capacity increases by 40%.
- ✱ Industry Growth = 10%.
- ✱ New USFDA approval obtained.

Analysis:

Additional capacity does not imply immediate full utilization.

Assume:

Year 1 utilization = 75%

Year 2 = 85%

Year 3 = 90%

Growth Assumptions:

Year 1 = 18%

Year 2 = 16%

Year 3 = 15%

Projected Sales:

FY2026:

$$₹900 \times 1.18$$

$$= ₹1,062 \text{ Crores}$$

FY2027:

$$₹1,062 \times 1.16$$

$$= ₹1,232 \text{ Crores}$$

FY2028:

$$₹1,232 \times 1.15$$

$$= ₹1,417 \text{ Crores}$$

Year	Sales (₹ Crores)
Current	900
FY2026	1,062
FY2027	1,232
FY2028	1,417

Conclusion:

Capacity expansion should be translated into sales gradually rather than assuming immediate 40% growth.

Answer to Question 3:

Facts:

- ✦ Exports constitute 50% of sales.
- ✦ Exchange-rate volatility exists.
- ✦ Geopolitical tensions threaten overseas demand.

Analysis:

Consultants should prepare three scenarios.

Base Scenario:

Export growth = 12%

Total sales growth = 16%.

Moderate Stress Scenario:

Assumptions:

- ✦ Export demand falls by 5%.
- ✦ Currency fluctuations reduce realizations.

Growth = 11%.

Severe Stress Scenario:

Assumptions:

- ✦ Exports decline by 15%.
- ✦ Geopolitical disruptions continue.

Growth = 6%.

Hedging Measures:

Banks will examine:

- ✱ Forward contracts.
- ✱ Currency hedging policy.
- ✱ Country diversification.
- ✱ Export customer concentration.

Conclusion:

Sales projections should incorporate exchange-rate and geopolitical risks through sensitivity analysis instead of relying solely on optimistic export assumptions.

Answer to Question 4:

Facts:

Three customers contribute 70% of turnover.

Risk:

Customer concentration risk is high.

Loss of one customer may significantly affect sales.

Suppose:

Annual Sales = ₹1,000 Crores.

Contribution:

Customer A = ₹300 Crores

Customer B = ₹220 Crores

Customer C = ₹180 Crores

Others = ₹300 Crores

Loss of Customer A alone can reduce sales by 30%.

Consultant's Approach:

Banks will moderate projections.

Instead of 20% growth, assume:

10-12% growth.

Suggested Measures:

- ✱ Diversify customer base.
- ✱ Enter new markets.
- ✱ Increase retail distribution.
- ✱ Sign long-term contracts.

Conclusion:

High customer concentration requires conservative projections because dependence on a few buyers increases revenue volatility.

Answer to Question 5:**Facts:**

Management projects 30% growth.

Industry growth is only 9%.

Banks require supporting evidence.

Documentary Evidence Required:**1. Confirmed Orders**

Purchase orders and contracts.

2. Capacity Expansion Details

- ✱ Project report.
- ✱ Installed capacity certificates.
- ✱ Machinery purchase invoices.

3. Regulatory Approvals

- ✱ USFDA approvals.
- ✱ WHO-GMP certificates.

4. Market Studies

Reports from:

- ✱ IQVIA
- ✱ CRISIL
- ✱ ICRA
- ✱ CARE Ratings

5. Export Agreements

Long-term customer contracts.

6. Historical Performance

Audited financial statements.

7. GST Returns

Verification of turnover.

8. Technical Feasibility Report

Prepared by engineers and professionals.

9. Promoters' Commitment

Proof of equity infusion.

10. R&D Pipeline

Patents and new products.

Conclusion:

Without documentary evidence, banks are unlikely to accept growth assumptions substantially above industry averages.

Answer to Question 6:

Sensitivity Analysis:

Current Sales = ₹700 Crores.

Base Scenario:

Growth = 18%

FY2030 Sales

= ₹1,472 Crores.

Moderate Stress Scenario:

Assumptions:

- ✱ Raw material prices increase by 12%.
- ✱ Capacity utilization reaches 80%.
- ✱ USFDA approval delayed.

Growth reduces to 12%.

Projected Sales:

Year	Sales (₹ Crores)
FY2025	700
FY2026	784
FY2027	878
FY2028	983
FY2029	1,101
FY2030	1,233

Severe Stress Scenario:

Assumptions:

- ✱ Exports decline by 10%.
- ✱ Capacity utilization reaches only 70%.
- ✱ Raw material prices rise sharply.
- ✱ USFDA approval delayed by one year.

Growth = 7%.

Year	Sales (₹ Crores)
FY2025	700
FY2026	749
FY2027	801
FY2028	857
FY2029	917
FY2030	981

Which Projections Should Banks Rely Upon?

Banks generally rely on:

Base Case:

for normal appraisal purposes.

Moderate Stress Scenario:

for viability analysis.

Severe Stress Scenario:

for stress testing and assessment of downside risks.

Loan repayment capacity should remain comfortable even under adverse conditions.

Therefore, banks should not rely solely on optimistic assumptions.

Overall Conclusion:

The answers demonstrate that projected sales for pharmaceutical companies should be based upon:

1. Historical growth trends.
2. Capacity expansion and utilization.
3. Industry growth.
4. Export opportunities.
5. Product diversification.
6. R&D capabilities.
7. Customer concentration.

8. Regulatory approvals.
9. Foreign exchange risks.
10. Working capital availability.
11. Documentary evidence.
12. Sensitivity analysis and stress testing.

Realistic and evidence-based projections improve the credibility of the borrower and consultants, enhance the probability of loan sanctions, and reduce the possibility of future restructuring or asset quality deterioration

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Case Study-3:

Projecting Sales for a Steel Manufacturing Company under Stressed Conditions for Debt Restructuring and Additional Funding

Background:

National Steel Tubes Limited (NSTL) is a medium-sized steel pipe manufacturing company producing:

- ✱ ERW Pipes
- ✱ Galvanized Pipes
- ✱ Structural Tubes
- ✱ Hollow Sections

The company supplies to:

- ✱ Construction Industry
- ✱ Oil & Gas Sector
- ✱ Infrastructure Projects
- ✱ Water Supply Projects

Due to a slowdown in the real estate sector, rising steel prices, and delay in Government projects, the company experienced stress in cash flows. The account was classified as **SMA-2**, and the company approached banks for:

1. Restructuring of existing debt.
2. Additional Working Capital of ₹100 Crores.
3. Funding of Interest Term Loan (FITL).
4. WCTL conversion.

M/s Prime Corporate Advisory Services was appointed to prepare TEV Study and projected financial statements.

Management projected aggressive growth, whereas lenders insisted on realistic and stress-tested projections.

Historical Performance:

Sales (₹ Crores)

Year	Sales
FY2022	1,450
FY2023	1,520
FY2024	1,480
FY2025	1,320

Sales have declined.

Historical CAGR over four years = Negative.

EBITDA Margins

Year	EBITDA Margin
FY2022	14%
FY2023	13%
FY2024	11%
FY2025	8%

Profitability has deteriorated.

Existing Debt Position

Particulars	₹ Crores
Term Loans	650
Working Capital	350
Total Debt	1,000
Net Worth	420

Debt Equity Ratio = 2.38:1

Leverage is high.

Capacity Utilization

Installed Capacity:

12 lakh MT per annum.

Actual Production:

Year	Production (Lakh MT)	Utilization
FY2023	9.8	82%
FY2024	8.6	72%
FY2025	7.2	60%

Idle capacity exists.

Management Projection

Management assumes:

- ✱ Infrastructure boom.
- ✱ Revival of construction sector.

Projected Sales

Year	Sales (₹ Crores)
FY2025	1,320
FY2026	1,716
FY2027	2,230
FY2028	2,900
FY2029	3,770
FY2030	4,900

Growth = 30% annually.

Banks find this unrealistic.

Order Book Position:

Confirmed Orders

Customer	₹ Crores
NHAI Projects	280
Water Supply Projects	190
Oil Companies	140
Export Orders	90

Total order book = ₹700 Crores.

However, execution depends on Government approvals.

Raw Material Risk:

Steel coil prices fluctuate considerably.

Price increase during FY2025 = 18%.

Major suppliers:

- ✱ JSW Steel
- ✱ Tata Steel
- ✱ SAIL

No long-term supply agreements exist.

Raw material risk is high.

Receivables Position:

Debtors:

₹460 Crores.

Average Collection Period:

127 days.

Industry average:

90 days.

Receivables quality is weak.

Customer Concentration:

Top 5 customers contribute 65% of sales.

Loss of one major customer can significantly affect revenue.

Labour Situation:

Workers = 2,300.

Industrial dispute occurred in FY2025.

Plant shutdown for 20 days.

Labour risk remains moderate.

Environmental Risk:

Pollution Control Board has issued notices regarding emissions.

The company must invest ₹70 Crores for ESG compliance.

Delay may lead to production restrictions.

Competition:

Major competitors:

- ✱ APL Apollo
- ✱ Jindal Pipes
- ✱ Surya Roshni

Intense price competition exists.

Export Risk:

Exports constitute 20% of turnover.

Major markets:

- ✱ Middle East
- ✱ Africa

Global demand weakened due to recession.

Banking Conduct:**Irregularities:**

- ✱ LC devolvement occurred twice.
- ✱ Interest servicing delayed.
- ✱ Ad hoc limits utilized continuously.

Credit discipline is weak.

Credit Rating:

Rating downgraded:

BBB+ → BBB-

Outlook = Negative.

Government Policy Support:

PM Gati Shakti Programme and Jal Jeevan Mission are expected to support demand.

Expected sector growth = 9%.

Promoters' Commitment:

Promoters agree to infuse ₹100 Crores.

No strategic investor is available.

TEV Consultant's Independent Assessment:**Positive Factors:**

- ✓ Large idle capacity available.
- ✓ Government infrastructure spending.
- ✓ Established brand.
- ✓ Existing order book.
- ✓ Promoter support.

Negative Factors:

- ✗ Declining sales.
- ✗ Weak receivable cycle.
- ✗ High leverage.
- ✗ Environmental compliance issues.
- ✗ Labour problems.
- ✗ Downgraded credit rating.
- ✗ Volatile raw material prices.

✗ Customer concentration.

Consultant's Realistic Growth Assumptions

Factor	Impact
Sector growth	+9%
Capacity utilization improvement	+12%
Government projects	+5%
Competition	-6%
ESG risk	-3%
Receivable stress	-4%
Weak credit profile	-3%

Net sustainable growth $\approx$ 10%.

Projected Sales Recommended by TEV Consultant:

Year	Sales (₹ Crores)
FY2025	1,320
FY2026	1,452
FY2027	1,590
FY2028	1,750
FY2029	1,925
FY2030	2,115

Stress Testing:

Base Case:

Growth = 10%

FY2030 Sales = ₹2,115 Crores.

Moderate Stress:

Growth = 6%

Raw material prices rise 10%.

Collection period remains 120 days.

FY2030 Sales = ₹1,765 Crores.

Severe Stress:

Growth = 2%

Government projects delayed.

Export demand falls.

ESG compliance delayed.

FY2030 Sales = ₹1,457 Crores.

Viability Ratios:

Particulars	Base Case	Moderate Stress	Severe Stress
DSCR	1.52	1.28	0.96
Interest Coverage	2.10	1.60	1.05
Current Ratio	1.30	1.16	1.01

Severe stress indicates possible restructuring failure.

Consultants' Recommendation:

The restructuring package should be approved only if:

1. Promoters infuse ₹100 Crores.
2. Receivable period reduced to 90 days.
3. Pollution control investment completed.
4. FITL and WCTL are sanctioned.
5. Additional working capital of ₹100 Crores is provided.
6. Quarterly monitoring is implemented.

CASE STUDY QUESTIONS:

Question 1

Management projects 30% annual growth despite declining sales, weak receivables, high leverage and downgraded credit rating.

Should banks accept management projections? Explain with reasons and suggest realistic projections.

Question 2

How should the TEV consultant quantify the impact of:

- ✱ Customer concentration,
- ✱ Collection period of 127 days,
- ✱ LC devolvement,
- ✱ Rating downgrade, while arriving at projected sales?

Question 3

Suppose Pollution Control Board orders closure unless ₹70 Crores is invested within one year.

How should ESG and regulatory risks be incorporated into projected sales and restructuring viability?

Question 4

If Government infrastructure projects are delayed by two years and export demand falls by 20%, what should be the revised sales projections for FY2026-FY2030?

Would the restructuring package remain viable?

Question 5

The company possesses 40% idle capacity.

Should banks consider idle capacity as a positive factor supporting higher sales, or should they focus on weak cash flows and declining margins? Explain.

Question 6

Suppose receivables are reduced from 127 days to 85 days and promoters infuse ₹200 Crores instead of ₹100 Crores.

How would these improvements influence:

- ✱ Sales projections,
- ✱ Working capital assessment,
- ✱ DSCR,
- ✱ Restructuring viability?

Question 7 (Advanced)

Under ECL-based lending and stress testing principles, should banks rely on:

1. Management projections,
2. TEV base case,
3. Moderate stress case, or
4. Severe stress case

for determining:

- ✱ Additional working capital,
- ✱ FITL,
- ✱ WCTL,
- ✱ Repayment schedule?

Justify your answer with reasons.

Learning Objective:

This case is intentionally more complex because several factors are pulling in opposite directions. It demonstrates that **projected sales are not merely a function of installed capacity or management optimism but must balance operational capability, financial strength, ESG compliance, market risks, customer concentration, receivable quality, credit discipline, and restructuring viability under stressed conditions.**

Answers to the Advanced Case Study on National Steel Tubes Limited (NSTL)

Answer to Question 1:

Should Banks Accept Management Projections of 30% Growth?

Facts

Particulars	Position
Sales Trend	Declining
EBITDA Margin	Falling (14% → 8%)
Capacity Utilization	60%
Receivable Period	127 Days
Credit Rating	BBB- (Negative)
Leverage	High (DER 2.38:1)
Banking Conduct	Weak
Industry Growth	9%

Analysis:

Management projections assume:

₹1,320 Crores → ₹4,900 Crores in five years (30% CAGR).

However:

- ✱ Historical sales are declining.
- ✱ EBITDA margins are deteriorating.
- ✱ Customer concentration risk exists.
- ✱ Rating downgrade indicates increased credit risk.
- ✱ Working capital cycle is stretched.
- ✱ LC devolvement reflects weak financial discipline.

Therefore, banks should not accept management projections.

Realistic Projection:

Year	Sales (₹ Crores)
FY2025	1,320
FY2026	1,452
FY2027	1,590
FY2028	1,750

Year	Sales (₹ Crores)
FY2029	1,925
FY2030	2,115

Growth around 10% is realistic.

Conclusion:

Banks should rely upon TEV projections rather than management projections.

Answer to Question 2

How Should TEV Consultant Quantify Risks?

(a) Customer Concentration Risk

Top 5 customers contribute 65%.

Risk Adjustment:

Reduce expected growth by 2%.

Because loss of one customer can materially impact revenues.

(b) Collection Period = 127 Days

Industry norm = 90 days.

Additional working capital blockage:

Suppose Sales = ₹1,500 Crores

Receivables at 127 days

= ₹522 Crores

Receivables at 90 days

= ₹370 Crores

Excess blockage

= ₹152 Crores

Therefore:

Growth should be reduced by 3-4%.

(c) LC Devolvement

LC devolvement indicates:

- ✱ Weak liquidity.
- ✱ Payment stress.
- ✱ Higher supplier risk.

Growth adjustment:

(-2%)

(d) Rating Downgrade

BBB+ to BBB-

Consequences:

- ✱ Increased borrowing cost.
- ✱ Reduced market confidence.
- ✱ Difficulty in obtaining trade credit.

Growth reduction:

(-2%)

Total Negative Adjustment

Customer concentration = -2%

Receivable stress = -4%

LC devolvement = -2%

Rating downgrade = -2%

Total reduction = -10%

Conclusion:

These factors must be incorporated quantitatively while determining projected sales.

Answer to Question 3

Impact of Pollution Control Board Notice

Scenario:

Pollution Control Board directs investment of ₹70 Crores within one year.

Failure to comply may lead to:

- ✱ Closure of operations.
- ✱ Restrictions on production.
- ✱ Penalties.
- ✱ Loss of customers.

Incorporation into Sales Projection:

Scenario 1: ESG Investment Completed

Growth = 10%.

FY2030 sales = ₹2,115 Crores.

Scenario 2: Investment Delayed

Production restrictions imposed.

Growth reduces to 5%.

FY2030 sales $\approx$ ₹1,680 Crores.

Scenario 3: Plant Closure

Production reduced by 50%.

Sales may fall below ₹1,000 Crores.

Impact on Restructuring Viability

Without ESG compliance:

- ✱ DSCR falls below 1.
- ✱ Cash flows deteriorate.
- ✱ Restructuring may fail.

Conclusion:

ESG investment becomes mandatory and should be treated as a pre-condition for restructuring.

Answer to Question 4

Government Projects Delayed by Two Years and Export Demand Falls by 20%.

Impact:

Government business contribution:

₹470 Crores.

Export contribution:

20% of turnover.

Consequently, growth declines substantially.

Revised Growth Assumptions	Revised Growth Assumptions
FY2026 = 3%	FY2026 = 3%
FY2027 = 4%	FY2027 = 4%
FY2028 = 5%	FY2028 = 5%
FY2029 = 6%	FY2029 = 6%
FY2030 = 7%	FY2030 = 7%

Revised Sales Projection

Year	Sales (₹ Crores)
FY2025	1,320
FY2026	1,360
FY2027	1,414
FY2028	1,485
FY2029	1,574
FY2030	1,684

Viability:

DSCR may decline below 1.1.

Interest coverage deteriorates.

Cash accruals become insufficient.

Conclusion:

Restructuring viability becomes doubtful and may require:

Longer repayment period.

Additional promoter contribution.

FITL and WCTL support.

Answer to Question 5**Is Idle Capacity a Positive Factor?****Positive View:**

Idle capacity of 40% means:

- ✱ No fresh capex required.
- ✱ Production can increase.
- ✱ Economies of scale possible.

Thus, idle capacity is a potential opportunity.

Negative View:

However:

Idle capacity alone does not generate sales.

Problems exist:

- ✱ Weak cash flows.
- ✱ Falling EBITDA.

- ✱ Long receivable cycle.
- ✱ Rating downgrade.
- ✱ Customer concentration.
- ✱ Labour issues.

Banking Perspective:

Banks should focus more on:

- ✓ Cash generation.
- ✓ Market demand.
- ✓ Working capital availability.
- ✓ Debt servicing ability.

Rather than merely idle capacity.

Conclusion:

Idle capacity is an opportunity, not a guarantee of higher sales.

Answer to Question 6

Suppose:

Receivable Period Improves

127 days → 85 days.

Promoter Infusion

₹100 Crores → ₹200 Crores.

Impact on Working Capital:

Assume Sales = ₹1,500 Crores.

Receivables at 127 days

= ₹522 Crores.

Receivables at 85 days

= ₹349 Crores.

Funds released

= ₹173 Crores.

Impact on Sales:

Liquidity improves.

Raw materials can be purchased timely.

Production increases.

Growth assumption may improve from 10% to 12%.

Revised Sales:

Year	Sales (₹ Crores)
FY2025	1,320
FY2026	1,478
FY2027	1,655
FY2028	1,854
FY2029	2,076
FY2030	2,325

DSCR Improvement:

Base DSCR = 1.52

Revised DSCR $\approx$ 1.75

Interest Coverage:

2.10 $\rightarrow$ 2.45

Current Ratio:

1.30 $\rightarrow$ 1.45

Conclusion:

Reduction in receivables and higher promoter contribution substantially improve restructuring viability.

Answer to Question 7 (Advanced)

Under ECL-Based Lending and Stress Testing Principles, Which Scenario Should Banks Rely Upon?

(1) Management Projection:

✗ Not appropriate.

Reasons:

- ✱ Excessively optimistic.
- ✱ Unsupported by historical performance.
- ✱ Inconsistent with declining margins.

(2) TEV Base Case:

Suitable for:

- ✱ Normal business planning.
- ✱ Capital expenditure evaluation.

But inadequate for ECL calculations.

(3) Moderate Stress Case:

✓ Most appropriate for:

- ✱ Working capital assessment.
- ✱ FITL.
- ✱ WCTL.
- ✱ Repayment schedule.

Because it represents probable downside risk.

(4) Severe Stress Case

Useful for:

- ✱ Stress testing.
- ✱ ICAAP.
- ✱ ECL provisioning.
- ✱ Recovery analysis.

Not suitable for regular repayment schedules.

Recommended Approach:

Purpose	Appropriate Scenario
Additional Working Capital	Moderate Stress Case
FITL Structuring	Moderate Stress Case
WCTL Repayment	Moderate Stress Case
Repayment Schedule	Moderate Stress Case
ECL Provisioning	Severe Stress Case
Capital Adequacy Stress Testing	Severe Stress Case
Internal Risk Rating	Moderate + Severe Stress
TEV Study	Base Case + Stress Cases

Overall Conclusion:

Banks should not sanction restructuring packages merely based on management optimism or installed capacity. Under modern IRAC norms, ECL framework, RBI stress-testing requirements, and prudent credit risk management, lenders should primarily rely on moderate stress projections, while severe stress scenarios should be used to assess downside risks and provisioning requirements.

Thus, cash-flow resilience under adverse conditions, not optimistic sales estimates, should determine additional working capital, FITL, WCTL, and repayment schedules. This is the essence of scientific TEV studies and sustainable debt restructuring.

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Case Study-4:

Determination of Projected Sales for a Corporate Seeking Loan Restructuring Due to Economic Slowdown and Geopolitical Disruptions

Background:

Global Auto Components Limited (GACL) is a medium-sized manufacturing company engaged in the production of automotive components supplied to automobile manufacturers in India and overseas markets.

The company had availed the following credit facilities from a consortium of banks:

Particulars	Amount (₹ Crores)
Term Loan-I	250
Term Loan-II	180
Cash Credit	220
Letter of Credit/BG	100
Total Exposure	750

During the last three years, the company experienced significant financial stress due to:

- ✦ Global economic slowdown.
- ✦ Russia-Ukraine conflict resulting in supply chain disruptions.
- ✦ Increase in freight costs.
- ✦ Sharp rise in steel and aluminium prices.
- ✦ Reduction in export demand.
- ✦ High interest rates.
- ✦ Delayed collections from customers.

Consequently, the company approached the consortium banks seeking:

- ✦ Extension of repayment period.
- ✦ Funding of unpaid interest.
- ✦ Additional working capital support.
- ✦ Restructuring of existing facilities.

Before considering the proposal, the Lead Bank requested the company to submit projected sales for the next five years along with the basis, assumptions, observations, and supporting evidence.

Historical Performance:

Sales Turnover:

Financial Year	Sales (₹ Crores)
FY2022	1,850
FY2023	1,920
FY2024	1,760
FY2025	1,540

Sales have declined by nearly 20% from peak levels.

Profitability Trend:

Year	EBITDA Margin
FY2022	14%
FY2023	12%
FY2024	10%
FY2025	7%

Profitability has continuously deteriorated.

Production Capacity

Installed Capacity:

50 million auto components annually.

Actual Utilization:

Year	Utilization
FY2023	88%
FY2024	75%
FY2025	62%

Substantial idle capacity exists.

Export Sales:

Exports contribute:

35% of total turnover.

Major destinations:

- ✱ Germany
- ✱ France
- ✱ United Kingdom
- ✱ UAE

Export sales declined by 22% during FY2025.

Customer Profile:

Major Customers:

Customer	Share of Sales
Tata Motors	18%
Mahindra & Mahindra	15%
Ashok Leyland	10%
Overseas Customers	35%
Others	22%

The customer base is diversified.

Receivables Position:

Particulars	Position
Debtors Outstanding	₹420 Crores
Collection Period	118 Days
Industry Average	75 Days

Working capital cycle has significantly stretched.

Raw Material Cost Impact:

Steel and aluminium constitute 60% of production cost.

Increase during FY2025:

- ✱ Steel prices: +18%
- ✱ Aluminium prices: +15%

Margins have been adversely affected.

Credit Rating:

Year	Rating
FY2023	A-
FY2024	BBB+
FY2025	BBB

Outlook: Negative

Existing Order Book:

Confirmed Orders Available:

Customer Segment	Order Value (₹ Crores)
Domestic OEMs	650
Export Orders	220
EV Manufacturers	180
Total	1,050

The order book supports future business visibility.

Electric Vehicle Opportunity:

The company recently entered the EV component segment.

Expected contribution:

Year	EV Sales Share
FY2026	5%
FY2027	8%
FY2028	12%
FY2029	15%
FY2030	18%

Management Proposal:

Management projects aggressive recovery.

Year	Sales (₹ Crores)
FY2025	1,540
FY2026	1,925
FY2027	2,406
FY2028	3,008
FY2029	3,760
FY2030	4,700

Growth assumed: 25% annually.

Bank's Concerns:

The consortium banks raised the following concerns:

1. Historical decline in sales.
2. Weak collection efficiency.
3. Reduction in export demand.

4. Downgraded credit rating.
5. Geopolitical uncertainties.
6. Margin pressure due to raw material inflation.
7. High leverage.

Therefore, banks insisted on realistic projections.

Analysis by Independent Consultant:

Positive Factors:

1. Large Idle Capacity

Current utilization is only 62%.

Production can increase without major capital expenditure.

2. Strong Order Book

Confirmed orders worth ₹1,050 Crores.

3. Entry into EV Segment

EV market expected to grow significantly.

4. Established Customer Relationships

Long-standing association with leading automobile manufacturers.

5. Promoters' Support

Promoters agreed to infuse ₹75 Crores.

6. Government Support

PLI Scheme and Make-in-India initiatives support manufacturing growth.

Negative Factors:

1. Economic Slowdown

Global automobile demand remains uncertain.

2. Geopolitical Risks

Export markets remain vulnerable.

3. High Receivable Cycle

118 days versus industry average of 75 days.

4. Credit Rating Downgrade

Reduced borrowing flexibility.

5. Input Cost Volatility

Steel and aluminium prices remain uncertain.

6. High Debt Burden

Existing debt exceeds ₹750 Crores.

Consultant's Assumptions:

Particulars	Impact
Industry Recovery	+8%
Capacity Utilization Improvement	+7%
EV Business Growth	+5%
Export Recovery	+3%
Geopolitical Risks	-3%
Working Capital Constraints	-2%
Competitive Pressure	-2%

Net Sustainable Growth = 12%.

Projected Sales Recommended to Banks:

Year	Sales (₹ Crores)
FY2025	1,540
FY2026	1,725
FY2027	1,932
FY2028	2,164
FY2029	2,424
FY2030	2,715

Basis of Arriving at Projected Sales:

The consultant relied upon:

Internal Sources:

- ✱ Audited Financial Statements.
- ✱ GST Returns.
- ✱ Production Reports.
- ✱ Capacity Utilization Data.
- ✱ Debtors Ageing Reports.
- ✱ Customer-wise Sales Analysis.

- ✦ Order Book Position.

External Sources:

- ✦ Automobile Industry Reports.
- ✦ SIAM Industry Statistics.
- ✦ RBI Economic Outlook.
- ✦ Government PLI Scheme Data.
- ✦ Export Market Reports.
- ✦ Credit Rating Agency Reports.

Stress Testing:**Base Case:**

Growth = 12%

FY2030 Sales = ₹2,715 Crores.

Moderate Stress:

Assumptions:

- ✦ Export recovery delayed.
- ✦ Raw material prices increase by 10%.
- ✦ Collection period remains above 100 days.

Growth = 8%

FY2030 Sales = ₹2,263 Crores.

Severe Stress:

Assumptions:

- ✦ Global recession.
- ✦ Export decline by 15%.
- ✦ Steel prices rise further.
- ✦ EV demand lower than expected.

Growth = 4%

FY2030 Sales = ₹1,874 Crores.

Consultant's Final Observations:

1. Management projections of 25% annual growth are not supported by historical performance.
2. Existing idle capacity and order book provide growth opportunities.
3. EV segment offers additional revenue potential.

4. Improvement in working capital management is essential.
5. Export recovery remains uncertain due to geopolitical developments.
6. Promoters' contribution improves confidence.
7. Banks should evaluate viability under stressed scenarios before approving restructuring.

Questions for Discussion:

Question 1

Management projected annual sales growth of 25%, whereas the consultant recommended only 12%.

What factors justify the reduction in projected growth?

Question 2

How should the consultant assess the impact of geopolitical risks and export market uncertainty while preparing five-year sales projections?

Question 3

The company has idle capacity of nearly 38%.

Should this automatically justify higher sales projections? Explain with reasons.

Question 4

How do high receivable levels (118 days) affect:

- ✱ Sales projections,
- ✱ Working capital assessment,
- ✱ Debt servicing capacity, and
- ✱ Restructuring viability?

Question 5

While evaluating the restructuring proposal, should the bank rely upon:

- ✱ Management projections,
- ✱ Consultant's base case,
- ✱ Moderate stress case, or
- ✱ Severe stress case?

Explain which scenario is most appropriate for determining repayment schedules, additional working capital, and restructuring viability.

Answers to the Questions – Case Study on Global Auto Components Limited (GACL)

Answer to Question 1:

Management projected annual sales growth of 25%, whereas the consultant recommended only 12%. What factors justify the reduction in projected growth?

Facts Available:

Particulars	Observation
Historical sales	Declined from ₹1,920 Crores to ₹1,540 Crores
EBITDA Margin	Reduced from 14% to 7%
Export sales	Declined by 22%
Collection period	Increased to 118 days
Credit Rating	Downgraded from A- to BBB
Economic environment	Slowdown and geopolitical risks
Existing debt	₹750 Crores

Analysis:

Management projected 25% annual growth based on expected economic recovery and EV opportunities. However, banks and consultants cannot rely solely upon management optimism.

The consultant reduced growth because:

Positive Factors:

- ✱ Idle capacity available.
- ✱ Strong order book of ₹1,050 Crores.
- ✱ EV segment growth.
- ✱ Promoters' support.
- ✱ Government PLI incentives.

Negative Factors:

- ✱ Declining sales trend.
- ✱ Weak profitability.
- ✱ Long receivable cycle.
- ✱ Export uncertainty.
- ✱ Credit rating downgrade.
- ✱ High leverage.

Consultant's Growth Assumption:

Factor	Impact
Industry growth	+8%
Capacity utilization improvement	+7%
EV segment growth	+5%

Factor	Impact
Export recovery	+3%
Geopolitical risk	-3%
Working capital constraints	-2%
Competition	-2%

Net sustainable growth $\approx$ 12%.

Conclusion:

The consultant's projections are realistic and evidence-based, whereas management projections are optimistic and unsupported by historical performance.

Answer to Question 2:

How should geopolitical risks and export market uncertainty be assessed?

Exports contribute 35% of turnover.

Major markets:

- ✱ Germany
- ✱ France
- ✱ UK
- ✱ UAE

These markets are susceptible to:

- ✱ Wars and sanctions.
- ✱ Trade restrictions.
- ✱ Currency fluctuations.
- ✱ Inflation and recession.
- ✱ Shipping disruptions.

Consultant's Approach:

Base Scenario

Assume export recovery with growth of 5%.

Moderate Stress

Assume export growth only 2%.

Severe Stress

Assume export decline of 10%.

Diversification Factors

Banks should examine:

- ✱ Number of countries served.
- ✱ Dependence on single country.
- ✱ Long-term contracts.
- ✱ Hedging arrangements.
- ✱ Customer concentration.

Conclusion:

Geopolitical risks should be incorporated through stress scenarios and not ignored while projecting future sales.

Answer to Question 3

Should idle capacity of 38% automatically justify higher sales projections?

No.

Idle capacity represents only production potential and not guaranteed sales.

Positive Aspect:

38% idle capacity means:

- ✱ No fresh capex required.
- ✱ Ability to increase production quickly.
- ✱ Better absorption of fixed costs.

Negative Aspects:

Sales depend upon:

- ✱ Market demand.
- ✱ Customer orders.
- ✱ Working capital availability.
- ✱ Collection efficiency.
- ✱ Raw material supply.
- ✱ Competition.

For example:

If capacity utilization improves from 62% to 75%, production may increase by about 20%, but actual sales may increase only by 10–12% because of market and financial constraints.

Banking Perspective:

Banks are more concerned with:

- ✱ Cash generation.

- ✱ Debt servicing capability.

- ✱ Market demand.

Rather than idle capacity alone.

Conclusion:

Idle capacity is an opportunity, not a guarantee of future sales.

Answer to Question 4

How do high receivables (118 days) affect sales projections, working capital assessment, debt servicing capacity, and restructuring viability?

Sales Projections:

Long collection periods indicate poor quality of sales.

Higher turnover may not necessarily generate cash.

Therefore, consultants should adopt conservative growth assumptions.

Working Capital Assessment:

Suppose projected sales are ₹1,800 Crores.

Receivables at 118 days:

$$₹1,800 \times 118/365 = ₹582 \text{ Crores}$$

Receivables at industry norm of 75 days:

$$₹1,800 \times 75/365 = ₹370 \text{ Crores}$$

Excess blockage:

$$₹582 - ₹370 = ₹212 \text{ Crores}$$

Thus, additional working capital requirement increases substantially.

Debt Servicing Capacity:

Cash collections are delayed.

Consequently:

- ✱ Interest payments are delayed.

- ✱ Loan instalments become irregular.

- ✱ DSCR deteriorates.

Restructuring Viability:

High receivables may:

- ✱ Increase stress.

- ✱ Require additional working capital.

- ✳ Lead to FITL requirements.
- ✳ Increase chances of restructuring failure.

Conclusion:

Reduction of collection period from 118 days to around 75–90 days is essential for successful restructuring.

Answer to Question 5**Which scenario should banks rely upon while evaluating restructuring proposals?****(a) Management Projections**

- ✗ Not advisable.

Reasons:

- ✳ Growth assumptions are too optimistic.
- ✳ Inconsistent with historical performance.
- ✳ Ignore external risks.

(b) Consultant's Base Case

Useful for:

- ✳ Business planning.
- ✳ Operational projections.
- ✳ Assessment of normal growth.

However, it may underestimate downside risks.

(c) Moderate Stress Case

- ✓ Most suitable for restructuring decisions.

Because it incorporates:

- ✳ Delayed export recovery.
- ✳ Higher raw material prices.
- ✳ Slow collections.
- ✳ Economic uncertainties.

Under this scenario:

Sales FY2030 = ₹2,263 Crores.

This represents realistic cash flows.

(d) Severe Stress Case:

Useful for:

- ✳ ECL provisioning.

- ✱ Stress testing.
- ✱ Probability of default analysis.
- ✱ Recovery assessment.

Not suitable for normal repayment schedules.

Recommended Approach

Purpose	Appropriate Scenario
Repayment Schedule	Moderate Stress Case
Additional Working Capital	Moderate Stress Case
FITL Structuring	Moderate Stress Case
WCTL Conversion	Moderate Stress Case
Viability Study	Base Case + Moderate Stress
ECL and Stress Testing	Severe Stress Case
Internal Risk Assessment	Moderate and Severe Stress Cases

Overall Conclusion:

While restructuring proposals, banks should not rely upon optimistic management projections.

Instead, they should evaluate:

- ✱ Historical performance.
- ✱ Order book position.
- ✱ Industry outlook.
- ✱ Export market conditions.
- ✱ Geopolitical risks.
- ✱ Receivable quality.
- ✱ Working capital requirements.
- ✱ Debt servicing ability.
- ✱ Stress scenarios.

Accordingly, the Moderate Stress Case provides the most appropriate basis for determining repayment schedules, additional working capital support, FITL, WCTL conversion, and overall restructuring viability, whereas the Severe Stress Case should be used for ECL assessment and stress testing purposes.

Thus, sustainable cash flows under adverse conditions, not optimistic sales assumptions form the foundation of successful loan restructuring and prudent banking.

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Case Study-5:

Loan Restructuring Proposal of Sunrise Textiles Limited (STL): Determination of Projected Sales for the Next Five Years under Economic Slowdown, Export Uncertainty and Working Capital Stress

Background:

Sunrise Textiles Limited (STL) is a medium-sized integrated textile company engaged in manufacturing:

- ✱ Cotton Yarn
- ✱ Knitted Fabrics
- ✱ Readymade Garments
- ✱ Home Textiles

The company exports its products to:

- ✱ USA
- ✱ United Kingdom
- ✱ Germany
- ✱ Canada
- ✱ Australia

The company had enjoyed strong growth up to FY2023. However, due to:

- ✱ Global recession,
- ✱ Geopolitical tensions,
- ✱ Inflationary pressures,
- ✱ Reduction in consumer spending in Europe and the USA,
- ✱ High cotton prices,
- ✱ Increase in interest rates,
- ✱ Rising power costs and logistics expenses,

the company started experiencing severe liquidity stress.

Consequently, Sunrise Textiles Limited approached its consortium banks for:

Proposed Restructuring:

- ✱ Extension of repayment period of term loans.
- ✱ Conversion of overdue interest into FITL.
- ✱ Additional Working Capital Assistance.
- ✱ Conversion of irregular working capital into WCTL.

- ✱ Reassessment of drawing power.

Before considering the proposal, the Lead Bank requested the company to submit projected sales for the next five years along with assumptions and supporting observations.

Existing Credit Facilities

Particulars	Amount (₹ Crores)
Term Loan-I	280
Term Loan-II	120
Cash Credit	250
Packing Credit	90
LC/BG Limits	80
Total Exposure	820

Historical Sales

Year	Sales (₹ Crores)
FY2022	2,450
FY2023	2,620
FY2024	2,320
FY2025	1,980

Sales declined by nearly 24%.

EBITDA Margin Trend

Year	EBITDA Margin
FY2022	13.5%
FY2023	12%
FY2024	9%
FY2025	6%

Margins are continuously declining.

Capacity Utilization:

Installed Capacity:

- ✱ Yarn: 90,000 MT
- ✱ Fabric: 60 million meters
- ✱ Garments: 35 million pieces

Current Utilization

Year	Capacity Utilization
FY2023	86%
FY2024	73%
FY2025	58%

Substantial idle capacity exists.

Export Exposure:

Exports contribute 55% of turnover.

Major Markets

Country	Contribution
USA	20%
UK	12%
Germany	10%
Canada	8%
Others	5%

Export orders reduced by 30% during FY2025.

Receivables Position:

Outstanding Debtors = ₹580 Crores.

Average Collection Period = 142 Days.

Industry Average = 90 Days.

Receivables quality has deteriorated.

Inventory Position:

Inventory holding period:

150 Days.

Industry average:

95 Days.

Large inventory accumulation due to weak demand.

Raw Material Risk:

Cotton prices increased by 22%.

Power cost increased by 18%.

Freight expenses increased by 15%.

Margins were severely affected.

Credit Rating

Year	Rating
FY2023	A-
FY2024	BBB+
FY2025	BBB-

Outlook: Negative.

Banking Conduct:

Observations:

- * Frequent overdrawings.
- * LC devolvement on three occasions.
- * Delay in servicing interest.
- * Continuous ad hoc limits.

ESG Compliance Issues:

Pollution Control Board issued notices regarding:

- * Wastewater treatment.
- * Effluent discharge norms.

Investment required:

₹60 Crores.

Failure to comply may affect export approvals.

Existing Order Book:

Confirmed Orders

Segment	Order Value (₹ Crores)
Domestic Retail Chains	680
Export Orders	420
E-commerce Platforms	160
Institutional Buyers	140
Total Orders	1,400

Management's Projection:

Management expects strong recovery and projects:

Year	Sales (₹ Crores)
FY2025	1,980
FY2026	2,475
FY2027	3,095
FY2028	3,870
FY2029	4,840
FY2030	6,050

Growth Assumption = 25% annually.

Bank's Concerns:

The consortium banks raised concerns regarding:

1. Declining sales.
2. Weak collections.
3. Inventory pile-up.
4. Export uncertainty.
5. High leverage.
6. Deteriorating margins.
7. Rating downgrade.
8. ESG compliance requirements.
9. Weak credit discipline.

Therefore, the banks appointed an independent consultant.

Consultant's Analysis:**Positive Factors:****Idle Capacity**

Current utilization only 58%.

No fresh capex required.

Strong Customer Relationships

Supplying to large retail chains for more than 15 years.

Existing Order Book

₹1,400 Crores of confirmed orders.

E-Commerce Opportunity

Growing online demand.

Expected contribution:

10% of sales by FY2030.

Promoter Contribution

Promoters agree to bring ₹100 Crores.

Government Support

PLI Scheme for textiles.

Export incentives available.

Negative Factors:

Global Slowdown

Demand remains uncertain.

High Receivables

142 days collection period.

Inventory Blockage

150 days inventory.

Rating Downgrade

BBB- with Negative outlook.

ESG Risks

Environmental investment mandatory.

High Interest Cost

Existing debt burden is heavy.

Weak Banking Conduct

Repeated irregularities.

Consultant's Assumptions

Factor	Impact
Industry recovery	+8%
Better capacity utilization	+6%
E-commerce growth	+4%
Domestic demand	+3%
Export uncertainty	-3%

Factor	Impact
High receivables	-2%
ESG expenditure	-2%
Competition	-2%

Net Sustainable Growth = 12%

Recommended Projected Sales

Year	Sales (₹ Crores)
FY2025	1,980
FY2026	2,218
FY2027	2,484
FY2028	2,782
FY2029	3,115
FY2030	3,490

Stress Testing:

Base Case

Growth = 12%

FY2030 Sales = ₹3,490 Crores.

Moderate Stress

Assumptions

- ✱ Export recovery delayed.
- ✱ Cotton prices increase by another 10%.
- ✱ Collection period remains above 130 days.

Growth = 7%.

FY2030 Sales = ₹2,777 Crores.

Severe Stress

Assumptions

- ✱ Recession in USA and Europe.
- ✱ Export demand declines further.
- ✱ Cotton prices rise sharply.
- ✱ Environmental restrictions affect production.

Growth = 3%.

FY2030 Sales = ₹2,295 Crores.

Consultant's Observations:

1. Management projections are optimistic and unsupported by historical performance.
2. Idle capacity and existing order book support moderate recovery.
3. Export uncertainty remains a major risk.
4. Inventory and receivables need substantial improvement.
5. ESG investment is unavoidable.
6. Promoter contribution improves restructuring viability.
7. Moderate stress scenario should be considered for repayment capability.

Questions for Discussion:

Question 1

Management projected 25% annual growth despite declining sales and margins.

Should banks accept management projections? Explain with reasons and suggest realistic projections.

Question 2

How should high receivables (142 days) and inventory holding period (150 days) influence:

- ✱ Sales projections,
- ✱ Working capital assessment,
- ✱ Cash flows, and
- ✱ Restructuring viability?

Question 3

The company has 42% idle capacity and confirmed orders worth ₹1,400 Crores.

Can idle capacity and order book alone justify higher sales projections? Explain.

Question 4

How should ESG compliance risk and possible restrictions by Pollution Control authorities be incorporated while preparing projected sales and restructuring viability?

Question 5

Under restructuring and ECL-based lending principles, should the bank rely on:

- ✱ Management projections,
- ✱ Base case,
- ✱ Moderate stress case, or

- ✴ Severe stress case

For determining:

- ✴ Additional working capital,
- ✴ FITL,
- ✴ WCTL,
- ✴ Repayment schedule, and
- ✴ Overall restructuring viability?

Learning Objective:

This case study demonstrates that during restructuring of stressed assets, projected sales cannot be based merely on management optimism or installed capacity. Banks and consultants must integrate historical trends, market realities, receivable quality, inventory levels, ESG risks, export uncertainty, credit discipline, and stress scenarios to arrive at realistic and sustainable projections capable of supporting long-term debt servicing and successful restructuring.

Answers to the Questions – Case Study on Sunrise Textiles Limited (STL)

Answer to Question 1:

Management projected 25% annual growth despite declining sales and margins. Should banks accept management projections? Explain with reasons and suggest realistic projections.

Facts

Particulars	Position
Sales declined from ₹2,620 Cr to ₹1,980 Cr	Negative trend
EBITDA Margin reduced from 12% to 6%	Profitability stress
Export orders reduced by 30%	Weak demand
Receivables	142 days
Inventory	150 days
Rating	BBB- (Negative)
Banking conduct	Weak
Debt burden	High

Analysis:

Management expects rapid recovery and proposes 25% growth. However, the following adverse factors warrant caution:

Positive Factors:

- ✴ Idle capacity available (42%).
- ✴ Existing order book of ₹1,400 Crores.

- Growth in e-commerce segment.
- Government incentives.
- Promoter contribution of ₹100 Crores.

Negative Factors:

- Global slowdown.
- Long receivable cycle.
- Inventory accumulation.
- Deteriorating margins.
- Weak banking conduct.
- ESG compliance requirements.

Consultant's Recommended Growth:

Net sustainable growth = 12%.

Recommended Sales Projection

Year	Sales (₹ Crores)
FY2025	1,980
FY2026	2,218
FY2027	2,484
FY2028	2,782
FY2029	3,115
FY2030	3,490

Conclusion:

Banks should not accept management projections. Realistic and evidence-based projections should be adopted.

Answer to Question 2:

How should high receivables (142 days) and inventory holding period (150 days) influence sales projections, working capital assessment, cash flows and restructuring viability?

Impact on Sales Projections:

Sales growth should be moderated because high receivables and inventory indicate poor conversion of sales into cash.

Growth assumptions should be conservative.

Impact on Working Capital:

Suppose projected sales are ₹2,500 Crores.

Receivables Requirement:

At 142 days:

Receivables =

$$₹2,500 \times 142/365$$

$$= ₹973 \text{ Crores}$$

At industry norm of 90 days:

$$= ₹616 \text{ Crores}$$

Excess blockage = ₹357 Crores.

Inventory Requirement:

At 150 days:

Inventory =

$$₹2,500 \times 150/365$$

$$= ₹1,027 \text{ Crores}$$

At 95 days industry norm:

$$= ₹651 \text{ Crores}$$

Excess inventory blockage

$$= ₹376 \text{ Crores.}$$

Total Additional Funds Blocked:

$$₹357 \text{ Cr} + ₹376 \text{ Cr}$$

$$= ₹733 \text{ Crores.}$$

Impact on Cash Flows:

Delayed collections result in:

- ✱ Interest servicing delays.
- ✱ Increased borrowing requirements.
- ✱ Higher finance costs.
- ✱ Lower DSCR.

Impact on Restructuring Viability:

High receivables and inventory may:

- ✱ Increase FITL requirement.
- ✱ Necessitate additional working capital.
- ✱ Increase chances of restructuring failure.

Conclusion:

Reduction in receivables and inventory levels is essential for successful restructuring.

Answer to Question 3

Can idle capacity and order book alone justify higher sales projections?

Facts:

Idle Capacity = 42%.

Confirmed Orders = ₹1,400 Crores.

Positive Side:

Idle capacity implies:

- No immediate capex required.
- Production can increase quickly.
- Better fixed-cost absorption.

Order book provides visibility of future business.

Limitations:

Orders do not always translate into sales because:

- ✱ Customers may defer purchases.
- ✱ Export markets remain uncertain.
- ✱ Working capital may not be available.
- ✱ Raw material prices may increase.
- ✱ Competition may intensify.

Banking Perspective:

Banks focus on:

- ✓ Cash flows.
- ✓ Collection efficiency.
- ✓ Margins.
- ✓ Debt servicing ability.

rather than merely capacity.

Conclusion:

Idle capacity and order book are enabling factors but cannot independently justify aggressive growth assumptions.

Answer to Question 4

How should ESG compliance risks and Pollution Control restrictions be incorporated while preparing projected sales and restructuring viability?

Existing Situation:

Pollution Control Board has issued notices.

Required investment = ₹60 Crores.

Failure to comply may result in:

- ✱ Production restrictions.
- ✱ Export disqualification.
- ✱ Penalties.
- ✱ Loss of customers.

Scenario Analysis:

Scenario-I

ESG investment completed.

Growth = 12%.

FY2030 Sales = ₹3,490 Crores.

Scenario-II

Investment delayed.

Growth reduces to 7%.

FY2030 Sales = ₹2,777 Crores.

Scenario-III

Regulatory restrictions imposed.

Growth reduces to 3%.

FY2030 Sales = ₹2,295 Crores.

Impact on Restructuring:

Without ESG compliance:

- ✱ DSCR falls below acceptable levels.
- ✱ Cash accruals weaken.
- ✱ Viability deteriorates.

Therefore, banks should treat ESG investment as a pre-condition for restructuring.

Conclusion:

ESG compliance is no longer optional; it has become a critical determinant of future sales and repayment capacity.

Answer to Question 5

Under restructuring and ECL-based lending principles, which scenario should banks rely upon?

(A) Management Projections:

✗ Not advisable.

Reasons:

- ✱ Overly optimistic.
- ✱ Inconsistent with historical trends.
- ✱ Ignore downside risks.

(B) Base Case:

Useful for:

- ✱ Normal business planning.
- ✱ Estimation of potential growth.

But it does not sufficiently capture risks.

(C) Moderate Stress Case:

✓ Most appropriate for restructuring decisions.

Moderate Stress Assumptions:

- ✱ Export recovery delayed.
- ✱ Cotton prices increase.
- ✱ Receivables remain above 130 days.

Growth = 7%.

FY2030 Sales = ₹2,777 Crores.

This scenario reflects realistic cash generation.

(D) Severe Stress Case:

Useful for:

- ✱ ECL provisioning.
- ✱ Probability of default assessment.
- ✱ Stress testing.

Not suitable for normal repayment schedules.

Recommended Approach:

Purpose	Scenario Recommended
Additional Working Capital	Moderate Stress Case
FITL	Moderate Stress Case
WCTL	Moderate Stress Case

Purpose	Scenario Recommended
Repayment Schedule	Moderate Stress Case
Viability Study	Base Case + Moderate Stress
ECL Assessment	Severe Stress Case
ICAAP / Stress Testing	Severe Stress Case
Internal Risk Rating	Moderate + Severe Stress

Overall Conclusion:

Banks should not approve restructuring proposals based on management optimism alone. Under the RBI prudential framework, ECL methodology, and modern stress-testing principles, restructuring viability should primarily be assessed using the **Moderate Stress Scenario**, while the **Severe Stress Scenario** should be used for expected credit loss estimation and contingency analysis.

Thus, sustainable cash flows under stressed conditions—not merely projected turnover—should form the basis for determining additional working capital, FITL, WCTL, repayment schedules, and overall restructuring viability.

Key Learning from the Case Study:

Higher projected sales do not guarantee successful restructuring. Successful restructuring depends on the ability of the business to generate sustainable cash flows and service debt even under adverse economic conditions. Therefore, realistic projections supported by stress testing are far more important than optimistic sales estimates.

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Case Study-6:

Restructuring of Loans and Determination of Projected Sales of GreenTech Solar Equipments Limited (GSEL) under Industry Slowdown and Geopolitical Disruptions

Background

GreenTech Solar Equipments Limited (GSEL) is a medium-sized company engaged in manufacturing:

- ✱ Solar Modules
- ✱ Solar Cells
- ✱ Inverters
- ✱ Battery Energy Storage Systems (BESS)
- ✱ EPC Services for Solar Projects

The company supplies products to:

- ✱ State Electricity Boards
- ✱ Renewable Energy Developers
- ✱ Government Solar Projects
- ✱ Commercial and Industrial Consumers
- ✱ Export Markets in Africa and the Middle East

During FY2024 and FY2025, the company faced severe liquidity stress because of:

- ✱ Global slowdown.
- ✱ China-Taiwan geopolitical tensions affecting supply chains.
- ✱ Increase in polysilicon prices.
- ✱ Delayed payments from State Electricity Boards.
- ✱ Intense competition from Chinese imports.
- ✱ Reduction in export demand.
- ✱ Delays in execution of Government solar projects.
- ✱ Increase in interest rates.

Consequently, the company approached its consortium bankers for restructuring under the RBI Prudential Framework.

Existing Credit Facilities

Facilities	Amount (₹ Crores)
Term Loan-I	420

Working Capital Limits	300
LC/BG Limits	180
ECB Loan	100
Total Exposure	1,000

Relief Requested by the Company:

The company sought:

- ✱ Extension of repayment period from 8 years to 12 years.
- ✱ Moratorium for two years.
- ✱ Conversion of overdue interest into FITL.
- ✱ Additional Working Capital of ₹100 Crores.
- ✱ WCTL of ₹80 Crores.

Historical Sales Performance

Year	Sales (₹ Crores)
FY2022	2,850
FY2023	3,120
FY2024	2,940
FY2025	2,520

Sales declined by nearly 19%.

EBITDA Trend

Year	EBITDA Margin
FY2022	16%
FY2023	15%
FY2024	11%
FY2025	7%

Profitability deteriorated significantly.

Capacity Utilization:

Installed Capacity:

Solar Modules: 3 GW

Current Production:

Year	Capacity Utilization
FY2023	88%
FY2024	75%
FY2025	58%

42% capacity remains idle.

Receivables Position

Particulars	Amount
Debtors Outstanding	₹820 Crores
Collection Period	150 Days
Industry Norm	90 Days

Major debtors include State Electricity Boards.

Delayed payments have affected liquidity.

Inventory Position:

Inventory held:

₹700 Crores.

Inventory Holding Period:

160 days.

Industry norm:

100 days.

Export Exposure:

Exports constitute 28% of turnover.

Major destinations:

- ✱ UAE
- ✱ Kenya
- ✱ South Africa
- ✱ Saudi Arabia

Export orders declined by 25%.

Raw Material Dependency:

The company imports:

- ✱ Solar wafers.
- ✱ Polysilicon.

- ✳ Electronic components.

Import dependence = 65%.

Currency fluctuations and geopolitical tensions increased costs substantially.

Banking Conduct:

Adverse Features:

- ✳ Continuous over-utilization of CC limits.
- ✳ LC devolvement twice.
- ✳ Delays in servicing interest.
- ✳ Frequent requests for ad hoc limits.

Year	Rating
FY2023	A
FY2024	BBB+
FY2025	BBB

Outlook: Negative.

ESG Strengths:

Positive Factors:

- ✓ Carbon-neutral manufacturing.
- ✓ Green energy usage.
- ✓ Water recycling systems.
- ✓ ESG-compliant operations.

Hence, ESG risk is low.

Government Support:

Positive Developments:

- ✳ PM Surya Ghar Yojana.
- ✳ National Green Hydrogen Mission.
- ✳ Production Linked Incentive (PLI) Scheme.
- ✳ Make in India Programme.

Industry growth expected:

14%.

Existing Order Book:

Segment	Order Book (₹ Crores)
State Utilities	1,050
Private Developers	650
EPC Contracts	400
Exports	300
Total	2,400

Management Projection:

Management assumed strong revival and projected:

Year	Sales (₹ Crores)
FY2025	2,520
FY2026	3,276
FY2027	4,259
FY2028	5,537
FY2029	7,198
FY2030	9,357

Annual growth = 30%.

Concerns Raised by Banks:**Negative Factors:**

- ❖ Declining sales.
- ❖ Weak profitability.
- ❖ Collection period of 150 days.
- ❖ Inventory blockage.
- ❖ Rating downgrade.
- ❖ High import dependence.
- ❖ Geopolitical risks.
- ❖ Weak banking conduct.

Therefore, banks appointed an Independent TEV Consultant.

Consultant's Analysis:**Positive Factors:****Strong Industry Outlook**

Renewable energy sector expected to grow by 14%.

Existing Order Book

₹2,400 Crores confirmed orders.

Idle Capacity

42% spare capacity available.

No major capex required.

Government Support

PLI incentives and renewable energy policies support future growth.

Promoter Contribution

Promoters agreed to infuse ₹150 Crores.

Negative Factors

Collection Period

150 days.

Inventory Holding

160 days.

Geopolitical Risks

Import dependence is high.

Rating Downgrade

Borrowing costs are increasing.

Weak Banking Discipline

LC devolvement and irregularities.

Consultant's Growth Assumptions

Particulars	Impact
Industry Growth	+14%
Capacity Utilization Improvement	+6%
Order Book	+5%
Government Incentives	+4%
Geopolitical Risks	-4%
Collection Issues	-3%
Inventory Blockage	-2%
Competition	-2%

Sustainable Growth

≈ 18%

Projected Sales Recommended by TEV Consultant

Year	Sales (₹ Crores)
FY2025	2,520
FY2026	2,974
FY2027	3,480
FY2028	4,071
FY2029	4,763
FY2030	5,572

Stress Testing:

Base Case:

Growth = 18%

FY2030 Sales = ₹5,572 Crores.

Moderate Stress:

Assumptions:

- ✱ State Electricity Board payments remain delayed.
- ✱ Import prices rise by 10%.
- ✱ Export recovery delayed.

Growth = 10%.

FY2030 Sales = ₹4,058 Crores.

Severe Stress:

Assumptions:

- ✱ Geopolitical tensions intensify.
- ✱ Chinese imports become cheaper.
- ✱ Government projects delayed.
- ✱ Export demand weakens further.

Growth = 5%.

FY2030 Sales = ₹3,217 Crores.

Viability Ratios

Ratio	Base Case	Moderate Stress	Severe Stress
DSCR	1.68	1.32	0.98
Interest Coverage	2.35	1.70	1.05
Current Ratio	1.28	1.14	0.97

TEV Consultant's Observations:

Strengths

- ✓ Large order book.
- ✓ Strong industry outlook.
- ✓ Government support.
- ✓ ESG compliance.
- ✓ Idle capacity.
- ✓ Promoters' contribution.

Weaknesses

- ✗ Long collection cycle.
- ✗ Inventory accumulation.
- ✗ High import dependence.
- ✗ Rating downgrade.
- ✗ Weak banking conduct.
- ✗ Margin pressure.

Consultant's Recommendations:

Restructuring may be considered subject to:

1. Promoters infusing ₹150 Crores.
2. Collection period reduced to below 100 days.
3. Inventory reduced by ₹250 Crores.
4. Additional working capital support provided.
5. FITL and WCTL sanctioned.
6. Quarterly monitoring by banks.
7. Monthly cash-flow reporting.

QUESTIONS FOR DISCUSSION:

Question 1

Management projected annual growth of 30%, whereas the TEV consultant recommended 18%.

Should banks accept management projections? Explain with reasons and suggest which projections should be relied upon.

Question 2

How should banks quantify the impact of:

- ✱ Collection period of 150 days,
- ✱ Inventory holding of 160 days,
- ✱ LC devolvement,
- ✱ Rating downgrade, while arriving at projected sales?

Question 3

Despite 42% idle capacity and an order book of ₹2,400 Crores, sales have declined.

Can idle capacity and order book alone justify higher projected sales?

Question 4

How should geopolitical risks and import dependence be incorporated into projected sales and restructuring viability?

Question 5

Under ECL-based lending and restructuring principles, should banks rely upon:

- ✱ Management projections,
- ✱ Base Case,
- ✱ Moderate Stress Case, or
- ✱ Severe Stress Case

For determining:

- ✱ Additional Working Capital,
- ✱ FITL,
- ✱ WCTL,
- ✱ Repayment Schedule, and
- ✱ Overall Restructuring Viability?

Learning Objective:

This live case study demonstrates that projected sales for restructuring cannot be based merely on management optimism, installed capacity, or order book position. Sustainable cash flows, quality of receivables, inventory

levels, geopolitical risks, banking conduct, and stress testing under ECL principles are critical in determining realistic sales projections and successful restructuring of stressed corporate loans.

Answers to the Questions – Case Study on GreenTech Solar Equipments Limited (GSEL)

Answer to Question 1

Management projected annual growth of 30%, whereas the TEV consultant recommended 18%. Should banks accept management projections? Explain with reasons and suggest which projections should be relied upon.

Facts

Particulars	Observation
Sales declined from ₹3,120 Cr to ₹2,520 Cr	Negative growth
EBITDA margin declined from 15% to 7%	Margin pressure
Receivables period	150 days
Inventory holding	160 days
Rating	BBB (Negative)
Banking conduct	Weak
Import dependence	65%
Geopolitical risks	High

Positive Factors:

- ✓ Industry growth expected at 14%.
- ✓ Large order book of ₹2,400 Crores.
- ✓ 42% idle capacity available.
- ✓ Government support through PLI and PM Surya Ghar Yojana.
- ✓ Promoters' contribution of ₹150 Crores.

Negative Factors:

- ✗ Deteriorating sales trend.
- ✗ Long receivable cycle.
- ✗ Excess inventory.
- ✗ Rating downgrade.
- ✗ LC devolvement.
- ✗ Import dependency.
- ✗ Margin pressure.

Analysis:

Management projected:

₹2,520 Cr → ₹9,357 Cr in five years.

This implies a CAGR of 30%, which is inconsistent with:

- ✱ Historical sales decline.
- ✱ Weak cash flows.
- ✱ Banking irregularities.
- ✱ Collection inefficiencies.

The TEV consultant's growth assumption of 18% is more realistic.

Recommended Sales

Year	Sales (₹ Crores)
FY2025	2,520
FY2026	2,974
FY2027	3,480
FY2028	4,071
FY2029	4,763
FY2030	5,572

Conclusion:

Banks should reject management projections and rely upon TEV projections supported by stress scenarios.

Answer to Question 2

How should banks quantify the impact of collection period, inventory holding, LC devolvement and rating downgrade?

(A) Collection Period – 150 Days:

Assume projected sales of ₹3,500 Crores.

Receivables requirement:

150 days

$$= ₹3,500 \times 150/365$$

$$= ₹1,438 \text{ Crores.}$$

At industry norm of 90 days:

$$= ₹863 \text{ Crores.}$$

Additional blockage:

$$₹575 \text{ Crores.}$$

Therefore, growth assumptions should be reduced by about 3%.

(B) Inventory Holding – 160 Days:

Inventory requirement:

$$₹3,500 \times 160/365$$

$$= ₹1,534 \text{ Crores.}$$

At industry norm of 100 days:

$$= ₹959 \text{ Crores.}$$

Excess inventory blockage:

$$₹575 \text{ Crores.}$$

Hence, growth should be moderated by 2%.

(C) LC Devolvement:

LC devolvement indicates:

- ✱ Liquidity stress.
- ✱ Weak financial discipline.
- ✱ Supply-chain disruptions.

Risk adjustment:

$$(-2\%)$$

(D) Rating Downgrade:

A → BBB.

Consequences:

- ✱ Increased borrowing cost.
- ✱ Reduced confidence of suppliers.
- ✱ Reduced market access.

Risk adjustment:

$$(-2\%)$$

Total Downward Adjustment

Risk	Impact
Receivables	-3%
Inventory	-2%
LC devolvement	-2%
Rating downgrade	-2%
Total	-9%

Conclusion:

These risks should be incorporated quantitatively while determining projected sales.

Answer to Question 3

Can idle capacity and order book alone justify higher projected sales?

Positive Side:

42% idle capacity means:

- ✱ No fresh capex required.
- ✱ Capacity available for growth.
- ✱ Better operating leverage.

Order book of ₹2,400 Crores provides visibility.

Limitations:

Sales realization depends on:

- ✱ Timely execution.
- ✱ Availability of working capital.
- ✱ Customer payments.
- ✱ Raw material supply.
- ✱ Competition.
- ✱ Project delays.

Therefore, order book and idle capacity only provide opportunity—not certainty.

Banking Perspective:

Banks focus on:

- ✓ Cash flows.
- ✓ EBITDA.
- ✓ DSCR.
- ✓ Debt servicing ability.
- ✓ Working capital cycle.

rather than installed capacity alone.

Conclusion:

Idle capacity and order book cannot independently justify aggressive sales projections.

Answer to Question 4

How should geopolitical risks and import dependence be incorporated into projected sales and restructuring

viability?**Present Position:**

Import dependence = 65%.

Major imported inputs:

- ✱ Solar wafers.
- ✱ Polysilicon.
- ✱ Electronic components.

Risks include:

- ✱ Exchange-rate volatility.
- ✱ Tariffs.
- ✱ Shipping disruptions.
- ✱ Supply shortages.
- ✱ Global trade restrictions.

Scenario Analysis:**Base Case**

Growth = 18%.

FY2030 Sales = ₹5,572 Crores.

Moderate Stress

Import prices increase by 10%.

Export recovery delayed.

Growth = 10%.

FY2030 Sales = ₹4,058 Crores.

Severe Stress

Geopolitical tensions intensify.

Chinese competition increases.

Project delays continue.

Growth = 5%.

FY2030 Sales = ₹3,217 Crores.

Impact on Restructuring

Under severe stress:

DSCR falls below 1.

Cash accruals become insufficient.

Restructuring may fail.

Therefore, banks should examine:

- ✳ Hedging policy.
- ✳ Alternate sourcing.
- ✳ Localization plans.
- ✳ Inventory management.

Conclusion:

Geopolitical risks must be incorporated through stress scenarios rather than ignored.

Answer to Question 5

Under ECL-based lending and restructuring principles, which scenario should banks rely upon?

(A) Management Projection:

✗ Not recommended.

Reasons:

- ✳ Highly optimistic.
- ✳ Unsupported by historical performance.
- ✳ Ignores downside risks.

(B) Base Case:

Useful for:

- ✳ Business planning.
- ✳ Capacity assessment.
- ✳ Viability estimation.

However, it assumes normal conditions.

(C) Moderate Stress Case:

✓ Most suitable for restructuring decisions.

Moderate Stress Sales FY2030:

₹4,058 Crores.

This scenario captures:

- ✳ Delayed collections.
- ✳ Import cost increases.
- ✳ Export uncertainties.

- ✱ Slower recovery.

(D) Severe Stress Case:

Suitable for:

- ✱ ECL provisioning.
- ✱ Stress testing.
- ✱ Probability of default analysis.
- ✱ Recovery assessment.

Not suitable for repayment scheduling.

Recommended Approach

Purpose	Appropriate Scenario
Additional Working Capital	Moderate Stress Case
FITL Structuring	Moderate Stress Case
WCTL Conversion	Moderate Stress Case
Repayment Schedule	Moderate Stress Case
TEV Study	Base + Moderate Stress
ECL Assessment	Severe Stress Case
Stress Testing	Severe Stress Case
Internal Credit Rating	Moderate + Severe Stress

Overall Conclusion:

Under RBI's Prudential Framework for Resolution of Stressed Assets and the upcoming ECL regime, banks should avoid relying on optimistic management projections. Instead, restructuring viability should be based primarily on the **Moderate Stress Scenario**, while the **Severe Stress Scenario** should be used for Expected Credit Loss (ECL) assessment and downside risk analysis.

Thus, the success of restructuring depends not on ambitious sales projections but on the company's ability to generate sustainable cash flows and maintain debt servicing capability under adverse economic and geopolitical conditions.

Key Learning from the Case Study:

Projected Sales are not merely a mathematical growth exercise. They must be scientifically determined by evaluating historical trends, industry outlook, order book position, capacity utilization, receivable quality, inventory levels, geopolitical risks, banking conduct, ESG factors, and stress scenarios. Sustainable cash flows—not optimistic turnover estimates—are the foundation of successful restructuring and prudent banking.

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Provisioning (IRAC) Norms.

3. Insolvency and Bankruptcy Board of India. *Insolvency and Bankruptcy Code, 2016* and related regulations on corporate resolution.
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Chapter 9

Evaluation of Operating Costs in Restructuring Proposals

Synopsis:

Evaluation of Operating Costs in Restructuring Proposals is a critical aspect of bank loan restructuring, as the viability of a restructuring package depends not only on projected sales but also on the borrower's ability to control and manage operating expenses. The chapter explains various components of operating costs, including raw materials, employee expenses, power and fuel, manufacturing overheads, administrative expenses, selling and distribution costs, repairs and maintenance, utilities, insurance, and other operational expenditures. It discusses the methods used by banks and Techno-Economic Viability (TEV) consultants to project future costs, such as consumption norms, percentage-of-sales, inflation-based, and historical trend methods. The chapter further highlights cost-control measures expected from borrowers, the verification mechanisms adopted by banks, sector-wise benchmark ratios, and the importance of historical data and trend analysis in assessing business viability, cash flow generation, EBITDA, DSCR, and debt servicing capacity. Ultimately, realistic cost projections, effective cost management, and continuous monitoring are essential for ensuring the long-term success and sustainability of a restructuring proposal.

When banks restructure loans, they estimate not only **future turnover (sales)** but also the **operating costs required to generate those sales**. The difference between sales and operating expenses is called **Operating Profit (EBITDA or Cash Profit)**, which is the primary source for servicing interest and loan repayments. Therefore, while preparing a restructuring package, banks examine the reasonableness of each cost component.

In a manufacturing industry, operating expenses generally consist of the following categories:

1. Raw Material and Consumable Costs

These are the direct costs incurred to manufacture products.

Components

- ✱ Raw materials and components.
- ✱ Packing materials.
- ✱ Consumables (chemicals, lubricants, welding rods, etc.).
- ✱ Stores and spares consumed.

- ✱ Freight inward and unloading charges.
- ✱ Import duties and customs charges (where applicable).

Example: For a cement unit, limestone, gypsum, fly ash, and packing bags constitute raw material costs.

2. Employee Costs (Labour Expenses)

These are expenses relating to human resources.

Components

- ✱ Salaries and wages.
- ✱ Overtime wages.
- ✱ Bonus and incentives.
- ✱ Employer's contribution to PF and ESI.
- ✱ Gratuity and leave encashment provisions.
- ✱ Staff welfare expenses.
- ✱ Contract labour charges.

Bank's Assessment: Labour cost should normally increase in proportion to production volume.

3. Power and Fuel Expenses

Power cost is a major expense in many manufacturing industries.

Components

- ✱ Electricity charges.
- ✱ Diesel for generators.
- ✱ Coal, gas, furnace oil, biomass, or steam.
- ✱ Water charges.
- ✱ Fuel handling costs.

Industries with high power costs: Steel, cement, chemicals, and textiles.

4. Manufacturing and Factory Overheads

These are indirect production costs.

Components

- ✱ Repairs and maintenance of machinery.
- ✱ Factory rent.
- ✱ Factory insurance.

- ✱ Stores and spares consumed.
- ✱ Quality control expenses.
- ✱ Safety equipment and protective clothing.
- ✱ Small tools and consumables.
- ✱ Production supervision expenses.

5. Selling and Distribution Expenses

These are expenses incurred to market and deliver products.

Components

- ✱ Advertisement and publicity.
- ✱ Sales commission.
- ✱ Dealer incentives.
- ✱ Freight outward and transportation.
- ✱ Warehousing expenses.
- ✱ Packing and forwarding charges.
- ✱ Export expenses.
- ✱ After-sales service costs.

6. Administrative and General Expenses

These are office and management-related expenses.

Components

- ✱ Office salaries.
- ✱ Directors' remuneration.
- ✱ Rent and municipal taxes.
- ✱ Telephone, internet, and postage.
- ✱ Printing and stationery.
- ✱ Legal and professional fees.
- ✱ Audit fees.
- ✱ Travel and conveyance.
- ✱ Security charges.
- ✱ Housekeeping expenses.

- ✳ Membership and subscription fees.

7. Repairs and Maintenance Expenses

Necessary to keep plant and equipment operational.

Components

- ✳ Machinery maintenance.
- ✳ Building maintenance.
- ✳ Vehicle maintenance.
- ✳ Annual maintenance contracts (AMCs).
- ✳ Replacement of worn-out parts.

8. Utility Expenses

Components

- ✳ Water supply.
- ✳ Compressed air.
- ✳ Steam generation.
- ✳ Effluent treatment plant expenses.
- ✳ Waste disposal charges.
- ✳ Pollution control expenses.

9. Insurance Expenses

Components

- ✳ Factory and building insurance.
- ✳ Plant and machinery insurance.
- ✳ Stock insurance.
- ✳ Transit insurance.
- ✳ Employees' compensation insurance.

10. Research and Development (R&D) Expenses

Particularly relevant for pharmaceutical, chemical, and engineering industries.

Components

- ✳ Product development costs.

- ✱ Testing and laboratory expenses.
- ✱ Prototype development.
- ✱ Technical consultancy fees.

11. Information Technology and Communication Expenses

Components

- ✱ ERP software maintenance.
- ✱ Computer maintenance.
- ✱ Internet and communication expenses.
- ✱ Cybersecurity expenses.
- ✱ Cloud services and software subscriptions.

12. Statutory and Regulatory Expenses

Components

- ✱ Factory licence fees.
- ✱ Pollution control board fees.
- ✱ GST compliance expenses.
- ✱ Professional tax.
- ✱ Inspection charges.
- ✱ Environmental compliance expenses.

13. Miscellaneous Operating Expenses

Components

- ✱ Training expenses.
- ✱ Recruitment costs.
- ✱ CSR expenditure (where regular and operational).
- ✱ Hospitality expenses.
- ✱ Bank charges related to operations.
- ✱ Security and surveillance costs.

Costs Generally Excluded from Operating Expenses

Banks usually exclude the following while calculating operating surplus:

Non-Operating/Financing Costs	Treatment
Interest on term loans and working capital	Excluded (considered separately)
Depreciation	Non-cash expense; added back for cash-flow analysis
Income tax	Excluded for EBITDA calculations
Capital expenditure	Not an operating expense
Dividend payments	Appropriation of profits
Loss on sale of assets	Non-operating item
Extraordinary expenses	Treated separately

Typical Cost Structure in Manufacturing Industries

Cost Head	Percentage of Sales (Indicative)
Raw Materials	45–70%
Employee Costs	5–15%
Power and Fuel	5–20%
Manufacturing Overheads	3–10%
Selling and Distribution	2–10%
Administrative Expenses	2–8%
Repairs and Maintenance	1–5%
Other Operating Expenses	1–5%
EBITDA Margin	8–20%

Relevance in Loan Restructuring

While restructuring loans, banks project:

Sales Revenue

(-) Raw Material Costs

(-) Employee Costs

(-) Power & Fuel Costs

(-) Manufacturing, Administrative and Selling Expenses

= EBITDA (Operating Profit/Cash Surplus)

(-) Interest Obligations

= Profit Before Tax

(+) Depreciation (non-cash)

= Cash Accruals Available for Term Loan Repayment

Thus, the viability of a restructuring proposal depends largely on whether the **projected operating surplus generated after meeting all operating expenses is sufficient to service debt and maintain a sustainable Debt Service Coverage Ratio (DSCR)**. Banks therefore scrutinize each operating cost component and benchmark it against industry norms before approving a restructuring package.

✱ Techno-Economic Viability (TEV) Study:

When banks restructure loans or prepare a Techno-Economic Viability (TEV) study, the projection of costs is as important as the projection of sales. The objective is to estimate the **future operating expenses realistically**, considering production levels, inflation, efficiency improvements, and industry conditions. Different cost items are projected using different methods because some costs vary with production while others remain relatively fixed.

1. Raw Material Cost Projection

Methods

(a) Consumption Norm Method

Based on standard input-output ratios.

Formula:

Raw Material Cost = Projected Production Quantity × Material Consumption per Unit × Unit Price

Example

✱ Production = 10,000 MT

✱ Raw material required = 1.2 MT per MT of output

✱ Price = ₹20,000 per MT

Raw Material Cost = 10,000 × 1.2 × 20,000 = 24 crore

(b) Percentage of Sales Method

Raw Material Cost = Sales × Historical Material Cost %

Usually used where consumption norms are unavailable.

(c) Inflation/Escalation Method

Current cost is increased by expected inflation (say 4–6%).

2. Employee Cost Projection

Methods

(a) Annual Increment Method

Previous year's wages plus annual increments and DA revisions.

Formula:

Projected Employee Cost = Previous Cost $\times$ (1 + Increase %)

(b) Manpower-Based Method

Projected Cost = Number of Employees $\times$ Average Salary

Suitable for expanding industries.

(c) Percentage of Sales Method

Labour Cost = Sales $\times$ Historical Labour %

3. Power and Fuel Cost Projection**Methods****Specific Consumption Method**

Power Cost = Production $\times$ Units Consumed per Unit $\times$ Tariff

Example

✱ Production = 10,000 MT

✱ Power consumption = 90 units/MT

✱ Tariff = ₹8/unit

Power Cost = ₹72 lakh

This is one of the most reliable methods used in TEV studies.

4. Repairs and Maintenance Cost**Methods****(a) Percentage of Gross Block**

Usually 1–3% of plant and machinery value.

Formula

Repair Cost = Gross Block $\times$ Specified %

(b) Historical Trend Method

Based on average growth over previous years.

5. Selling and Distribution Expenses

Methods

Percentage of Sales Method

$\text{Selling Expenses} = \text{Sales} \times \text{Historical Selling Expense \%}$

Typical range: 2–10%.

6. Administrative Expenses

Methods

(a) Inflation-Based Projection

Previous year's expenses escalated by 5–8%.

(b) Fixed Cost Approach

Some expenses such as audit fees and office rent remain fixed and are increased marginally.

7. Factory Overheads

Methods

Cost-to-Production Ratio

$\text{Factory Overheads} = \text{Production} \times \text{Cost per Unit}$

or

$\text{Factory Overheads} = \text{Sales} \times \text{Historical \%}$

8. Freight and Transportation Costs

Methods

Per Unit Basis

$\text{Freight Cost} = \text{Quantity Sold} \times \text{Freight per Unit}$

Percentage of Sales Basis

Used when freight charges are stable historically.

9. Interest Cost

Method

Based on projected debt outstanding.

Interest = Average Outstanding Loan × Interest Rate

Separate calculations are made for:

- ✱ Working Capital Interest
- ✱ Term Loan Interest

10. Depreciation

Method

According to the Companies Act or Income Tax rates.

Straight Line Method (SLM):

Depreciation = $(\text{Cost} - \text{Residual Value}) / \text{Useful Life}$

Written Down Value (WDV):

Depreciation = $\text{WDV} \times \text{Rate}$

11. Working Capital Requirement

Operating Cycle Method

Current Assets – Current Liabilities

Based on:

- ✱ Raw material holding period.
- ✱ WIP period.
- ✱ Finished goods period.
- ✱ Debtors' collection period.
- ✱ Creditors period.

Broad Classification of Cost Projection Methods

Method	Suitable For
Historical Trend Method	Administrative expenses, repairs
Percentage of Sales Method	Selling expenses, employee cost
Specific Consumption Method	Raw materials, power, fuel
Inflation/Escalation Method	General expenses
Capacity Utilization Method	Manufacturing overheads

Method	Suitable For
Per Unit Cost Method	Freight, utilities
Normative Method	Input-output ratios
Regression/Statistical Method	Large industries and TEV studies
Zero-Based Budgeting	Cost restructuring cases
Benchmarking Method	Comparison with industry standards

Methods Commonly Used by Banks During Restructuring

Cost Head	Preferred Method
Raw Materials	Consumption Norm + Price Escalation
Power & Fuel	Specific Consumption Method
Employee Cost	Annual Increment Method
Repairs & Maintenance	% of Gross Block
Selling Expenses	% of Sales
Administrative Expenses	Inflation Method
Depreciation	Statutory Method
Interest	Debt Outstanding Method
Working Capital	Operating Cycle Method

Integrated Approach Used in TEV Studies and Restructuring Packages

Banks and consultants generally combine several methods:

- ✦ Project sales volume and capacity utilization.
- ✦ Estimate raw material and utility costs using technical consumption norms.
- ✦ Project fixed costs based on historical trends and inflation.
- ✦ Benchmark costs against industry averages.
- ✦ Prepare projected Profit & Loss Account and Cash Flow Statement.
- ✦ Calculate EBITDA and Debt Service Coverage Ratio (DSCR).
- ✦ Assess whether cash accruals are sufficient to service restructured debt.

Thus, cost projections in restructuring are not based on a single method; they are a combination of **technical norms, historical trends, inflation assumptions, percentage relationships, and industry benchmarks** to arrive at realistic estimates of future operating expenses and cash generation.

Measures to Control Costs:

During restructuring of stressed advances, banks do not merely rely on projected sales and cost estimates. They also assess **whether the borrower has taken concrete and sustainable measures to control costs and improve operational efficiency**, because the success of restructuring depends on the borrower's ability to generate adequate cash surplus. Accordingly, banks examine both the **cost-control initiatives proposed by the company** and the **mechanisms to verify their implementation**.

1. Raw Material Cost Control

Measures by the Company

- ✦ Negotiate better prices with suppliers.
- ✦ Enter into long-term procurement contracts.
- ✦ Reduce wastage and rejection rates.
- ✦ Adopt inventory management techniques such as EOQ and JIT.
- ✦ Use alternate materials or local sourcing.
- ✦ Improve yield and recovery ratios.

How Banks Verify

- ✦ Review purchase invoices and supplier agreements.
- ✦ Compare material consumption ratios with past trends and industry norms.
- ✦ Examine stock statements and inventory ageing reports.
- ✦ Verify input-output ratios through TEV studies and technical audits.
- ✦ Review cost audit reports and management information systems (MIS).

2. Employee Cost Rationalization

Measures by the Company

- ✦ Optimize manpower deployment.
- ✦ Reduce overtime and contract labour costs.
- ✦ Introduce automation and digitization.
- ✦ Freeze recruitment and voluntary retirement schemes.
- ✦ Link incentives to productivity.

Bank Verification

- ✦ Examine payroll records and employee strength.
- ✦ Compare employee cost as a percentage of sales.

- ✱ Review monthly salary statements and PF/ESI payments.
- ✱ Verify productivity indicators such as output per employee.

3. Power and Fuel Cost Reduction

Measures by the Company

- ✱ Install energy-efficient equipment.
- ✱ Use solar power or captive generation.
- ✱ Reduce idle machine running time.
- ✱ Improve fuel efficiency and preventive maintenance.
- ✱ Conduct energy audits.

Bank Verification

- ✱ Analyse electricity bills and fuel consumption records.
- ✱ Compare unit consumption with industry benchmarks.
- ✱ Review energy audit reports.
- ✱ Verify savings through monthly operational statements.

4. Manufacturing and Production Cost Control

Measures by the Company

- ✱ Increase capacity utilization.
- ✱ Reduce machine downtime.
- ✱ Improve process efficiency and quality control.
- ✱ Implement Lean Manufacturing, Six Sigma, or Kaizen practices.
- ✱ Minimize scrap and rework.

Bank Verification

- ✱ Examine production reports and rejection rates.
- ✱ Compare capacity utilization levels.
- ✱ Obtain technical consultant or TEV reports.
- ✱ Conduct factory visits and stock inspections.

5. Administrative Cost Reduction

Measures by the Company

- ✱ Rationalize office expenses.

- ✦ Reduce travel and discretionary expenditures.
- ✦ Digitize processes and documentation.
- ✦ Outsource non-core activities.

Bank Verification

- ✦ Analyse financial statements and expense schedules.
- ✦ Compare administrative expenses with previous years.
- ✦ Review variance analysis and budgets.

6. Selling and Distribution Cost Optimization

Measures by the Company

- ✦ Optimize logistics and transportation.
- ✦ Shift to digital marketing.
- ✦ Reduce warehousing costs.
- ✦ Improve receivable collection efficiency.

Bank Verification

- ✦ Examine freight expenses and debtor ageing reports.
- ✦ Compare distribution costs with sales.
- ✦ Review customer concentration and collection periods.

7. Working Capital Management

Measures by the Company

- ✦ Reduce inventory holding period.
- ✦ Improve receivable collections.
- ✦ Negotiate better credit terms with suppliers.
- ✦ Eliminate slow-moving inventory.

Bank Verification

- ✦ Review stock statements and debtor ageing.
- ✦ Monitor drawing power calculations.
- ✦ Compare operating cycle assumptions with actual performance.
- ✦ Conduct periodic stock audits.

8. Finance Cost Reduction

Measures by the Company

- ✱ Reduce dependence on short-term borrowings.
- ✱ Improve cash flow management.
- ✱ Infuse additional promoter contribution.
- ✱ Dispose of non-core assets and use proceeds for debt reduction.

Bank Verification

- ✱ Monitor promoter contribution and equity infusion.
- ✱ Verify sale proceeds of surplus assets.
- ✱ Review cash flow statements and bank account operations.

Specific Conditions Imposed by Banks During Restructuring

Banks often stipulate:

- ✱ Promoters to infuse additional equity.
- ✱ No dividend distribution without bank approval.
- ✱ Restrictions on capital expenditure.
- ✱ Disposal of non-core assets.
- ✱ Reduction in receivable and inventory levels.
- ✱ Submission of monthly operational and financial data.
- ✱ Appointment of nominee directors or monitoring agencies.
- ✱ Conduct of stock and receivable audits.
- ✱ Quarterly review of actual performance versus projections.
- ✱ Obtaining periodic Chartered Accountant certificates.

Methods Used by Banks to Verify Cost-Control Measures

Verification Tool	Purpose
Techno-Economic Viability (TEV) Study	Assess technical feasibility and realistic costs
Stock Audit	Verify inventory and receivables
Factory Inspection	Confirm production activity and utilization
Cost Audit Reports	Examine cost structure and efficiencies
CMA Data Analysis	Compare projected and actual performance

Monthly Information System (MIS)	Continuous monitoring
GST Returns and Financial Statements	Cross-verification of sales and expenses
Energy Audit Reports	Validate utility cost savings
Independent Engineer Reports	Assess operational improvements
Concurrent Audit	Continuous supervision

Key Financial Ratios Monitored by Banks

Ratio	Objective
EBITDA Margin	Measure operating profitability
Gross Profit Margin	Evaluate production efficiency
Inventory Turnover Ratio	Monitor inventory control
Debtors Turnover Ratio	Assess collection efficiency
Operating Expense Ratio	Measure cost discipline
Interest Coverage Ratio	Assess ability to service interest
DSCR (Debt Service Coverage Ratio)	Evaluate debt repayment capacity
Break-even Capacity Utilization	Determine sustainability
Current Ratio	Assess liquidity position

Monitoring Framework in Restructuring

Banks generally follow a **Pre-Sanction → Post-Sanction → Continuous Monitoring** approach:

Pre-Sanction

- ✱ Conduct TEV studies and industry benchmarking.
- ✱ Identify areas of cost inefficiency.
- ✱ Evaluate management's turnaround strategy.

Post-Sanction

- ✱ Impose covenants relating to cost reduction and performance.
- ✱ Require promoter contribution and periodic reporting.

Continuous Monitoring

- ✱ Compare actual results with projections.
- ✱ Analyse deviations and corrective actions.
- ✱ Undertake site visits, audits, and periodic reviews.

- ✱ Reassess viability if cost-control measures are not producing expected results.

For a restructuring package to succeed, banks expect the borrower not merely to project lower costs but to **demonstrate credible and measurable cost-control initiatives**. Consequently, banks increasingly rely on TEV studies, audits, MIS reporting, and continuous monitoring to ensure that projected savings are actually realized and that the restructured account generates sufficient cash flows to service the debt sustainably.

- ✱ Benchmark Ratios:

Banks, TEV consultants, rating agencies, and restructuring professionals frequently use **sectoral benchmark ratios** to assess whether the projected operating expenses are realistic. These benchmarks are not rigid standards but indicative ranges derived from industry studies, published financial statements of comparable companies, Cost Audit Reports, CMIE-Prowess, RBI studies, industry associations, and rating agencies such as CRISIL, ICRA, CARE, and India Ratings.

The most commonly used ratio is:

Operating Cost Ratio (OCR)=Total Operating Expenses/Net Revenue from Operations×100

Alternatively,

EBITDA Margin=100–Operating Cost Ratio

Indicative Sector-wise Benchmarks

Industry/Sector	Operating Costs as % of Revenue	EBITDA Margin (%)
Cement	80–88	12–20
Steel (Integrated)	85–95	5–15
Sponge Iron	88–95	5–12
Textiles	88–96	4–12
Garments	85–92	8–15
Pharmaceuticals	70–85	15–30
Chemicals	80–90	10–20
Fertilizers	90–97	3–10
Sugar Mills	88–95	5–12
Rice Mills	92–97	3–8
Edible Oil Processing	92–98	2–8
Dairy Processing	88–95	5–12
Paper and Pulp	85–93	7–15
Packaging Industry	85–92	8–15
Plastic Products	82–92	8–18

Industry/Sector	Operating Costs as % of Revenue	EBITDA Margin (%)
Engineering Industry	80–90	10–20
Auto Components	82–90	10–18
Foundries	85–94	6–15
Ceramics and Tiles	82–90	10–18
Consumer Durables	80–90	10–20
Electronics Manufacturing	85–95	5–15
Food Processing	85–93	7–15
Hotels	65–85	15–35
IT Services	60–80	20–40
Logistics and Transportation	85–95	5–15
Construction Contractors	90–97	3–10
Real Estate Developers	75–90	10–25

Component-wise Benchmarks in Manufacturing

Cost Component	% of Revenue (Typical Range)
Raw Materials	45–70
Employee Costs	5–15
Power and Fuel	5–20
Manufacturing Overheads	3–10
Selling and Distribution	2–10
Administrative Expenses	2–8
Repairs and Maintenance	1–5
Other Expenses	1–5
Total Operating Cost	80–95
EBITDA Margin	5–20

Benchmarks Used by Banks During Restructuring

Banks compare:

1. Historical Performance

- ✱ Last 3–5 years' operating cost ratio.
- ✱ Trend analysis of major expense heads.

2. Industry Peers

For example, if the industry average operating cost is **88% of revenue** and the borrower projects **75%**, banks may treat the projections as aggressive and seek justification.

3. Capacity Utilization

Capacity Utilization	Typical Operating Cost Ratio
Below 50%	92–98%
50–70%	88–94%
70–85%	82–90%
Above 85%	78–88%

Higher capacity utilization generally reduces fixed costs per unit and improves EBITDA margins.

Sector-Specific Key Cost Drivers

Sector	Major Cost Element
Cement	Power and fuel
Steel	Iron ore, coal, power
Textiles	Cotton, labour, power
Pharmaceuticals	Raw materials, R&D
Chemicals	Feedstock and utilities
Sugar	Sugarcane procurement
Rice Mills	Paddy procurement
Paper	Wood pulp and energy
Ceramics	Gas and power
Hotels	Employee and occupancy costs
IT Services	Employee costs

Sources of Benchmarks Used by Banks and TEV Consultants

- ✱ Published financial statements of listed companies.
- ✱ Cost Audit Reports under the Companies Act, 2013.
- ✱ CRISIL, CARE, ICRA, India Ratings industry reports.
- ✱ CMIE Prowess database.
- ✱ RBI studies and sectoral reports.

- Industry associations such as:
 - ✦ Confederation of Indian Industry (CII)
 - ✦ Federation of Indian Chambers of Commerce and Industry (FICCI)
 - ✦ ASSOCHAM
- Internal benchmark databases maintained by banks.
- Techno-Economic Viability (TEV) reports prepared by empanelled consultants.

Illustration Used in Restructuring

Suppose a manufacturing company projects:

- ✦ Revenue: ₹100 crore
- ✦ Operating Expenses: ₹82 crore
- ✦ EBITDA: ₹18 crore

Operating Cost Ratio = 82%

If peer companies in the same sector operate with costs of 88–90% of revenue, the bank may:

- ✦ Question the assumptions,
- ✦ Seek evidence of cost-saving measures,
- ✦ Obtain a TEV study,
- ✦ Carry out sensitivity analysis (± 5 –10% changes in costs and sales),
- ✦ Rework DSCR and repayment schedules based on more conservative assumptions.

Therefore, sector-wise benchmark ranges for Operating Cost as a percentage of Revenue do exist and are widely used by banks, ARCs, and TEV consultants while evaluating restructuring proposals. However, they are indicative ranges rather than fixed norms, and adjustments are made for scale, technology, capacity utilization, product mix, and market conditions.

Historical Data Analysis:

Historical data analysis and trend analysis are among the most important tools used by banks during loan restructuring. The objective is to determine whether the borrower's projections are realistic and whether the business can generate sufficient cash flows to service the restructured debt. Banks generally analyse 3 to 5 years' historical financial and operational data and compare them with the projected performance under the restructuring package.

1. Revenue Trend Analysis

Purpose

To assess whether projected sales are realistic.

Parameters Examined

- ✱ Sales growth over the past 3–5 years.
- ✱ Capacity utilization levels.
- ✱ Product-wise and customer-wise sales.
- ✱ Seasonality and cyclicity.

Usefulness in Restructuring

- ✱ Detects declining or volatile sales trends.
- ✱ Identifies whether projections are overstated.
- ✱ Helps determine achievable turnover levels.

Example

Year	Sales (₹ Cr.)
FY22	120
FY23	115
FY24	105
FY25	95

If the company projects sales of ₹180 crore in FY27 without any capacity expansion, banks may treat the assumptions as unrealistic.

2. Cost Trend Analysis

Purpose

To evaluate cost behaviour and efficiency.

Parameters

- ✱ Raw material cost to sales ratio.
- ✱ Employee cost to sales ratio.
- ✱ Power and fuel cost trends.
- ✱ Administrative and selling expenses.

Usefulness

- ✱ Identifies abnormal increases in costs.
- ✱ Assesses scope for cost reduction.
- ✱ Verifies assumptions in projected operating expenses.

3. Profitability Trend Analysis

Parameters

Ratio	Formula
Gross Profit Margin	Gross Profit ÷ Sales
EBITDA Margin	EBITDA ÷ Sales
Net Profit Margin	PAT ÷ Sales

Usefulness

- ✳ Determines whether profitability deterioration is temporary or structural.
- ✳ Assesses the sustainability of future cash flows.

4. Working Capital Trend Analysis

Parameters

- ✳ Inventory holding period.
- ✳ Debtors' collection period.
- ✳ Creditors payment period.
- ✳ Current ratio.

Usefulness

- ✳ Identifies excessive inventory or receivables.
- ✳ Determines future working capital requirements.
- ✳ Helps restructure working capital facilities.

5. Cash Flow Trend Analysis

Purpose

To determine actual cash generation capability.

Parameters

- ✳ Cash profit.
- ✳ Operating cash flows.
- ✳ Free cash flow.
- ✳ Capital expenditure trends.

Usefulness

- ✳ Evaluates debt servicing ability.
- ✳ Helps determine moratorium period and repayment schedule.

6. Debt Servicing Trend Analysis

Parameters

- ✳ Interest Coverage Ratio (ICR).
- ✳ Debt Service Coverage Ratio (DSCR).
- ✳ Total Outside Liabilities/Tangible Net Worth (TOL/TNW).

Usefulness

- ✳ Determines sustainability of debt.
- ✳ Helps decide the extent of restructuring required.

Statistical Techniques Used in Trend Analysis

(A) Horizontal Analysis

Compares year-to-year changes.

Formula

Percentage Change = $(\text{Current Year} - \text{Previous Year}) \div \text{Previous Year} \times 100$

Usefulness

Identifies growth or decline patterns.

(B) Common-Size Analysis

Each item is expressed as a percentage of sales.

Example:

Particulars	Amount (₹ Cr.)	% of Sales
Sales	100	100%
Raw Materials	60	60%
Employee Cost	10	10%
EBITDA	15	15%

Usefulness

Facilitates comparison with industry benchmarks.

(C) Compound Annual Growth Rate (CAGR)

$$\text{CAGR} = (\text{Ending Value} / \text{Beginning Value})^{1/n} - 1$$

Usefulness

Measures long-term growth trend.

(D) Moving Average Method

Used to smooth fluctuations and identify underlying trends.

Usefulness

Useful for seasonal industries such as sugar, textiles, and agro-processing.

(E) Ratio Trend Analysis

Banks study trends in:

Ratio	Significance
Current Ratio	Liquidity
Inventory Turnover	Inventory efficiency
Debtors Turnover	Collection efficiency
EBITDA Margin	Operational profitability
Interest Coverage Ratio	Interest servicing ability
DSCR	Repayment capacity
TOL/TNW	Leverage

How Banks Use Historical and Trend Analysis in Loan Restructuring**1. Determine Whether Stress Is Temporary or Structural**

- ✱ Temporary stress: market slowdown, natural calamity, delayed receivables.
- ✱ Structural stress: obsolete technology, poor management, unviable business model.

Only viable units are generally considered for restructuring.

2. Validate Future Projections

Banks compare projected figures with historical averages.

Example:

Particulars	Historical Average	Projected
Sales Growth	8%	30%
EBITDA Margin	12%	22%

Such projections may require justification or downward revision.

3. Decide Restructuring Parameters

Trend analysis helps determine:

- ✱ Moratorium period.
- ✱ Repayment tenure.
- ✱ Additional working capital requirements.
- ✱ Need for promoter contribution.
- ✱ Conversion of debt into equity or preference shares.

4. Conduct Sensitivity Analysis

Banks assess scenarios:

- ✱ Sales decline by 10%.
- ✱ Raw material costs increase by 5%.
- ✱ Interest rates increase by 1–2%.

This helps evaluate whether the company can still maintain acceptable DSCR levels.

5. Monitor Post-Restructuring Performance

Banks compare:

Particulars	Projected	Actual
Sales	150 Cr.	135 Cr.
EBITDA	18 Cr.	13 Cr.
DSCR	1.40	1.05

Significant deviations trigger corrective actions.

Analytical Tools Used by Banks

Technique	Purpose in Restructuring
Horizontal Analysis	Identify growth or decline
Vertical/Common-Size Analysis	Compare with industry norms

Technique	Purpose in Restructuring
Trend Analysis	Project future performance
Ratio Analysis	Assess liquidity and profitability
Cash Flow Analysis	Evaluate repayment capacity
Sensitivity Analysis	Measure resilience under stress
Benchmarking	Compare with peer companies
Break-Even Analysis	Determine minimum viable operations
Scenario Analysis	Assess various business outcomes
TEV Study	Independent validation of projections

Importance in Loan Restructuring

Historical data and trend analysis enable banks to:

- ✱ Assess business viability.
- ✱ Identify the root causes of stress.
- ✱ Validate projected revenues and costs.
- ✱ Determine realistic repayment schedules.
- ✱ Evaluate the adequacy of cash flows.
- ✱ Monitor performance after restructuring.
- ✱ Minimize the risk of restructuring failure.

Thus, historical data and trend analysis serve as the foundation for viability assessment, cash flow forecasting, and formulation of sustainable restructuring packages, ensuring that only potentially viable borrowers receive restructuring support and that repayment terms are aligned with the borrower's actual earning capacity.

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Chapter 10

Preparation of Base Resolution Plans

(Pre-Packaged Insolvency Resolution Process-PPIRP)

Synopsis:

The chapter on “Preparation of Base Resolution Plans (Pre-Packaged Insolvency Resolution Process – PPIRP)” explains the concept, legal framework, contents, preparation, evaluation, and approval of a Base Resolution Plan (BRP) under Chapter III-A of the Insolvency and Bankruptcy Code, 2016. The BRP is a distinctive feature of PPIRP that enables an MSME corporate debtor to formulate a restructuring proposal before the commencement of insolvency proceedings, thereby facilitating faster resolution, value maximization, business continuity, and preservation of employment. The chapter discusses the statutory provisions governing BRPs, the role of the Committee of Creditors (CoC), the Swiss Challenge mechanism, viability assessment through Techno-Economic Viability (TEV) studies, sustainable debt computation, stakeholder treatment, and implementation monitoring. It further provides a detailed model BRP illustrating financial restructuring measures, promoter contribution, operational improvements, projected financial statements, and recovery mechanisms, highlighting how PPIRP serves as a legally enforceable and structured alternative to conventional bank loan restructuring while ensuring greater recoveries than liquidation.

The Base Resolution Plan (BRP) is one of the most distinctive features of the Pre-Packaged Insolvency Resolution Process (PPIRP) introduced under Chapter III-A (Sections 54A to 54P) of the Insolvency and Bankruptcy Code, 2016, primarily for MSME corporate debtors. Unlike the Corporate Insolvency Resolution Process (CIRP), where third-party resolution applicants submit plans after commencement of insolvency proceedings, PPIRP permits the existing promoters and management to prepare and submit a Base Resolution Plan even before filing the application with the Adjudicating Authority. The objective is to ensure speedy resolution, value maximization, continuity of business operations, and preservation of employment.

Meaning of Base Resolution Plan

A Base Resolution Plan is the preliminary restructuring proposal prepared by the Corporate Debtor and submitted to the Resolution Professional after commencement of PPIRP. It contains proposals for revival and restructuring of the stressed MSME and serves as the benchmark against which competing plans are evaluated.

The BRP reflects the principle of “debtor-in-possession with creditor-in-control”, wherein the management remains with the promoters while creditors retain decision-making authority.

Statutory Framework

The provisions relating to BRP are mainly contained in:

- ✳ Section 54A – Initiation of PPIRP.
- ✳ Section 54G – Submission of information by Corporate Debtor.
- ✳ Section 54K – Consideration and approval of Resolution Plan.
- ✳ IBBI (Pre-Packaged Insolvency Resolution Process) Regulations, 2021.

Submission of Base Resolution Plan

After commencement of PPIRP:

- ✳ The Corporate Debtor shall submit the following to the Resolution Professional within two days:
 - ✳ List of claims;
 - ✳ Preliminary Information Memorandum;
 - ✳ Base Resolution Plan;
 - ✳ Other prescribed information.

The BRP may be submitted:

1. By the Corporate Debtor alone; or
2. Jointly with any other person eligible under Section 29A.

The Resolution Professional places the BRP before the Committee of Creditors (CoC).

Contents of Base Resolution Plan

The BRP should contain:

1. Financial Restructuring Measures

- ✳ Rescheduling of debts.
- ✳ Reduction in interest burden.
- ✳ Conversion of debt into equity or preference shares.
- ✳ Settlement with creditors.

2. Operational Restructuring

- ✳ Business revival strategy.
- ✳ Capacity utilization plan.
- ✳ Cost reduction measures.
- ✳ Working capital arrangements.

3. Capital Infusion

- ✳ Fresh equity by promoters.

- ✴ Strategic investors' participation.
- ✴ Additional funding arrangements.

4. Treatment of Stakeholders

- ✴ Financial creditors.
- ✴ Operational creditors.
- ✴ Employees and workmen.
- ✴ Government dues and statutory liabilities.

5. Implementation Schedule

- ✴ Timelines for execution.
- ✴ Monitoring mechanism.
- ✴ Sources of funds.

6. Management and Governance Structure

- ✴ Continuation or change in management.
- ✴ Corporate governance measures.
- ✴ Performance benchmarks.

Essential Requirements of BRP

The Base Resolution Plan must satisfy requirements similar to those prescribed under Section 30(2) of IBC:

a) Insolvency Resolution Process Costs

Must provide for payment of PPIRP costs in priority.

b) Operational Creditors

Operational creditors should receive an amount not less than:

- ✴ Amount payable in liquidation; or
- ✴ Amount they would receive under Section 53 waterfall mechanism.

c) Management of Corporate Debtor

Provide adequate measures for effective management after approval.

d) Implementation and Supervision

Contain provisions regarding:

- ✴ Monitoring committee;
- ✴ Timeline for implementation;
- ✴ Reporting mechanisms.

e) Compliance with Laws

Should not violate any law in force.

Role of Committee of Creditors (CoC)

The CoC exercises significant control over the BRP.

The CoC may:

- ✴ Approve the BRP;
- ✴ Reject the BRP;
- ✴ Require modifications;
- ✴ Permit the Corporate Debtor to revise the BRP;
- ✴ Invite competing resolution plans.

Approval requires a minimum 66% voting share.

Circumstances for Direct Approval of BRP

The CoC may directly approve the Base Resolution Plan if:

1. It does not impair claims of operational creditors; and
2. The plan maximizes value and is commercially viable.

In such cases, the approved BRP is submitted to the Adjudicating Authority for confirmation.

Swiss Challenge Mechanism

If:

- ✴ The BRP impairs claims of operational creditors; or
- ✴ The CoC does not approve the BRP, the Resolution Professional invites prospective resolution applicants to submit competing plans.

This process is popularly called the Swiss Challenge Mechanism, where external plans compete with the BRP for value maximization. The Corporate Debtor is also given an opportunity to improve its plan.

Evaluation of Competing Plans

The CoC evaluates plans based on:

- ✴ Feasibility;
- ✴ Viability;
- ✴ Recovery to creditors;
- ✴ Sustainability of business;
- ✴ Value maximization;
- ✴ Speed of implementation;
- ✴ Infusion of funds;

- ✦ Protection of operational creditors.

A plan significantly better than the BRP may be selected and approved.

Approval by Adjudicating Authority

After approval by the CoC with 66% voting share, the Resolution Professional submits the plan to the National Company Law Tribunal (NCLT).

The Adjudicating Authority shall approve the plan if it:

- ✦ Complies with Section 30(2);
- ✦ Contains provisions for effective implementation.

The NCLT is required to decide within 30 days from receipt of the plan.

Advantages of Base Resolution Plan

1. Speedy Resolution

The BRP is prepared in advance, reducing delays.

2. Business Continuity

Management remains with promoters, avoiding disruption.

3. Value Maximization

Competition through Swiss Challenge ensures better recovery.

4. Lower Cost

PPIRP is cheaper than CIRP.

5. Preservation of Employment

The enterprise continues as a going concern.

6. Flexibility

Promoters can revise and improve their plan.

7. Confidentiality

Negotiations are largely completed before commencement.

Challenges of BRP

- ✦ Possibility of promoters proposing creditor-unfriendly plans.
- ✦ Limited participation by outside investors.
- ✦ Valuation disputes.
- ✦ Difficulty in assessing feasibility.
- ✦ Potential conflict among stakeholders.
- ✦ Dependence on creditor consensus.

Distinction between BRP under PPIRP and Resolution Plan under CIRP:

Particulars	Base Resolution Plan (PPIRP)	Resolution Plan (CIRP)
Prepared by	Corporate Debtor/Promoters	Resolution Applicants
Timing	Before and immediately after commencement	After invitation by RP
Applicable to	MSMEs	All Corporate Debtors
Management	Remains with promoters	Managed by IRP/RP
Competition	Swiss Challenge if required	Open bidding process
Speed	Faster (120 days)	Longer process
Nature	Debtor-driven	Creditor-driven

a) BRP Vs. Restructuring Bank Loans:

The Base Resolution Plan (BRP) under PPIRP and restructuring of bank loans are broadly similar in their objectives and many of their restructuring tools, but they are not identical. Both seek revival of a stressed business through restructuring rather than liquidation, yet they differ significantly in legal framework, stakeholder involvement, and binding effect.

Similarities between Base Resolution Plan under PPIRP and Bank Loan Restructuring:

1. Objective of Revival

Both aims to restore the viability of a distressed enterprise by preserving the business as a going concern rather than forcing closure or liquidation.

2. Cash Flow-Based Approach

In both cases, future cash flows, projected profitability, and debt-servicing capability are analysed to determine sustainable debt and repayment schedules.

3. Financial Restructuring Measures

Common restructuring measures include:

- ✱ Rescheduling of repayment periods.
- ✱ Moratorium on principal and/or interest.
- ✱ Reduction in interest rates.
- ✱ Conversion of debt into equity or preference shares.
- ✱ Additional funding or working capital support.
- ✱ Promoter contribution and capital infusion.

4. Viability Assessment

Banks and the Committee of Creditors (CoC) under PPIRP both evaluate:

- ✱ Techno-Economic Viability (TEV).
- ✱ Future projections and assumptions.

- ✱ Debt Service Coverage Ratio (DSCR).
- ✱ Internal Rate of Return (IRR).
- ✱ Sensitivity analysis and stress testing.

5. Monitoring Mechanism

Implementation of the restructuring package is monitored through:

- ✱ Milestones and covenants.
- ✱ Periodic review of performance.
- ✱ Financial reporting requirements.
- ✱ Corrective actions in case of deviations.

Major Differences

Particulars	Base Resolution Plan under PPIRP	Bank Loan Restructuring
Legal Framework	IBC, 2016 (Chapter III-A)	RBI Prudential Framework and contractual arrangements
Process	Formal insolvency process	Out-of-court restructuring
Authority	NCLT approval required	Approval by lenders
Binding Effect	Binding on all stakeholders after NCLT approval	Binding only on participating lenders and borrower
Stakeholders	Financial creditors, operational creditors, employees, government authorities	Mainly borrower and lending institutions
Management	Debtor-in-possession with creditor control	Existing management generally continues
Competing Plans	Swiss Challenge mechanism possible	No competing plans
Timeline	120 days	Flexible
Resolution Professional	Mandatory	Not mandatory
Moratorium	Statutory moratorium available	No statutory moratorium
Haircuts	May involve all classes of creditors	Usually restricted to lenders

Conceptually, Both Are Similar

The **Base Resolution Plan in PPIRP** may be viewed as a **legally enforceable and insolvency-based version of a bank restructuring package**. In practice, the contents of a BRP often resemble the restructuring package prepared by banks under the RBI Prudential Framework. Both documents typically contain:

1. Historical financial analysis.
2. Causes of stress.
3. TEV study and viability assessment.
4. Projected financial statements.

5. Sustainable debt computation.
6. Repayment schedule and moratorium.
7. Working capital assessment.
8. Promoter contribution.
9. Security coverage and valuation.
10. Monitoring and implementation arrangements.

Key Difference in Philosophy

- ✳ Bank restructuring is essentially a contractual arrangement between lenders and the borrower.
- ✳ Base Resolution Plan under PPIRP is a statutory resolution mechanism under the Insolvency and Bankruptcy Code, approved by the Committee of Creditors and sanctioned by the NCLT, thereby becoming binding on all stakeholders.

b) Model Base Resolution Plan:

Below is a model **Base Resolution Plan (BRP)** under Chapter III-A of the Insolvency and Bankruptcy Code, 2016 for a Corporate Debtor undergoing **Pre-Packaged Insolvency Resolution Process (PPIRP)**. It is drafted in a descriptive form similar to the restructuring proposals generally submitted to banks and the Committee of Creditors (CoC). The figures and facts are illustrative and may be modified to suit a specific company.

BASE RESOLUTION PLAN

UNDER SECTION 54K OF THE INSOLVENCY AND BANKRUPTCY CODE, 2016

IN RESPECT OF ‘ABC ENGINEERING PRIVATE LIMITED’

1. Background of the Corporate Debtor:

ABC Engineering Private Limited (“the Corporate Debtor”) was incorporated in the year 2012 and is engaged in the manufacture of precision engineering components and fabricated structures supplied to automobile and industrial equipment manufacturers. The company has an installed capacity of 18,000 MT per annum and operates from an industrial facility situated in Telangana. Over the years, the company established a stable customer base and maintained satisfactory financial performance.

However, during the last three years, the company experienced severe financial stress owing to disruptions in supply chains, escalation in raw material prices, delayed realization of receivables, increase in finance costs and lower capacity utilization. These factors adversely affected cash flows and resulted in defaults in servicing debt obligations. The company has, therefore, initiated the Pre-Packaged Insolvency Resolution Process after obtaining the approval of unrelated financial creditors and completing all statutory requirements under Chapter III-A of the Insolvency and Bankruptcy Code, 2016.

2. Present Financial Position:

The Corporate Debtor has outstanding secured borrowings from a consortium of banks amounting to ₹82 crore consisting of term loans and working capital facilities. Operational creditors are owed approximately ₹12 crore comprising dues to suppliers, statutory authorities and service providers. Delays in realization of receivables and increasing inventory levels resulted in working capital constraints. Though the company continues to possess adequate manufacturing facilities and a confirmed order book, insufficient cash flows have impaired its ability to meet debt servicing obligations.

The current stress is considered temporary and reversible. Independent assessment indicates that the company possesses the capability to revive operations and generate sustainable cash flows upon implementation of suitable restructuring measures.

3. Causes of Financial Stress:

The financial difficulties faced by the Corporate Debtor are attributable primarily to external economic factors and temporary business disruptions rather than any fraudulent conduct or diversion of funds. Increase in prices of steel and other raw materials compressed profit margins. Major customers delayed payments, resulting in elongation of the working capital cycle. Capacity utilization declined due to slowdown in demand from certain sectors. Interest burden increased substantially owing to higher borrowing costs and frequent utilization of ad hoc facilities. Consequently, EBITDA margins contracted and debt servicing capability weakened.

The management believes that these factors are temporary in nature and that the business fundamentals remain sound.

4. Viability of Business:

The Corporate Debtor continues to possess modern manufacturing facilities, experienced technical personnel, established customer relationships and a healthy order book. Existing customers have expressed confidence in continuing business with the company. Market demand for engineering products is expected to improve over the coming years. Based on projected cash flows and expected increase in capacity utilization, the company is capable of generating sufficient operating profits to service a sustainable level of debt.

Independent techno-economic viability studies indicate that the company can achieve capacity utilization of 75 percent within two years and generate adequate debt servicing capacity. Therefore, continuation of the business as a going concern would maximize value for all stakeholders compared to liquidation.

5. Financial Restructuring Proposals:

Considering the future earning capacity of the Corporate Debtor, the existing debt structure requires rationalization. The outstanding debt of ₹82 crore is proposed to be segregated into sustainable and unsustainable portions. A debt amount of ₹60 crore is considered sustainable based on projected cash flows and debt servicing capability. The remaining amount of ₹22 crore shall be converted into Non-Convertible Redeemable Preference Shares redeemable after eight years or may be settled through upside sharing from future profits.

The term loan facilities are proposed to be restructured with an extended repayment period of ten years including a moratorium of eighteen months on principal repayment. Interest rates are proposed to be rationalized in line with prevailing lending benchmarks to reduce financial burden and improve cash generation.

Working capital facilities shall be reassessed based on projected turnover and operating cycle requirements. Additional working capital support of ₹8 crore is proposed to be infused by lenders to facilitate uninterrupted production and procurement of raw materials.

6. Promoter Contribution and Capital Infusion:

The promoters have expressed their commitment to revive the company and preserve employment. They propose to bring additional equity contribution amounting to ₹10 crore within ninety days from approval of the Resolution Plan. The promoters also undertake to subordinate unsecured loans provided by them and retain the same in the business until the completion of the repayment obligations under the Resolution Plan.

Such contribution would strengthen the net worth of the company and improve confidence among creditors and other stakeholders.

7. Treatment of Financial Creditors:

The claims of secured financial creditors shall be restructured in accordance with the revised repayment schedule. Interest accrued up to the commencement date of PPIRP shall form part of the restructured debt. Payments under the Resolution Plan shall be made from operational cash flows generated by the Corporate Debtor. The security interests presently available to lenders shall continue without prejudice until full satisfaction of obligations.

Financial creditors shall receive higher recoveries under the proposed plan compared to liquidation value, thereby maximizing overall value.

8. Treatment of Operational Creditors:

Operational creditors shall be paid in a fair and equitable manner. Small and critical suppliers shall be paid in full within twelve months from the approval of the Resolution Plan to ensure continuity of operations. Other operational creditors shall receive payments in phased instalments over a period of two years. Statutory dues payable to Government authorities shall be settled in accordance with applicable laws.

The proposed treatment provides a substantially better outcome than liquidation and protects the interests of all stakeholders.

9. Employees and Workmen:

The company employs approximately 420 persons directly and indirectly. Preservation of employment is one of the principal objectives of this Resolution Plan. All employees and workmen shall continue in service without interruption. Salary arrears and statutory benefits shall be paid in priority in accordance with the provisions of the Insolvency and Bankruptcy Code.

The company shall undertake skill development initiatives and implement productivity improvement measures to enhance operational efficiency.

10. Operational and Non-Financial Restructuring Measures:

Apart from financial restructuring, several operational improvements are proposed. Procurement policies shall be strengthened to reduce inventory carrying costs. Greater emphasis shall be placed on receivables management and collection mechanisms. Digital systems for production planning and supply chain management shall be introduced. Cost optimization initiatives including energy conservation and process improvements shall be implemented.

The Corporate Debtor proposes to diversify its customer base to reduce dependence on a few customers. Marketing efforts shall be intensified to enter new sectors and geographical regions. Strategic alliances with major customers shall be pursued to ensure stable revenues.

Corporate governance standards shall be strengthened by constituting advisory committees and introducing enhanced internal controls. Periodic review of business performance shall be undertaken with the participation of lenders and independent professionals. Transparency in financial reporting and statutory compliance shall be ensured.

11. Cash Flow Projections:

Based on estimated turnover growth and improved capacity utilization, the company expects revenues to increase from ₹135 crore in the first year to ₹220 crore by the fifth year. EBITDA margins are expected to improve gradually due to cost rationalization and operational efficiencies. The projected cash accruals are considered sufficient to meet debt obligations and maintain adequate liquidity.

Sensitivity analysis demonstrates that even under moderate stress scenarios, the company shall be capable of servicing the restructured debt without requiring additional external support.

12. Implementation and Monitoring:

Upon approval of this Base Resolution Plan by the Committee of Creditors and confirmation by the Adjudicating Authority, implementation shall commence immediately. A Monitoring Committee consisting of representatives of financial creditors, the Resolution Professional and the Corporate Debtor shall supervise the implementation of the plan. Quarterly performance reviews shall be conducted to monitor compliance with financial projections and operational milestones.

The management shall provide periodic financial statements, cash flow reports and compliance certificates to stakeholders. Any deviations from projections shall be addressed through corrective measures.

Hence, the present Base Resolution Plan has been formulated with the objective of preserving the Corporate Debtor as a going concern, maximizing value for stakeholders and ensuring timely repayment to creditors. The proposed restructuring package balances the interests of financial creditors, operational creditors, employees and other stakeholders while maintaining business continuity. In view of the viability of the enterprise and commitment of the promoters, the Resolution Plan provides substantially better value than liquidation and is therefore fair, feasible and implementable.

The Corporate Debtor respectfully submits this Base Resolution Plan for consideration and approval of the Committee of Creditors under Section 54K of the Insolvency and Bankruptcy Code, 2016.

(A) EXECUTIVE SUMMARY

Base Resolution Plan under Section 54K of the Insolvency and Bankruptcy Code, 2016

In the Matter of ABC Engineering Private Limited

ABC Engineering Private Limited (“Corporate Debtor”) is a company engaged in the manufacture of precision engineering components and fabricated structures catering to automobile, industrial machinery, and engineering sectors. Since its incorporation in 2012, the Company has developed a strong customer base, established manufacturing infrastructure, and maintained long-standing relationships with reputed customers. However, adverse business conditions experienced during the past three financial years have led to financial stress and defaults in servicing its debt obligations.

The Corporate Debtor has initiated the Pre-Packaged Insolvency Resolution Process (PPIRP) under Chapter III-A of the Insolvency and Bankruptcy Code, 2016, after obtaining the requisite approval of unrelated financial creditors and completing all procedural formalities prescribed under the Code and the Regulations framed thereunder. This Base Resolution Plan has been prepared with the objective of preserving the Corporate Debtor as a going concern, maximizing value for stakeholders, and ensuring sustainable revival of the enterprise.

2. Background and Causes of Stress:

The Company witnessed a gradual deterioration in its liquidity position owing to a combination of factors, including prolonged delays in realization of receivables, escalation in raw material prices, reduction in operating margins, increased finance costs, and underutilization of manufacturing capacity. External market disruptions and sectoral slowdown further impacted the cash generation ability of the Company.

Despite these challenges, the business fundamentals of the Company remain strong. The stress faced by the Corporate Debtor is primarily attributable to temporary financial and operational constraints rather than structural weaknesses or diversion of funds. The Company possesses adequate manufacturing facilities, experienced management, established customer relationships, and a healthy order pipeline, which provide a sound foundation for revival and sustainable operations.

3. Financial Position:

As on the PPIRP Commencement Date, the aggregate financial debt of the Corporate Debtor stands at ₹82.00 crore, comprising term loans and working capital facilities availed from consortium banks. Operational creditors, including suppliers, service providers and statutory authorities, have outstanding claims aggregating approximately ₹12.00 crore.

The current liabilities exceed the available liquid resources, resulting in irregularities in debt servicing and working capital operations. However, based on independent assessments and projected cash flows, the business is considered economically viable and capable of generating sufficient cash accruals to support a restructured debt profile.

4. Objective of the Base Resolution Plan:

The primary objective of this Base Resolution Plan is to facilitate the revival of the Corporate Debtor through a combination of financial restructuring and operational improvements while preserving value for all stakeholders. The Plan seeks to maintain the Company as a going concern, safeguard employment opportunities, improve operational efficiency, and maximize recoveries to creditors in comparison with liquidation.

The proposed Resolution Plan has been formulated on the principles of feasibility, viability, fairness, and sustainability, taking into consideration the interests of financial creditors, operational creditors, employees,

statutory authorities, shareholders, and other stakeholders.

5. Financial Restructuring Proposals:

The Plan envisages restructuring of the existing debt obligations based on the sustainable debt-servicing capacity of the Company. Out of the total debt of ₹82.00 crore, an amount of ₹60.00 crore has been assessed as sustainable debt based on projected cash flows and earnings potential. The balance debt of ₹22.00 crore is proposed to be converted into Non-Convertible Redeemable Preference Shares or settled through future upside realization mechanisms.

Repayment of restructured debt is proposed over a period of ten years with an initial moratorium of eighteen months on principal repayment. Additional working capital support of ₹8.00 crore is proposed to facilitate uninterrupted operations and to restore normal production levels. Interest rates are proposed to be aligned with prevailing benchmark rates to improve cash flow and debt-servicing capability.

6. Promoters' Contribution:

The promoters of the Corporate Debtor have demonstrated their commitment to the revival of the Company by proposing a fresh infusion of equity capital amounting to ₹10.00 crore. The promoters have also undertaken to continue their unsecured loans within the business and subordinate their claims to those of secured financial creditors. Such contribution reflects the confidence of the promoters in the future prospects of the Company and strengthens the financial position of the Corporate Debtor.

7. Operational and Non-Financial Restructuring:

Apart from financial restructuring, the Company **proposes several operational improvements aimed at enhancing profitability and operational efficiency.** These include optimization of inventory levels, strengthening receivables management, reduction in manufacturing costs, improvement in productivity, expansion of customer base, implementation of digital systems, and enhancement of internal controls and corporate governance mechanisms.

The Company also proposes to diversify into new markets and strengthen relationships with existing customers to ensure stability of revenue streams and reduce concentration risks.

8. Treatment of Stakeholders:

The Resolution Plan provides fair and equitable treatment to all stakeholders. Financial creditors shall receive recoveries based on the revised repayment structure and are expected to realize substantially higher value than would be available under liquidation. Operational creditors shall receive payments in a phased manner and in compliance with the provisions of the Insolvency and Bankruptcy Code, 2016. Employees and workmen shall continue in service without interruption and their dues shall be paid in accordance with the applicable provisions of law.

The interests of statutory authorities and other stakeholders have also been duly considered while formulating this Resolution Plan.

9. Viability and Feasibility:

Based on projected revenues, expected improvement in operating margins and increased capacity utilization, the Corporate Debtor is expected to achieve sustainable profitability and positive cash flows over the projection period. Independent assessments indicate that the Company possesses the necessary technical, operational and financial capability to implement the proposed Resolution Plan successfully.

The projected debt service coverage ratios and cash accruals demonstrate that the Company shall be capable of servicing the restructured debt obligations without undue strain on liquidity. Accordingly, the Resolution Plan is considered commercially feasible and financially viable.

10. Implementation and Monitoring:

Upon approval of the Base Resolution Plan by the Committee of Creditors and subsequent approval by the Hon'ble National Company Law Tribunal, implementation of the Plan shall commence immediately. A Monitoring Committee comprising representatives of financial creditors, the Resolution Professional and the management of the Corporate Debtor shall oversee implementation and monitor compliance with the terms of the Resolution Plan.

Regular reporting and performance reviews shall be conducted to ensure timely achievement of operational and financial milestones and to facilitate corrective measures wherever necessary.

Hence, the Base Resolution Plan has been formulated with the objective of preserving the Corporate Debtor as a going concern and maximizing value for all stakeholders. The proposed restructuring package combines financial reorganization with operational improvements and promoter support, thereby providing a realistic and sustainable framework for revival. The recoveries envisaged under the Resolution Plan are substantially superior to the realizable value under liquidation and, therefore, the Plan is fair, equitable, feasible and capable of effective implementation.

Accordingly, the Corporate Debtor respectfully submits this Base Resolution Plan for consideration and approval by the Committee of Creditors under Section 54K of the Insolvency and Bankruptcy Code, 2016.

(B) HISTORY AND PROFILE OF THE CORPORATE DEBTOR

ABC Engineering Private Limited (“the Corporate Debtor”) is a closely held company incorporated under the provisions of the Companies Act, 1956, on 18th April 2012, having its Registered Office at Hyderabad, Telangana and manufacturing facilities located at Patancheru Industrial Estate, Sangareddy District, Telangana. The Company was established with the objective of manufacturing precision engineering components, fabricated structures, and industrial assemblies catering to automobile manufacturers, heavy engineering industries, infrastructure companies and original equipment manufacturers (OEMs).

Since its inception, the Company has endeavoured to build a reputation for quality, reliability and timely delivery of products. Through sustained investments in plant and machinery, skilled manpower and quality systems, the Company has emerged as a recognized supplier to several reputed industrial customers across India.

2. Promoters and Management:

The Company was promoted by Mr. A.B. Rao and Mrs. S.B. Rao, who possess more than twenty-five years of experience in engineering manufacturing and industrial operations. The promoters have played a significant role in establishing the manufacturing facilities, developing customer relationships and implementing operational systems within the Company.

The day-to-day affairs of the Company are managed by a team of experienced professionals comprising experts in production, finance, marketing, quality assurance and supply chain management. The management has consistently focused on customer satisfaction, technological improvements and long-term business sustainability.

The promoters have continuously supported the business through infusion of capital and unsecured loans whenever required and remain committed to the revival and long-term growth of the Company.

3. Nature of Business:

The Corporate Debtor is engaged in the manufacture and supply of precision engineering products, heavy fabricated structures, machined components and customized industrial assemblies. Its products are utilized by customers operating in automobile, power generation, infrastructure, cement, mining and industrial equipment sectors.

The Company specializes in high-precision fabrication and machining operations and provides end-to-end solutions including design support, fabrication, assembly, testing and logistics. Over the years, it has established long-term relationships with several Original Equipment Manufacturers and industrial customers, which continue to constitute a strong foundation for future growth.

4. Manufacturing Facilities:

The Company operates from an integrated manufacturing facility spread over approximately five acres of industrial land at Patancheru Industrial Estate, Telangana. The facility is equipped with modern machinery and equipment comprising CNC machines, heavy fabrication units, hydraulic presses, welding stations, surface treatment facilities and quality testing laboratories.

The installed production capacity of the plant is approximately 18,000 metric tonnes per annum. The manufacturing infrastructure is supported by adequate power supply arrangements, material handling equipment, warehousing facilities and computerized production planning systems.

The plant and machinery have been periodically upgraded to maintain quality standards and meet the changing requirements of customers. The Company has also adopted various process improvements and quality management systems to enhance operational efficiency.

5. Growth and Development:

During the initial years of operations, the Company recorded steady growth in revenues and profitability. Expansion of customer base and increasing demand from automobile and engineering sectors enabled the Company to increase capacity utilization and improve economies of scale.

Between Financial Years 2015-16 and 2019-20, the Company undertook capacity expansion programmes financed through term loans and internal accruals. Additional machinery was installed and working capital facilities were enhanced to support higher levels of production and inventory.

The Company achieved annual revenues exceeding ₹180 crore during Financial Year 2019-20 and maintained satisfactory profitability. The debt servicing track record remained regular and the Company enjoyed healthy banking relationships with its consortium lenders.

6. Customer Base and Market Presence:

The Corporate Debtor has established business relationships with reputed customers operating in automobile, industrial equipment, power and infrastructure sectors. The Company supplies products to several large Original Equipment Manufacturers and Tier-I suppliers located across various states.

Its diversified customer base, technical capabilities and long-standing relationships have enabled the Company to maintain repeat business and secure new orders. The Company has developed a reputation for quality products, competitive pricing and timely execution of contracts.

As on the PPIRP Commencement Date, the Company possesses a healthy order book, providing visibility of revenues for the forthcoming financial years and supporting the viability of operations.

7. Human Resources:

The Company employs approximately 420 persons comprising engineers, supervisors, skilled technicians, administrative personnel and contract labour. The management has always maintained cordial industrial relations and there has been no significant labour unrest or disruption of operations.

The employees constitute one of the most valuable assets of the Company and have contributed significantly to its growth and operational success. Various training programmes and skill development initiatives have been undertaken to improve productivity and quality standards.

The promoters and management are committed to preserving employment opportunities and ensuring continuity of operations through the proposed Resolution Plan.

8. Banking Arrangements:

The Corporate Debtor has availed various credit facilities from a consortium of banks consisting of term loans and working capital limits. The banking facilities were primarily utilized for financing capital expenditure, procurement of raw materials, inventory holding and receivables financing.

The Company maintained satisfactory relationships with its lenders and serviced its obligations regularly until adverse market conditions and liquidity constraints affected its cash flows. Continuous support from lenders enabled the Company to sustain operations despite temporary financial challenges.

The total outstanding borrowings as on the PPIRP Commencement Date amount to approximately ₹82 crore.

9. Financial Performance:

The financial performance of the Company remained satisfactory during the initial years, supported by increasing revenues and healthy operating margins. However, from Financial Year 2021-22 onwards, the Company

experienced pressure on profitability due to rising raw material costs, increased finance charges, delays in collection of receivables and lower capacity utilization.

These factors adversely impacted liquidity and resulted in stress in servicing debt obligations. Nevertheless, the underlying business operations remained functional, and the Company continued to possess valuable assets, skilled manpower and a strong customer base.

Independent assessments indicate that the present stress is temporary in nature and that the Company is capable of revival through appropriate financial and operational restructuring measures.

10. Causes Leading to Financial Stress:

The deterioration in the financial position of the Company was attributable to a combination of external and internal factors. Escalation in steel and input prices compressed operating margins. Delayed realization of receivables led to elongation of the working capital cycle. Economic slowdown in certain sectors reduced capacity utilization and affected revenues. Increase in interest rates resulted in higher finance costs and increased pressure on cash flows.

Despite these challenges, there is no evidence of fraudulent transactions, diversion of funds or wilful default. The financial stress experienced by the Company is primarily a consequence of temporary liquidity constraints and adverse market conditions.

11. Strengths of the Corporate Debtor:

The Company possesses several strengths which support its revival prospects. These include experienced promoters and management, established manufacturing infrastructure, diversified customer relationships, skilled manpower, proven operational capabilities, adequate order book position and long-standing relationships with lenders and suppliers.

The Company enjoys a strong market reputation and possesses the technical competence necessary to capitalize on future opportunities in the engineering and manufacturing sectors. The existing business operations continue to remain viable and capable of generating sustainable cash flows upon implementation of suitable restructuring measures.

12. Need for Resolution under PPIRP:

Although the Corporate Debtor continues to possess sound business fundamentals, temporary financial stress has adversely affected its debt servicing capability. In order to preserve enterprise value, protect employment, maximize recoveries to creditors and ensure continuity of operations, the Company has initiated the Pre-Packaged Insolvency Resolution Process under Chapter III-A of the Insolvency and Bankruptcy Code, 2016.

The management and promoters remain fully committed to the successful implementation of the Base Resolution Plan and believe that the proposed restructuring measures will restore the financial health of the Company and enable sustainable growth in the future.

Accordingly, the Corporate Debtor submits this History and Profile as an integral part of the Base Resolution Plan for consideration and approval by the Committee of Creditors and the Hon'ble Adjudicating Authority.

(C) DETAILED FINANCIAL STATEMENTS OF THE CORPORATE DEBTOR

(For the Last Five Financial Years)

ABC Engineering Private Limited

(₹ in Crores)

The following financial statements present the historical financial performance and financial position of ABC Engineering Private Limited for the five financial years ended March 31, 2021 to March 31, 2025. The financial information has been compiled from the audited financial statements of the Company and forms an integral part of the Base Resolution Plan under Chapter III-A of the Insolvency and Bankruptcy Code, 2016. The historical performance demonstrates that the financial stress experienced by the Corporate Debtor is primarily attributable to adverse market conditions, prolonged receivable cycles, increased input costs and rising finance charges rather than any structural deficiencies in the business model.

2. Statement of Profit and Loss: (₹ in Crores)

Particulars	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Revenue from Operations	185.62	174.18	161.45	148.72	136.84
Other Income	3.12	2.84	2.41	2.26	1.96
Total Income	188.74	177.02	163.86	150.98	138.80
Raw Material Consumption	112.48	109.24	103.16	98.84	92.14
Employee Benefits Expense	19.56	20.18	20.74	21.36	21.92
Manufacturing & Operating Expenses	28.44	27.52	26.68	25.86	24.95
Administrative & Selling Expenses	8.32	8.78	8.65	8.42	8.18
Power & Fuel Expenses	5.48	6.12	6.46	6.78	6.82
EBITDA	14.46	5.18	(1.83)	(10.28)	(15.21)
Depreciation	4.18	4.42	4.58	4.82	5.06
EBIT	10.28	0.76	(6.41)	(15.10)	(20.27)
Finance Cost	7.64	8.38	9.62	10.54	11.28
Profit Before Tax	2.64	(7.62)	(16.03)	(25.64)	(31.55)
Tax Expense	0.82	-	-	-	-
Profit/(Loss) After Tax	1.82	(7.62)	(16.03)	(25.64)	(31.55)

3. Balance Sheet:

(₹ in Crores)

Assets

Particulars	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Property, Plant & Equipment	68.14	65.28	62.06	58.62	55.48
Capital Work-in-Progress	4.28	3.12	2.14	1.08	0.54
Other Non-Current Assets	3.84	3.66	3.54	3.42	3.18
Inventory	32.68	34.12	36.54	37.48	35.96
Trade Receivables	42.84	46.38	48.82	47.16	44.84
Cash and Bank Balances	3.64	2.48	1.64	1.08	0.76
Other Current Assets	6.24	6.82	7.12	7.46	7.24
Total Assets	161.66	161.86	161.86	156.30	147.99

Equity and Liabilities

Particulars	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Equity Share Capital	18.00	18.00	18.00	18.00	18.00
Reserves & Surplus	28.46	20.84	4.81	(20.83)	(52.38)
Net Worth	46.46	38.84	22.81	(2.83)	(34.38)
Long-Term Borrowings	58.42	61.38	63.74	64.52	62.48
Working Capital Borrowings	34.68	38.16	41.52	43.86	45.24
Trade Payables	14.56	15.84	18.46	20.72	22.18
Statutory Liabilities	2.48	2.92	3.26	3.84	4.16
Other Current Liabilities	5.06	4.72	5.07	6.19	7.31
Total Equity and Liabilities	161.66	161.86	161.86	156.30	147.99

4. Cash Flow Statement:

(₹ in Crores)

Particulars	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Net Cash from Operating Activities	9.46	3.84	(5.68)	(10.24)	(14.82)
Net Cash from Investing Activities	(8.62)	(3.84)	(2.76)	(1.28)	(0.86)
Net Cash from Financing Activities	4.86	2.84	7.60	10.96	14.74
Net Increase/(Decrease) in Cash	5.70	2.84	(0.84)	(0.56)	(0.94)
Opening Cash Balance	1.78	3.64	2.48	1.64	1.08
Closing Cash Balance	3.64	2.48	1.64	1.08	0.76

5. Borrowings Position as on March 31, 2025:**₹ in Crores)**

Particulars	Amount
Term Loan from Consortium Banks	50.24
Cash Credit Facilities	25.36
Working Capital Demand Loan	6.88
Vehicle Loans and Equipment Finance	1.24
Unsecured Loans from Promoters	8.14
Interest Accrued and Due	4.18
Total Borrowings	96.04

6. Net Working Capital Position:**(₹ in Crores)**

Particulars	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Inventory	32.68	34.12	36.54	37.48	35.96
Receivables	42.84	46.38	48.82	47.16	44.84
Other Current Assets	9.88	9.30	8.76	8.54	8.00
Total Current Assets	85.40	89.80	94.12	93.18	88.80
Current Liabilities	56.78	61.64	68.31	74.61	78.89
Net Working Capital	28.62	28.16	25.81	18.57	9.91

7. Key Financial Ratios:

Ratios	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Current Ratio	1.50	1.46	1.38	1.25	1.13
Debt Equity Ratio	2.00	2.56	4.62	Negative	Negative
Interest Coverage Ratio	2.35	1.09	(0.67)	(1.43)	(1.80)
EBITDA Margin (%)	7.79	2.97	(1.13)	(6.91)	(11.11)
Net Profit Margin (%)	0.98	(4.38)	(9.91)	(17.22)	(23.06)
Inventory Holding Period (Days)	64	72	83	92	96
Receivables Collection Period (Days)	84	97	110	116	120

8. Analysis of Historical Performance:

The financial statements reveal that the Corporate Debtor maintained satisfactory operations up to FY 2020-21. Subsequently, revenue declined continuously due to slowdown in demand, higher raw material prices and delayed realization of receivables. EBITDA margins were adversely impacted, resulting in operating losses from FY 2022-23 onwards.

The prolonged working capital cycle compelled the Company to rely heavily on borrowed funds, thereby increasing finance costs. Accumulated losses eroded the net worth and adversely affected liquidity, leading to defaults in servicing debt obligations.

Notwithstanding the present stress, the Company possesses substantial fixed assets, established manufacturing infrastructure, experienced management and a healthy order book. Independent assessments indicate that with suitable restructuring of debt and operational improvements, the business is capable of generating positive cash flows and restoring profitability.

Accordingly, the historical financial statements support the contention that the stress faced by the Corporate Debtor is temporary and reversible, thereby justifying the initiation of the Pre-Packaged Insolvency Resolution Process under Chapter III-A of the Insolvency and Bankruptcy Code, 2016.

(D) CAUSES OF STRESS AND FORENSIC OBSERVATIONS

ABC Engineering Private Limited

(Forming Part of the Base Resolution Plan under Chapter III-A of the Insolvency and Bankruptcy Code, 2016)

The Corporate Debtor, ABC Engineering Private Limited, had maintained satisfactory financial performance and debt servicing capabilities during the initial years of its operations. However, over the past few financial years, the Company experienced significant financial stress resulting in irregularities in debt servicing and deterioration in liquidity. An analysis of the historical financial statements, operational performance, industry conditions and available records indicates that the stress faced by the Corporate Debtor is predominantly attributable to adverse economic and business factors and not due to any fraudulent conduct or wilful default.

In order to identify the underlying reasons for the financial distress and to ascertain the existence of any irregular transactions, an examination of the books of account, financial records, bank statements, statutory records and related documents was undertaken. The findings and observations are summarized herein.

2. Causes of Financial Stress:

2.1 Increase in Raw Material Prices:

The principal raw materials consumed by the Corporate Debtor consist of steel, alloy metals and engineering consumables. During the past three financial years, there was a substantial increase in the prices of these inputs owing to global supply disruptions and inflationary pressures. The Company was unable to pass on the increased costs entirely to customers because of contractual pricing arrangements and intense market competition. Consequently, operating margins declined significantly, adversely affecting profitability and cash generation.

2.2 Prolonged Collection Cycle and Delayed Receivables:

A major portion of the Company's sales is made to large Original Equipment Manufacturers and industrial customers who generally follow extended credit terms. During the recent years, collections from customers were delayed considerably, resulting in elongation of the receivables cycle. Trade receivables increased substantially, causing blockage of working capital and creating liquidity constraints. The inability to convert receivables into cash in a timely manner adversely affected the Company's capacity to service its debt obligations.

2.3 Decline in Capacity Utilization:

The Company had undertaken expansion of manufacturing facilities based on anticipated growth in demand. However, slowdown in certain sectors, reduction in customer orders and increased competition resulted in lower utilization of installed capacities. Since a significant portion of manufacturing costs is fixed in nature, lower capacity utilization resulted in increase in per-unit production costs and reduction in operating efficiency.

2.4 Escalation in Finance Costs:

To meet the working capital requirements arising from delayed receivables and increased inventory levels, the Company relied heavily on bank borrowings and ad hoc facilities. Rising interest rates and additional borrowing requirements increased finance costs substantially. The increased interest burden exerted considerable pressure on cash flows and profitability, thereby contributing to deterioration in debt servicing capability.

2.5 Inventory Accumulation:

Fluctuations in customer demand and delays in execution of orders resulted in higher inventory levels. The

increase in inventory carrying period led to blockage of funds and additional storage and handling costs. Inventory accumulation further strained the liquidity position of the Company.

2.6 Industry Slowdown and Economic Conditions:

The engineering and manufacturing sectors experienced a slowdown due to economic uncertainties, disruptions in supply chains and changing market conditions. The Company faced intense competition and pressure on pricing, resulting in lower revenues and reduced margins. External economic factors had a significant impact on the operational and financial performance of the Corporate Debtor.

2.7 Inadequate Working Capital:

Although the Company possessed a healthy order book and adequate manufacturing infrastructure, the working capital facilities available were insufficient to support the elongated operating cycle. Inadequate liquidity resulted in delays in payments to suppliers and increased dependence on short-term borrowings.

2.8 Increase in Statutory and Compliance Costs:

Escalation in energy costs, wages, statutory obligations and other operating expenses further affected profitability and reduced internal accruals available for debt servicing.

2.9 Absence of Equity Infusion During Stress Period:

The prolonged stress period eroded the net worth of the Company. Though the promoters extended unsecured loans to support operations, the scale of financial support was inadequate to offset the losses incurred. The erosion of net worth weakened the capital structure and affected the borrowing capacity of the Company.

3. Forensic Review and Observations:

An examination of the books of account, financial statements, bank transactions, statutory records and related documents was carried out to identify any irregularities, diversion of funds, preferential transactions or fraudulent activities. The following observations emerge from such examination.

3.1 No Evidence of Diversion of Funds:

The review of bank statements and fund flow analysis indicates that the borrowings availed from banks and financial institutions were utilized substantially for the purposes for which they were sanctioned. The funds were primarily deployed towards acquisition of fixed assets, procurement of raw materials, payment of salaries, statutory dues and operational expenses. No material instances of diversion or siphoning of funds were observed.

3.2 No Fraudulent Transactions Noticed:

An examination of accounting records and supporting documents does not indicate any deliberate falsification of accounts or fraudulent financial reporting. The losses suffered by the Company are attributable to adverse business conditions and not to manipulation of financial information.

3.3 Related Party Transactions:

The Company entered into certain transactions with related parties in the ordinary course of business. Such transactions were generally undertaken at arm's length and were duly disclosed in the financial statements in accordance with applicable accounting standards and statutory requirements. No material adverse impact on the interests of creditors has been observed on account of these transactions.

3.4 Preferential Transactions:

A review of payments made during the relevant period does not reveal any significant preferential transactions intended to favour any particular creditor or stakeholder to the detriment of other creditors. Payments made by the

Company appear to have been driven by operational requirements and business exigencies.

3.5 Undervalued Transactions:

No substantial transactions involving transfer of assets at values significantly below fair market value have been identified during the review period. The assets of the Company continue to remain available for the benefit of stakeholders.

3.6 Extortionate Credit Transactions:

The review has not revealed any transactions involving exorbitant or unconscionable terms that could be categorized as extortionate credit transactions under the provisions of the Insolvency and Bankruptcy Code, 2016.

3.7 Compliance with Statutory Requirements:

The Company has generally maintained statutory records and complied with applicable provisions of the Companies Act, 2013, Income-tax Act, Goods and Services Tax laws and labour laws. Certain delays in remittance of statutory dues occurred due to temporary liquidity constraints, but such delays were not intentional and are proposed to be regularized under the Resolution Plan.

3.8 Internal Control Weaknesses:

The review identified certain weaknesses in receivables management, inventory control and monitoring of working capital utilization. Though these deficiencies contributed to deterioration in liquidity, they do not indicate any mala fide intentions. The Company proposes to strengthen internal controls and introduce improved financial management systems as part of the Resolution Plan.

3.9 Promoters' Conduct:

The promoters have continuously supported the business through infusion of unsecured loans and personal guarantees extended to lenders. There is no evidence suggesting wilful default or deliberate avoidance of debt obligations. The promoters have demonstrated their commitment to the revival of the Company and have undertaken to infuse additional equity under the proposed Resolution Plan.

4. Root Cause Analysis:

The financial stress faced by the Corporate Debtor is primarily attributable to external market conditions, increase in input costs, prolonged receivable cycles, inadequate working capital and increased finance costs. These factors collectively resulted in deterioration of profitability and liquidity, ultimately impairing the Company's ability to service its debt obligations. The stress experienced by the Company is operational and financial in nature and does not arise from fraud, diversion of funds or other malicious conduct.

5. Corrective Measures Proposed:

The Resolution Plan envisages several corrective measures aimed at addressing the root causes of stress. These include restructuring of debt obligations, infusion of fresh equity by promoters, enhancement of working capital facilities, strengthening of receivables management, optimization of inventory levels, improvement in cost controls, diversification of customer base, implementation of robust internal control systems and enhancement of corporate governance practices.

These measures are expected to restore operational efficiency, improve profitability and enable the Corporate Debtor to generate sustainable cash flows for servicing its obligations.

Hence, based on the examination of financial records, operational data and related information, it is concluded that the distress faced by ABC Engineering Private Limited is temporary and reversible in nature. The Company possesses sound business fundamentals, established infrastructure, experienced management and adequate



growth potential. There is no material evidence of diversion of funds, fraudulent transactions or wilful default. Accordingly, the financial stress can be effectively addressed through the implementation of the proposed Base Resolution Plan under the Pre-Packaged Insolvency Resolution Process, thereby preserving enterprise value and maximizing recoveries for all stakeholders.

(E) TECHNO-ECONOMIC VIABILITY (TEV) ANALYSIS

ABC ENGINEERING PRIVATE LIMITED

(Forming Part of the Base Resolution Plan under Chapter III-A of the Insolvency and Bankruptcy Code, 2016)

This Techno-Economic Viability (TEV) Analysis has been prepared to assess the technical feasibility, operational sustainability and economic viability of ABC Engineering Private Limited (“Corporate Debtor”) and to determine whether the business possesses adequate capacity to generate sustainable cash flows for servicing the restructured debt proposed under the Base Resolution Plan.

The objective of the TEV study is to evaluate the present condition of the enterprise, identify the causes of stress, examine the future prospects of the industry and assess whether the Corporate Debtor can continue as a viable going concern. The analysis indicates that the financial distress faced by the Company is temporary and reversible in nature and that the business is capable of revival through a combination of financial restructuring, operational improvements and promoter support.

2. Company Overview:

ABC Engineering Private Limited is engaged in the manufacture of precision engineering components, fabricated structures and industrial assemblies catering to automobile, engineering and infrastructure sectors. The Company possesses modern manufacturing facilities situated at Patancheru Industrial Estate, Telangana, with an installed production capacity of approximately 18,000 MT per annum.

The Company has a diversified customer base, experienced management team, established supply chain and long-standing relationships with reputed Original Equipment Manufacturers (OEMs). The manufacturing facilities and technical capabilities of the Company continue to remain intact and operational.

3. Industry Analysis and Market Potential:

The engineering and fabrication industry continues to exhibit favourable long-term growth prospects due to increasing investments in infrastructure, power, railways, automobile manufacturing and industrial development. Government initiatives relating to “Make in India”, industrial corridors, renewable energy and expansion of manufacturing activities are expected to generate sustained demand for engineering products.

Although the industry experienced temporary disruptions during recent years due to supply chain constraints and economic slowdown, market demand is expected to improve progressively. The Corporate Debtor possesses adequate technical competence and customer relationships to benefit from such opportunities.

The Company presently maintains a confirmed order book of approximately ₹145 crore, which provides reasonable revenue visibility over the next 12 to 18 months and supports the viability of operations.

4. Technical Evaluation:

4.1 Manufacturing Facilities:

The Corporate Debtor possesses integrated manufacturing facilities comprising CNC machines, heavy fabrication units, machining centers, welding stations and quality testing laboratories. The facilities are supported by adequate power supply, material handling equipment and warehousing infrastructure.

The plant and machinery have been maintained satisfactorily and are capable of operating efficiently without substantial capital expenditure. No significant technological obsolescence has been observed.

4.2 Installed Capacity and Capacity Utilization:

Particulars	Capacity
Installed Capacity	18,000 MT per annum
Present Capacity Utilization	55%
Expected Utilization - Year 1	65%
Expected Utilization - Year 2	75%
Expected Utilization - Year 3	82%
Expected Utilization - Year 4	85%
Expected Utilization - Year 5	88%

The existing facilities are adequate to support future growth and no major expansion is required during the projection period.

5. Operational Analysis:

The Company's operations remain functional and are supported by skilled manpower and established production systems. There are no material disruptions in manufacturing activities. Major suppliers continue to support the Company and customer relationships remain intact.

Operational inefficiencies observed during recent years are mainly attributable to:

- ✱ Delay in receipt of payments from customers.
- ✱ Increase in inventory carrying period.
- ✱ Escalation in raw material prices.
- ✱ Under-utilization of installed capacity.
- ✱ Higher finance costs.

These issues are considered temporary and can be addressed through improved working capital management and debt restructuring.

6. Management Evaluation:

The promoters possess more than twenty-five years of experience in engineering and manufacturing activities. The management team comprises qualified professionals responsible for production, finance, marketing and quality control functions.

There is no evidence of managerial incompetence, diversion of funds or fraudulent conduct. The promoters have demonstrated their commitment by providing unsecured loans and proposing fresh equity infusion under the Base Resolution Plan.

The management structure is considered satisfactory and capable of implementing the revival strategy.

7. Assessment of Financial Stress:

The deterioration in financial performance is attributable primarily to:

a) Increase in Raw Material Costs:

Sharp increases in steel prices and consumable costs reduced operating margins and affected profitability.

b) Elongation of Receivable Cycle:

Delays in realization of receivables led to liquidity constraints and increased dependence on borrowed funds.

c) Increase in Finance Costs:

Higher utilization of working capital limits and increase in benchmark interest rates resulted in increased interest burden.

d) Lower Capacity Utilization:

Reduction in demand and temporary slowdown affected economies of scale and operational efficiency.

e) Working Capital Constraints:

Inadequate liquidity adversely affected procurement and production planning.

The stress experienced by the Company is operational and financial in nature and does not represent structural weakness in the business.

8. SWOT Analysis:

Strengths:

The Company possesses established manufacturing facilities, experienced promoters, skilled manpower, diversified customers and strong market reputation. The existing order book and customer relationships provide significant support for revival.

Weaknesses:

High debt burden, stretched receivables, increased finance costs and erosion of net worth have adversely affected liquidity and profitability.

Opportunities:

Growing infrastructure investments, expansion in manufacturing sector, increased demand for engineering products and diversification into new markets provide considerable growth opportunities.

Threats:

Volatility in raw material prices, competition from organized players, fluctuations in demand and increase in interest rates may affect profitability.

9. Projected Revenue and Profitability:

(₹ in Crores)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue from Operations	155	180	205	225	245
EBITDA	16	24	32	40	47
EBITDA Margin (%)	10.3	13.3	15.6	17.8	19.2
Profit After Tax	3	9	15	20	25

The projected financial performance indicates gradual improvement in profitability and strengthening of internal accruals.

10. Sustainable Debt Assessment:

Based on projected cash accruals and debt servicing capability, the total outstanding debt of ₹82 crore has been analysed to determine sustainable and unsustainable portions.

Particulars	Amount (₹ Crores)
Total Fund Based Debt	82
Sustainable Debt	60
Unsustainable Debt	22

The sustainable debt is proposed to be serviced over ten years with an initial moratorium period. The unsustainable portion is proposed to be converted into Non-Convertible Redeemable Preference Shares or settled through future upside sharing arrangements.

11. Debt Servicing Capability:

The projected cash flows indicate adequate ability to service the restructured debt obligations. Debt Service Coverage Ratio (DSCR) is expected to improve progressively due to increased capacity utilization and reduction in finance costs.

Year	DSCR
Year 1	1.20
Year 2	1.45
Year 3	1.72
Year 4	1.95
Year 5	2.15

The projected DSCR levels indicate satisfactory debt servicing capability throughout the repayment period.

12. Sensitivity Analysis:

Stress testing was carried out under adverse scenarios involving:

✱ Decline in Revenue by 10%

The Company continues to maintain DSCR above unity and remains capable of servicing debt obligations.

✱ Increase in Raw Material Costs by 5%

Margins decline moderately but remain sufficient to support debt servicing.

✱ Delay in Receivable Collection by 30 Days

Temporary liquidity pressure is observed; however, with additional working capital support, operations remain sustainable.

✱ Increase in Interest Rates by 1%

Debt servicing capability remains satisfactory and does not materially affect viability.

The sensitivity analysis demonstrates the resilience of the proposed Resolution Plan under reasonably

foreseeable adverse conditions.

13. Requirement of Additional Funds:

To restore normal operations and improve liquidity, additional financial support is necessary.

Particulars	Amount (₹ Crores)
Additional Working Capital	8
Promoters' Equity Infusion	10
Total Additional Support	18

The additional funds shall be utilized for procurement of raw materials, payment of critical operational creditors and strengthening working capital.

14. Overall Viability Assessment:

After considering the technical capabilities, operational performance, market potential, management competence and projected financial performance, it is concluded that ABC Engineering Private Limited is a technically feasible and economically viable enterprise.

The existing stress is temporary and reversible. The business possesses adequate assets, experienced management, established customer relationships and growth opportunities. Implementation of the proposed financial restructuring measures, infusion of promoter contribution and enhancement of working capital facilities will enable the Company to restore profitability and generate sufficient cash flows for servicing its obligations.

Hence, based on the foregoing analysis, ABC Engineering Private Limited is assessed as a viable and sustainable business enterprise. The Company has the capability to continue as a going concern and generate adequate cash accruals under the proposed restructuring framework. The recoveries available to stakeholders under the Base Resolution Plan are significantly superior to those obtainable under liquidation.

Accordingly, the enterprise qualifies for revival under the Pre-Packaged Insolvency Resolution Process and the proposed Base Resolution Plan is considered technically feasible, economically viable and capable of successful implementation.

(F) SUSTAINABLE DEBT COMPUTATION**ABC ENGINEERING PRIVATE LIMITED****(Forming Part of the Base Resolution Plan under Chapter III-A of the Insolvency and Bankruptcy Code, 2016)**

The Sustainable Debt Computation has been carried out to determine the quantum of debt that can be serviced by the Corporate Debtor from its future cash flows without impairing the operational viability of the business. The assessment is based on the Techno-Economic Viability (TEV) Study, projected cash flows, earnings potential, working capital requirements, capital expenditure needs and reasonable assumptions regarding future growth.

The objective of the exercise is to distinguish between the sustainable and unsustainable portions of debt and to formulate an appropriate restructuring package that ensures long-term viability of the Company while maximizing recoveries to stakeholders.

2. Existing Debt Profile:

As on the PPIRP Commencement Date, the total indebtedness of ABC Engineering Private Limited consists of term loans, working capital facilities and accrued interest obligations.

Existing Debt Position:*(₹ in Crores)*

Particulars	Amount
Term Loan Facilities	50.24
Cash Credit Facilities	25.36
Working Capital Demand Loan	6.40
Equipment Finance and Vehicle Loans	1.18
Accrued Interest and Charges	4.82
Total Debt Exposure	88.00

The existing debt burden is disproportionate to the present earnings and cash generation capacity of the Corporate Debtor. Accordingly, debt restructuring is essential for restoring financial stability.

3. Basis of Sustainable Debt Assessment:

The sustainable debt has been computed considering the following parameters:

- ✱ Future projected turnover and profitability.
- ✱ EBITDA generation capability.
- ✱ Free cash flow available for debt servicing.
- ✱ Debt Service Coverage Ratio (DSCR).
- ✱ Working capital requirements.
- ✱ Maintenance capital expenditure requirements.
- ✱ Interest servicing capability.

- ✱ Industry outlook and market conditions.
- ✱ Sensitivity analysis under adverse scenarios.
- ✱ Margin of safety for business contingencies.

The computation has been made with the objective of maintaining an average DSCR above 1.25 throughout the repayment period.

4. Projected Operating Performance:

(₹ in Crores)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue from Operations	155	180	205	225	245
EBITDA	16	24	32	40	47
EBITDA Margin (%)	10.3	13.3	15.6	17.8	19.2
Depreciation	5	5	5	5	5
EBIT	11	19	27	35	42
Income Tax	1	3	5	7	8
Profit after Tax	3	9	15	20	25

The gradual improvement in revenues and margins is expected to generate adequate cash accruals to support debt servicing.

5. Free Cash Flow Available for Debt Servicing:

(₹ in Crores)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
EBITDA	16	24	32	40	47
Less: Taxes	1	3	5	7	8
Less: Maintenance Capex	2	2	3	3	4
Less: Increase in Working Capital	2	2	3	3	4
Cash Available for Debt Servicing	11	17	21	27	31

The projected cash generation demonstrates the Company's ability to service only a certain level of debt on a sustainable basis.

6. Debt Service Coverage Analysis:

The restructuring package has been designed to maintain an acceptable debt service coverage ratio.

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash Available for Debt Servicing	11	17	21	27	31
Debt Service Requirement	9.20	12.10	13.40	14.30	15.20
DSCR	1.20	1.40	1.57	1.89	2.04

The projected DSCR levels indicate that debt obligations corresponding to approximately ₹62 crore can be serviced comfortably.

7. Sustainable Debt Computation:

Based on the projected cash flows and maintaining an average DSCR above 1.25, the sustainable debt has been assessed as follows:

Sustainable Debt Analysis

(₹ in Crores)

Particulars	Amount
Total Debt Outstanding	88.00
Debt Servicing Capacity Based on Cash Flows	62.00
Sustainable Debt	62.00
Unsustainable Debt	26.00

Accordingly, debt amounting to ₹62 crore is considered capable of being serviced through future cash flows, whereas the balance debt of ₹26 crore is considered unsustainable under the existing capital structure.

8. Proposed Treatment of Sustainable Debt:

The sustainable portion of debt amounting to ₹62 crore shall be restructured as follows:

Repayment Structure

(₹ in Crores)

Particulars	Amount
Sustainable Debt	62.00
Moratorium Period	18 Months
Repayment Period	10 Years
Interest Rate	Repo Linked Lending Rate + Spread
Repayment Frequency	Quarterly Instalments
Security	Existing Securities to Continue

The revised structure is expected to align debt obligations with the earning capacity of the Company.

9. Treatment of Unsustainable Debt:

The unsustainable portion amounting to ₹26 crore is proposed to be dealt with through a combination of restructuring measures.

Proposed Treatment

(₹ in Crores)

Particulars	Amount
Conversion into Redeemable Preference Shares	15.00
Deferred Payment Linked to Future Cash Surplus	6.00
Waiver of Penal Interest and Charges	3.00

Particulars	Amount
Conversion into Optionally Convertible Instruments	2.00
Total Unsustainable Debt	26.00

This treatment would substantially improve the capital structure and ensure long-term sustainability.

10. Promoters' Contribution:

The promoters have undertaken to infuse fresh equity capital amounting to ₹10 crore within ninety days from approval of the Resolution Plan. Further, unsecured loans extended by promoters amounting to ₹8 crore shall remain subordinated to the claims of secured lenders and shall not be withdrawn until completion of the Resolution Plan obligations.

The promoters' contribution demonstrates their commitment to revival and enhances stakeholder confidence.

11. Sensitivity Analysis:

Sensitivity analysis has been carried out under various stress scenarios.

❖ Revenue Reduction by 10%

Even under reduced turnover conditions, debt servicing obligations corresponding to sustainable debt remain manageable and DSCR remains above 1.10.

❖ Increase in Raw Material Cost by 5%

The EBITDA margin declines marginally; however, debt servicing capability remains satisfactory.

❖ Increase in Interest Rate by 1%

The revised debt structure remains capable of absorbing moderate increases in finance costs.

❖ Delay in Receivables by 30 Days

The Company experiences temporary liquidity pressure, which can be managed through enhanced working capital facilities.

These scenarios indicate the robustness of the sustainable debt assessment.

12. Comparison with Liquidation Scenario:

Independent valuation indicates that liquidation value available to secured creditors is significantly lower than recoveries expected under the proposed Resolution Plan.

Particulars	Amount (₹ Crores)
Liquidation Value	42.00
Fair Value	74.00
Recovery under Proposed Resolution Plan	62.00
Incremental Recovery over Liquidation Value	20.00

The Resolution Plan therefore provides substantially superior value to stakeholders as compared to liquidation.

Hence, based on projected financial performance, free cash flow generation, debt servicing capability and sensitivity analysis, debt amounting to ₹62 crore has been assessed as sustainable. The balance debt of ₹26 crore is considered unsustainable and requires restructuring through appropriate instruments and concessions.

The proposed debt structure maintains adequate liquidity, preserves the Corporate Debtor as a going concern and ensures value maximization for all stakeholders. The Sustainable Debt Computation confirms that the Corporate Debtor possesses the capability to service the restructured debt and successfully implement the Base Resolution Plan under the Pre-Packaged Insolvency Resolution Process.

Accordingly, the sustainable debt level and the proposed restructuring measures are considered fair, feasible and commercially prudent.

(G) PROJECTED FINANCIAL STATEMENTS FOR TEN YEARS

ABC ENGINEERING PRIVATE LIMITED

(Forming Part of the Base Resolution Plan under Chapter III-A of the Insolvency and Bankruptcy Code, 2016)

The projected financial statements have been prepared based on the assumptions underlying the Techno-Economic Viability Study and Sustainable Debt Computation. The projections are based upon anticipated improvement in capacity utilization, operational efficiencies, strengthening of receivables management, infusion of fresh capital by promoters, additional working capital support from lenders and restructuring of existing debt obligations.

The assumptions adopted are considered reasonable and realistic under normal operating conditions. The projections demonstrate the ability of the Corporate Debtor to generate sufficient cash flows to service restructured debt and maintain operations as a going concern.

Major Assumptions:

The financial projections are based on the following assumptions:

- ✱ Capacity utilization is expected to increase gradually from 65% in Year 1 to 90% by Year 10.
- ✱ Sales growth is projected at 12% during the initial years and stabilizes thereafter.
- ✱ EBITDA margin improves from 10.5% to around 19%.
- ✱ Promoters shall infuse fresh equity of ₹10 crore.
- ✱ Additional working capital support of ₹8 crore shall be provided.
- ✱ Sustainable debt of ₹62 crore shall be repaid over ten years with a moratorium of eighteen months.
- ✱ No major capital expenditure is envisaged except maintenance capex.
- ✱ Tax liabilities are assumed based on prevailing tax laws.
- ✱ Inflation and escalation in expenses have been considered.

PROJECTED PROFIT & LOSS ACCOUNT

(₹ in Crores)

Particulars	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Revenue from Operations	155	180	205	225	245	265	285	305	325	345
Other Income	2	2	3	3	3	4	4	4	5	5
Total Income	157	182	208	228	248	269	289	309	330	350
Raw Material Cost	98	111	124	135	145	156	166	176	187	197
Employee Expenses	22	23	24	25	27	28	29	30	31	32
Manufacturing Expenses	14	16	18	19	20	21	22	23	24	25

Particulars	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Administrative Expenses	6	7	8	9	9	10	11	11	12	13
Power & Fuel Expenses	4	5	5	6	7	7	8	8	9	9
EBITDA	13	20	29	34	40	47	53	61	67	74
Depreciation	5	5	5	5	5	5	5	5	5	5
EBIT	8	15	24	29	35	42	48	56	62	69
Finance Cost	7	7	6	6	5	4	4	3	2	2
Profit Before Tax	1	8	18	23	30	38	44	53	60	67
Tax Provision	-	2	4	6	8	10	11	13	15	17
Profit After Tax	1	6	14	17	22	28	33	40	45	50

PROJECTED BALANCE SHEET:

(₹ in Crores)

Assets

Particulars	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Net Fixed Assets	54	52	50	48	46	44	42	40	38	36
Other Non-current Assets	4	4	4	4	5	5	5	5	5	5
Inventory	36	38	40	42	44	46	48	50	52	54
Trade Receivables	42	44	46	48	50	52	54	56	58	60
Cash & Bank Balances	4	7	11	16	21	28	35	43	52	62
Other Current Assets	8	8	9	10	10	11	12	12	13	14
Total Assets	148	153	160	168	176	186	196	206	218	231

Equity and Liabilities:

Particulars	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Equity Share Capital	28	28	28	28	28	28	28	28	28	28
Reserves & Surplus	(33)	(27)	(13)	4	26	54	87	127	172	222
Net Worth	(5)	1	15	32	54	82	115	155	200	250
Term Loans	58	55	49	43	37	30	23	16	8	-
Working Capital Borrowings	42	41	40	39	38	37	36	35	34	33

Particulars	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Trade Payables	30	31	32	33	34	35	36	37	38	39
Other Current Liabilities	23	25	24	21	13	2	(18)	(37)	(62)	(91)
Total Liabilities	148	153	160	168	176	186	196	206	218	231

PROJECTED CASH FLOW STATEMENT:

(₹ in Crores)

Particulars	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Cash Flow from Operating Activities	10	16	24	30	36	43	49	56	62	69
Cash Flow from Investing Activities	(2)	(2)	(3)	(3)	(4)	(4)	(5)	(5)	(5)	(5)
Cash Flow from Financing Activities	(4)	(11)	(17)	(22)	(27)	(32)	(37)	(43)	(48)	(54)
Net Increase/(Decrease) in Cash	4	3	4	5	5	7	7	8	9	10
Opening Cash Balance	1	5	8	12	17	22	29	36	44	53
Closing Cash Balance	5	8	12	17	22	29	36	44	53	63

Projected Debt Repayment Schedule:

(₹ in Crores)

Year	Opening Debt	Principal Repaid	Closing Debt
Y1	62	2	60
Y2	60	5	55
Y3	55	6	49
Y4	49	6	43
Y5	43	6	37
Y6	37	7	30
Y7	30	7	23
Y8	23	7	16
Y9	16	8	8
Y10	8	8	Nil

Analysis of Projected Financial Performance:

The projected financial statements indicate that the Corporate Debtor would gradually recover from the present stress and restore profitability. Revenue is expected to increase from ₹155 crore in Year 1 to ₹345 crore in Year 10

due to higher capacity utilization, operational efficiencies and market expansion. EBITDA is projected to improve substantially, enabling the Company to generate strong internal cash accruals.

The debt burden is expected to decline steadily over the projection period, resulting in lower finance costs and improved profitability. Net worth, which has presently been eroded due to accumulated losses, is projected to become positive by the second year and strengthen considerably thereafter.

The projected cash flows demonstrate adequate liquidity to service restructured debt obligations and sustain future growth. Accordingly, the Company is expected to remain a viable going concern and provide recoveries substantially superior to liquidation value.

Hence, the ten-year projected financial statements establish that the proposed Base Resolution Plan is financially feasible and commercially viable. The projections demonstrate the ability of ABC Engineering Private Limited to generate sustainable cash flows, service its restructured debt obligations and restore shareholder value. The enterprise is capable of long-term survival and growth under the proposed restructuring framework, thereby maximizing value for all stakeholders and fulfilling the objectives of the Insolvency and Bankruptcy Code, 2016.

(H) RATIO ANALYSIS, DSCR, IRR AND SENSITIVITY ANALYSIS

ABC ENGINEERING PRIVATE LIMITED

(Forming Part of the Base Resolution Plan under Chapter III-A of the Insolvency and Bankruptcy Code, 2016)

The financial projections and viability assessment of ABC Engineering Private Limited have been subjected to detailed ratio analysis, Debt Service Coverage Ratio (DSCR) evaluation, Internal Rate of Return (IRR) computation and sensitivity analysis to ascertain the sustainability of the proposed restructuring package. The analysis demonstrates that the Company possesses adequate capability to generate cash flows and service the restructured debt under normal and stressed operating conditions.

2. Ratio Analysis:

The projected financial ratios indicate gradual improvement in liquidity, profitability, solvency and operational efficiency during the implementation period of the Resolution Plan.

Liquidity Ratios:

Current Ratio:

(₹ in Crores)

Year	Current Assets	Current Liabilities	Current Ratio
Y1	90	80	1.13
Y2	97	82	1.18
Y3	106	84	1.26
Y4	116	86	1.35
Y5	125	88	1.42
Y6	137	92	1.49
Y7	149	96	1.55
Y8	161	100	1.61
Y9	175	105	1.67
Y10	190	110	1.73

The current ratio progressively improves, reflecting strengthening liquidity and improved working capital management.

Solvency Ratios:

Debt-Equity Ratio:

Year	Total Debt	Net Worth	Debt Equity Ratio
Y1	100	(5)	Negative
Y2	96	1	96.00

Y3	89	15	5.93
Y4	82	32	2.56
Y5	75	54	1.39
Y6	67	82	0.82
Y7	59	115	0.51
Y8	51	155	0.33
Y9	42	200	0.21
Y10	33	250	0.13

The debt-equity ratio declines steadily due to repayment of debt and improvement in net worth.

Profitability Ratios:

EBITDA Margin:

Year	EBITDA	Revenue	EBITDA Margin (%)
Y1	13	155	8.39
Y2	20	180	11.11
Y3	29	205	14.15
Y4	34	225	15.11
Y5	40	245	16.33
Y6	47	265	17.74
Y7	53	285	18.60
Y8	61	305	20.00
Y9	67	325	20.62
Y10	74	345	21.45

Net Profit Margin:

Year	PAT	Revenue	Net Profit Margin (%)
Y1	1	155	0.65
Y2	6	180	3.33
Y3	14	205	6.83
Y4	17	225	7.56
Y5	22	245	8.98
Y6	28	265	10.57

Year	PAT	Revenue	Net Profit Margin (%)
Y7	33	285	11.58
Y8	40	305	13.11
Y9	45	325	13.85
Y10	50	345	14.49

Efficiency Ratios:

Inventory Turnover Ratio:

Year	Inventory Turnover (Times)
Y1	4.30
Y2	4.45
Y3	4.60
Y4	4.72
Y5	4.85
Y6	5.02
Y7	5.15
Y8	5.28
Y9	5.42
Y10	5.55

Receivables Turnover Ratio:

Year	Receivable Turnover (Times)
Y1	3.69
Y2	4.09
Y3	4.46
Y4	4.69
Y5	4.90
Y6	5.09
Y7	5.28
Y8	5.45
Y9	5.60
Y10	5.75

3. Debt Service Coverage Ratio (DSCR):

DSCR is an important indicator to assess the ability of the Company to service principal and interest obligations from operating cash flows.

DSCR Analysis:

(₹ in Crores)

Particulars	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Profit after Tax	1	6	14	17	22	28	33	40	45	50
Depreciation	5	5	5	5	5	5	5	5	5	5
Interest	7	7	6	6	5	4	4	3	2	2
Cash Accruals Available	13	18	25	28	32	37	42	48	52	57
Interest Payment	7	7	6	6	5	4	4	3	2	2
Principal Repayment	2	5	6	6	6	7	7	7	8	8
Total Debt Service	9	12	12	12	11	11	11	10	10	10
DSCR	1.44	1.50	2.08	2.33	2.91	3.36	3.82	4.80	5.20	5.70

Average DSCR = 3.31

The average DSCR of 3.31 demonstrates strong debt servicing capability and supports the viability of the proposed restructuring package.

4. Internal Rate of Return (IRR) Analysis:

The Internal Rate of Return (IRR) measures the return generated by the project and indicates the economic viability of the enterprise.

Assumptions:

- ✱ Project period: 10 years.
- ✱ Initial investment including existing assets and additional support : ₹110 crore.
- ✱ Promoters' contribution: ₹10 crore.
- ✱ Additional working capital support: ₹8 crore.
- ✱ Free cash flows based on projected operations.

Project Free Cash Flows:

(₹ in Crores)

Year	Free Cash Flow
Y1	10
Y2	16
Y3	22
Y4	28
Y5	34

Year	Free Cash Flow
Y6	40
Y7	46
Y8	52
Y9	58
Y10	65

IRR Analysis:

Particulars	Percentage
Project IRR	18.80%
Weighted Average Cost of Capital	11.50%
Spread over Cost of Capital	7.30%

Since the Project IRR exceeds the Weighted Average Cost of Capital, the enterprise is economically viable and capable of generating adequate returns.

5. Sensitivity Analysis:

Sensitivity analysis has been carried out under various adverse scenarios to evaluate the resilience of the Resolution Plan.

Scenario I – Reduction in Revenue by 10%**Impact:**

Revenue declines due to lower capacity utilization or market slowdown.

Particulars	Base Case	Stress Case
Revenue (₹ Crores)	245	221
EBITDA Margin	16.33%	13.40%
Average DSCR	3.31	2.15
Project IRR	18.80%	15.90%

Observation: Despite reduction in revenues, debt servicing remains satisfactory.

Scenario II – Increase in Raw Material Cost by 5%

Particulars	Base Case	Stress Case
EBITDA Margin	16.33%	13.90%
Average DSCR	3.31	2.42
Project IRR	18.80%	16.20%

Observation: Increase in input costs reduces profitability, but the business continues to remain viable.

Scenario III – Increase in Interest Rate by 2%

Particulars	Base Case	Stress Case
Interest Cost	Normal	Increased
Average DSCR	3.31	2.85
Project IRR	18.80%	17.10%

Observation: Moderate increase in interest rates does not materially affect viability.

Scenario IV – Delay in Collection of Receivables by 30 Days

Particulars	Base Case	Stress Case
Working Capital Requirement	₹42 Crores	₹50 Crores
Average DSCR	3.31	2.61
Project IRR	18.80%	16.80%

Observation: Additional working capital support may be required, but debt servicing capability remains adequate.

Combined Stress Scenario:

Under a combined adverse scenario involving:

- ✱ 10% reduction in sales,
- ✱ 5% increase in raw material costs,
- ✱ 2% increase in interest rates, and
- ✱ 30 days delay in receivables, the following position emerges:

Particulars	Combined Stress Scenario
Average DSCR	1.72
Project IRR	13.90%
Debt Servicing	Adequate
Viability Status	Viable

Even under severe stress conditions, the Company continues to maintain DSCR above unity and remains capable of servicing the restructured debt.

Hence, the ratio analysis demonstrates progressive improvement in liquidity, profitability and solvency of ABC Engineering Private Limited. The average DSCR of 3.31 indicates strong debt servicing capability, while the Project IRR of 18.80% confirms the economic viability of the enterprise. Sensitivity analysis establishes that the proposed Base Resolution Plan possesses adequate resilience to withstand reasonably foreseeable adverse conditions.

Accordingly, the projected financial performance, cash flows and restructuring package support the conclusion that the Corporate Debtor is technically feasible, financially sustainable and economically viable. The Resolution Plan provides substantially higher value to stakeholders than liquidation and is capable of successful implementation under the Pre-Packaged Insolvency Resolution Process contemplated under the Insolvency and Bankruptcy Code, 2016.

(I) VALUATION REPORT-FAIR VALUE AND LIQUIDATION VALUE

ABC ENGINEERING PRIVATE LIMITED

(Forming Part of the Base Resolution Plan under Chapter III-A of the Insolvency and Bankruptcy Code, 2016)

In accordance with Sections 54A to 54P of the Insolvency and Bankruptcy Code, 2016 and the applicable provisions of the Insolvency and Bankruptcy Board of India (Pre-Packaged Insolvency Resolution Process) Regulations, 2021, a valuation exercise has been undertaken to determine the Fair Value and Liquidation Value of the assets of ABC Engineering Private Limited (“Corporate Debtor”).

The objective of the valuation exercise is to ascertain the realizable value of the assets under two different scenarios, namely:

- ✱ **Fair Value**, representing the estimated realizable value of assets if exchanged between a willing buyer and a willing seller on an arm’s length basis after proper marketing and with both parties acting knowledgeably and without compulsion; and
- ✱ **Liquidation Value**, representing the estimated realizable value of assets if the Corporate Debtor were to be liquidated on the Insolvency Commencement Date.

The valuation has been carried out based on generally accepted valuation methodologies, including the Asset Approach, Market Approach and Income Approach.

2. Basis of Valuation:

The valuation exercise has considered the following:

- ✱ Audited financial statements of the Company.
- ✱ Fixed asset registers and title documents.
- ✱ Physical verification reports.
- ✱ Market quotations and comparable transactions.
- ✱ Independent estimates of land and building values.
- ✱ Residual useful life of plant and machinery.
- ✱ Inventory and receivables ageing statements.
- ✱ Industry outlook and business prospects.
- ✱ Techno-Economic Viability Study.
- ✱ Projected future cash flows.

3. Description of Assets:

ABC Engineering Private Limited possesses integrated manufacturing facilities located at Patancheru Industrial Estate, Telangana. The Company owns land, factory buildings, plant and machinery, vehicles, office equipment and other current assets.

The manufacturing facilities remain operational and are capable of supporting higher levels of production without substantial additional capital expenditure. Most assets are adequately maintained and possess useful economic life.

4. Valuation Methodologies Adopted:

A. Asset Approach:

Under the Asset Approach, the replacement cost and depreciated value of fixed assets and current assets have been considered.

B. Market Approach:

Comparable market transactions involving similar industrial assets and land parcels have been examined to estimate realizable values.

C. Income Approach:

Future cash flows projected under the Techno-Economic Viability Study have been discounted to determine enterprise value under the Discounted Cash Flow (DCF) method.

The final fair value has been arrived at after assigning appropriate weights to the above methods.

5. Asset-wise Valuation:

A. Fair Value of Assets:

(₹ in Crores)

Particulars	Book Value	Fair Value
Freehold Land	12.50	18.00
Factory Buildings	16.80	20.50
Plant & Machinery	26.40	31.20
Electrical Installations	2.20	2.60
Furniture and Fixtures	0.90	1.10
Vehicles	0.70	0.85
Office Equipment and Computers	0.98	1.15
Capital Work in Progress	0.54	0.54
Inventory	35.96	34.50
Trade Receivables	44.84	39.20
Cash and Bank Balances	0.76	0.76
Other Current Assets	7.24	6.80
Total Fair Value of Assets	148.82	157.20

B. Liquidation Value of Assets:

(₹ in Crores)

Particulars	Fair Value	Liquidation Value
Freehold Land	18.00	14.50

Factory Buildings	20.50	15.00
Plant & Machinery	31.20	19.80
Electrical Installations	2.60	1.40
Furniture and Fixtures	1.10	0.50
Vehicles	0.85	0.40
Office Equipment and Computers	1.15	0.60
Capital Work in Progress	0.54	0.20
Inventory	34.50	24.50
Trade Receivables	39.20	16.50
Cash and Bank Balances	0.76	0.76
Other Current Assets	6.80	3.60
Gross Liquidation Value	157.20	97.76

Less:

Particulars	Amount (₹ Crores)
Insolvency Process Cost	2.50
Liquidation Expenses	4.25
Security Enforcement and Realization Expenses	2.75
Employee Settlement and Statutory Costs	3.26
Total Costs and Expenses	12.76

Net Liquidation Value = ₹85.00 Crores.

6. Enterprise Value under DCF Method:

Based on the projected free cash flows and discounted cash flow methodology, the enterprise value has been estimated as follows:

Discounted Cash Flow Valuation:

(₹ in Crores)

Particulars	Amount
Present Value of Future Cash Flows	112.40
Terminal Value	48.60
Enterprise Value	161.00
Less: Net Debt	88.00
Equity Value	73.00

7. Weighted Fair Value Determination:

Valuation Method	Value (₹ Crores)	Weight	Weighted Value
Asset Approach	157.20	35%	55.02
Market Approach	150.80	25%	37.70
Income Approach (DCF)	161.00	40%	64.40
Weighted Fair Value			157.12

Accordingly, the **Fair Value of the Corporate Debtor is assessed at ₹157.00 Crores (rounded off).**

8. Liquidation Value Available to Stakeholders:

Distribution Waterfall under Liquidation Scenario

(₹ in Crores)

Particulars	Amount
Net Liquidation Value	85.00
CIRP/PPIRP Costs	2.50
Workmen and Secured Creditors	70.00
Employees' Dues	1.80
Government Dues	2.20
Operational Creditors	3.50
Equity Shareholders	Nil
Residual Amount	5.00

The liquidation scenario indicates substantial erosion of value and lower recovery for stakeholders.

9. Comparison between Resolution Value and Liquidation Value

(₹ in Crores)

Particulars	Amount
Fair Value	157.00
Net Liquidation Value	85.00
Sustainable Debt under Resolution Plan	62.00
Total Recovery to Financial Creditors under Resolution Plan	88.00
Incremental Value over Liquidation	3.00
Preservation of Going Concern Value	Significant
Employment Protection	420 Employees
Continuity of Business	Yes

10. Valuation Conclusion

The valuation exercise indicates that the **Fair Value of ABC Engineering Private Limited is ₹157.00 Crores**, whereas the **Net Liquidation Value is ₹85.00 Crores**. The Company possesses significant going concern value, established customer relationships, experienced management and operational manufacturing facilities which would be severely impaired under a liquidation scenario.

The proposed Base Resolution Plan preserves enterprise value and provides substantially better recoveries to stakeholders compared to liquidation. Accordingly, revival of the Corporate Debtor through the Pre-Packaged Insolvency Resolution Process is economically preferable and consistent with the objectives of the Insolvency and Bankruptcy Code, 2016.

Summary of Valuation

Particulars	Amount (₹ Crores)
Fair Value	157.00
Gross Liquidation Value	97.76
Net Liquidation Value	85.00
Total Debt Outstanding	88.00
Sustainable Debt	62.00
Enterprise Value (DCF)	161.00
Equity Value	73.00
Going Concern Status	Technically and Economically Viable

This Valuation forms an integral part of the Base Resolution Plan submitted under Chapter III-A of the Insolvency and Bankruptcy Code, 2016.

(J) TREATMENT OF VARIOUS STAKEHOLDERS

ABC ENGINEERING PRIVATE LIMITED

(Forming Part of the Base Resolution Plan under Chapter III-A of the Insolvency and Bankruptcy Code, 2016)

The Base Resolution Plan of ABC Engineering Private Limited has been formulated with the objective of maximizing value for all stakeholders, preserving the Corporate Debtor as a going concern, protecting employment and ensuring equitable treatment to various classes of creditors and stakeholders in accordance with the provisions of the Insolvency and Bankruptcy Code, 2016 and the Insolvency and Bankruptcy Board of India (Pre-Packaged Insolvency Resolution Process) Regulations, 2021.

The proposed treatment seeks to balance the interests of financial creditors, operational creditors, employees, government authorities, shareholders and other stakeholders while ensuring the long-term sustainability of the Corporate Debtor. The recoveries contemplated under this Resolution Plan are significantly superior to those available under liquidation.

2. Insolvency Resolution Process Costs:

The Pre-Packaged Insolvency Resolution Process costs, including fees payable to the Resolution Professional, registered valuers, legal advisors, transaction auditors, consultants and other incidental expenses, shall be paid in full in priority to all other payments in accordance with Section 53 of the Insolvency and Bankruptcy Code, 2016.

The estimated PPIRP costs amount to ₹2.50 crore and shall be discharged immediately upon approval of the Resolution Plan by the Adjudicating Authority.

3. Treatment of Secured Financial Creditors:

The secured financial creditors comprising consortium banks and financial institutions constitute the principal lenders of the Corporate Debtor. The total outstanding dues as on the PPIRP Commencement Date amount to ₹88 crore.

Based on the Techno-Economic Viability Study and Sustainable Debt Assessment, debt amounting to ₹62 crore has been identified as sustainable and capable of being serviced from future cash flows. The remaining debt of ₹26 crore has been identified as unsustainable and shall be restructured through a combination of conversion into financial instruments and deferred realization mechanisms.

Proposed Treatment

(₹ in Crores)

Particulars	Amount
Total Outstanding Debt	88.00
Sustainable Debt	62.00
Unsustainable Debt	26.00
Recovery under Resolution Plan	88.00
Estimated Liquidation Recovery	70.00

The sustainable debt shall be restructured with:

- ✱ Moratorium period of 18 months.
- ✱ Repayment over 10 years.
- ✱ Interest linked to prevailing benchmark rates.
- ✱ Continuation of existing security and personal guarantees.
- ✱ Quarterly repayment schedule.

The unsustainable debt shall be treated as follows:

Particulars	Amount (₹ Crores)
Conversion into Non-Convertible Redeemable Preference Shares	15.00
Deferred Redemption linked to future cash surpluses	6.00
Waiver of Penal Interest and Additional Charges	3.00
Conversion into Optionally Convertible Instruments	2.00
Total Unsustainable Portion	26.00

The proposed treatment provides substantially higher recovery compared to liquidation.

4. Treatment of Working Capital Lenders:

Working capital lenders shall continue to provide operational banking facilities necessary for uninterrupted business operations. Existing cash credit and working capital demand loan facilities shall be reviewed and renewed based on projected working capital requirements.

Additional working capital assistance amounting to ₹8 crore shall be provided to support inventory and receivables financing. Such facilities shall rank pari passu with existing working capital securities.

5. Treatment of Operational Creditors:

Operational creditors include suppliers of raw materials, service providers and other trade creditors. The Corporate Debtor recognizes the importance of preserving relationships with suppliers and ensuring continuity of business operations.

The total admitted claims of operational creditors are estimated at ₹22 crore.

Proposed Settlement:

Particulars	Amount (₹ Crores)
Total Operational Debt	22.00
Payment during Year 1	8.00
Payment during Years 2 to 4	10.00
Conversion into Long-Term Trade Support Arrangement	4.00
Total Recovery	22.00

Payments to operational creditors shall not be less than the amount receivable by them under liquidation and shall comply with Section 30(2)(b) of the Code.

6. Treatment of Employees and Workmen:

The Company presently employs approximately 420 persons, whose services and expertise are essential for the successful revival of the enterprise.

All unpaid salaries, wages, gratuity and other employment-related dues admitted under the Resolution Plan shall be paid in priority and in full.

Employee Dues:

Particulars	Amount (₹ Crores)
Salary Arrears	0.85
Gratuity and Leave Encashment	0.55
Other Employee Benefits	0.40
Total Dues	1.80

No retrenchment or reduction in workforce is proposed. Existing service conditions shall continue and employment opportunities shall be preserved.

7. Treatment of Government Authorities and Statutory Dues:

The Corporate Debtor owes certain statutory liabilities relating to Goods and Services Tax, Provident Fund contributions, Employee State Insurance dues and income tax obligations.

The admitted statutory dues amount to ₹4.20 crore.

Proposed Settlement

Particulars	Amount (₹ Crores)
GST Liabilities	2.10
Income Tax Dues	0.95
Other Statutory Dues	1.15
Total	4.20

These liabilities shall be discharged over a period of three years in accordance with applicable laws and the provisions of the Resolution Plan.

Provident Fund, Pension Fund and Gratuity Fund dues shall not be compromised and shall be paid in full.

8. Treatment of Unsecured Loans from Promoters:

The promoters have extended unsecured loans amounting to ₹8 crore to support the operations of the Company during periods of financial stress.

The promoters have agreed that such unsecured loans shall remain subordinated to all secured creditors and operational creditors and shall not be repaid until the obligations under the Resolution Plan are substantially implemented.

Interest on promoters' unsecured loans shall remain suspended during the implementation period.

9. Treatment of Related Party Creditors:

Claims of related party creditors, if any, shall rank subordinate to unrelated financial creditors and operational

creditors. Payments to such creditors shall be made only after satisfaction of obligations to other creditors in accordance with the Resolution Plan.

10. Treatment of Shareholders:

The existing equity shareholders shall continue to retain ownership and management control of the Corporate Debtor, subject to the successful implementation of the Resolution Plan.

The promoters have undertaken to infuse fresh equity capital amounting to ₹10 crore within ninety days from approval of the Resolution Plan.

No dividend shall be declared until completion of the restructuring obligations and restoration of financial stability.

11. Treatment of Guarantors:

Personal guarantees and corporate guarantees presently available to lenders shall continue to remain valid and enforceable until full satisfaction of obligations under the Resolution Plan.

The approval of the Resolution Plan shall not extinguish the rights and remedies available to creditors against guarantors under applicable laws.

12. Treatment of Statutory Authorities:

Government departments, municipal authorities and other regulatory bodies shall continue to enjoy rights available under law. Necessary approvals, licenses and registrations required for continuation of business shall be maintained and renewed in the ordinary course.

13. Treatment of Contingent Liabilities:

All contingent liabilities and pending litigations shall continue to be disclosed in the books of account. Appropriate provisions shall be created based on the outcome of such matters.

Future liabilities arising from such contingencies shall be addressed in accordance with applicable laws and the provisions of the Resolution Plan.

14. Treatment of Existing Contracts and Customers:

All contracts, purchase orders and customer arrangements entered into by the Corporate Debtor shall continue to remain valid unless otherwise terminated in accordance with their terms.

The Resolution Plan envisages continuity of business operations and preservation of customer relationships, thereby protecting the going concern value of the enterprise.

15. Treatment of Environmental and Regulatory Obligations:

The Corporate Debtor shall continue to comply with all environmental, safety and regulatory requirements. Existing licenses, approvals and certifications shall remain in force and shall be renewed periodically.

No compromise is proposed with respect to obligations concerning public health, safety or environmental compliance.

16. Stakeholder Recovery Matrix:

(₹ in Crores)

Stakeholder Category	Admitted Claim	Recovery under Resolution Plan	Recovery under Liquidation
PPIRP Costs	2.50	2.50	2.50
Secured Financial Creditors	88.00	88.00	70.00
Operational Creditors	22.00	22.00	3.50
Employees and Workmen	1.80	1.80	1.80
Government and Statutory Authorities	4.20	4.20	2.20
Promoters' Unsecured Loans	8.00	Deferred/Subordinated	Nil
Equity Shareholders	Residual Interest	Retained	Nil

Hence, the proposed treatment of stakeholders under the Base Resolution Plan has been designed to ensure equitable distribution of value, maximize recoveries and preserve the Corporate Debtor as a going concern. The Resolution Plan provides recoveries that are significantly superior to liquidation value and protects the interests of employees, creditors, suppliers and shareholders.

The successful implementation of the Resolution Plan will facilitate revival of ABC Engineering Private Limited, preserve employment for approximately 420 persons and ensure sustainable growth, thereby fulfilling the fundamental objectives of the Insolvency and Bankruptcy Code, 2016 and the Pre-Packaged Insolvency Resolution Process framework.

(K) AVOIDANCE TRANSACTIONS DISCLOSURES

ABC ENGINEERING PRIVATE LIMITED

(Forming Part of the Base Resolution Plan under Chapter III-A of the Insolvency and Bankruptcy Code, 2016)

Pursuant to the provisions of the Insolvency and Bankruptcy Code, 2016 (“Code”), particularly Sections 43, 45, 50 and 66 read with the Insolvency and Bankruptcy Board of India (Pre-Packaged Insolvency Resolution Process) Regulations, 2021, an examination of the books of account, financial statements, bank statements, statutory records, agreements and related documents of ABC Engineering Private Limited (“Corporate Debtor”) has been undertaken to identify and disclose any transactions which may be classified as avoidable transactions.

The purpose of this review is to ascertain whether any transactions undertaken by the Corporate Debtor during the relevant look-back period have resulted in undue preference to certain creditors, diminution in asset value, fraudulent depletion of assets or wrongful trading prejudicial to the interests of creditors and stakeholders.

The disclosures contained herein are based upon the records and information made available by the Corporate Debtor and the observations arising from the forensic and transaction audit review.

2. Scope of Review:

The review covered:

- ✱ Audited financial statements for the preceding five financial years.
- ✱ General ledger and books of account.
- ✱ Bank statements and fund flow statements.
- ✱ Fixed asset registers and title documents.
- ✱ Related party transactions.
- ✱ Payments to creditors and suppliers.
- ✱ Sale and disposal of assets.
- ✱ Loans and advances.
- ✱ Statutory records and board resolutions.
- ✱ Contracts and agreements.
- ✱ Transactions entered into during the relevant period prescribed under the Code.

The objective of the review was to determine whether any transactions are liable to be avoided under the provisions of the Insolvency and Bankruptcy Code, 2016.

3. Preferential Transactions (Section 43):

Section 43 of the Code provides that any transfer of property or interest thereof for the benefit of a creditor, surety or guarantor, resulting in such person receiving a greater benefit than would have been available in the event of liquidation, may constitute a preferential transaction.

An examination of payments made during the relevant look-back period indicates that the Corporate Debtor

continued to make payments to various creditors in the ordinary course of business. The payments made to suppliers, statutory authorities and lenders were necessitated by operational requirements and were not intended to confer undue preference upon any creditor.

No material transactions have been identified which would suggest deliberate preference or unequal treatment of any creditor to the detriment of other stakeholders.

Accordingly, no significant preferential transaction requiring avoidance under Section 43 of the Code has been observed.

4. Undervalued Transactions (Section 45):

Section 45 deals with transactions entered into by the Corporate Debtor for consideration significantly less than the value of the assets transferred.

The review of fixed asset registers, sale agreements and disposal transactions indicates that no substantial assets were sold or transferred at values lower than their fair market value. No instances of gratuitous transfers or transfers intended to diminish the asset base of the Corporate Debtor have been observed.

All disposals, if any, were undertaken in the ordinary course of business and at commercially reasonable values.

Accordingly, no material undervalued transactions have been identified under Section 45 of the Code.

5. Extortionate Credit Transactions (Section 50):

The review of loan agreements and borrowing arrangements entered into by the Corporate Debtor reveals that borrowings were availed primarily from banks and financial institutions under normal commercial terms.

No borrowings carrying unconscionable or exorbitant interest rates have been noticed. Similarly, no financing arrangements involving oppressive repayment obligations or unfair contractual terms have been observed.

Accordingly, no extortionate credit transactions requiring avoidance under Section 50 of the Code have been identified.

6. Fraudulent Trading and Wrongful Trading (Section 66):

Section 66 of the Code deals with fraudulent or wrongful trading undertaken with the intent to defraud creditors or for any fraudulent purpose.

The review of accounting records, fund flow statements and utilization of borrowings indicates that the funds borrowed by the Corporate Debtor were substantially utilized for:

- ✱ Procurement of raw materials.
- ✱ Payment of salaries and wages.
- ✱ Statutory dues and operational expenses.
- ✱ Acquisition and maintenance of plant and machinery.
- ✱ Working capital requirements.

No evidence has been found indicating diversion or siphoning of funds for personal benefit or for purposes unrelated to the business of the Company.

The losses suffered by the Corporate Debtor appear to have arisen from genuine business difficulties, increase in input costs, prolonged receivable cycles and liquidity constraints rather than any fraudulent conduct.

Accordingly, no transactions involving fraudulent or wrongful trading have been identified.

7. Related Party Transactions:

During the ordinary course of business, the Corporate Debtor entered into certain transactions with promoter entities and related parties.

These transactions mainly consisted of:

Nature of Transaction	Amount (₹ Crores)
Unsecured Loans from Promoters	8.00
Reimbursement of Administrative Expenses	0.65
Lease Rentals	0.42
Supply of Consumables	0.38
Total Related Party Transactions	9.45

The review indicates that these transactions were undertaken at arm's length and were properly disclosed in the financial statements in accordance with applicable accounting standards and statutory requirements.

No material prejudice to the interests of creditors has been observed on account of these transactions.

8. Review of Asset Transfers:

A review of the fixed asset registers and title documents reveals that no substantial immovable property or major productive assets have been transferred during the relevant period.

Minor disposal of obsolete machinery and scrap material aggregating to ₹0.95 crore was carried out in the ordinary course of business and at prevailing market prices.

No transactions involving concealment or dissipation of assets have been identified.

9. Review of Payments to Creditors:

The Corporate Debtor made payments to various suppliers, employees, lenders and statutory authorities in the ordinary course of business.

The review indicates that:

- ✱ Payments to lenders were made in accordance with sanction terms.
- ✱ Payments to suppliers were driven by operational requirements.
- ✱ Salary payments were made in the ordinary course.
- ✱ Statutory payments were made subject to availability of liquidity.

No extraordinary or unusual payments have been identified which could adversely affect creditor interests.

10. Forensic Auditor's Observations:

The forensic review and transaction audit conducted on the records of the Corporate Debtor indicate the following:

a) Diversion of Funds

No material diversion or siphoning of funds has been observed.

b) Fictitious Transactions

No fictitious transactions or fabricated entries have been noticed.

c) Benami Transactions

No benami holdings or suspicious ownership arrangements have been identified.

d) Layering of Transactions

No unusual layering of funds or complex routing of transactions has been observed.

e) Misappropriation of Assets

No evidence of misappropriation or unauthorized disposal of assets has been found.

f) Wilful Default

The promoters have extended financial support and cooperated with lenders. No evidence suggesting wilful default or deliberate non-payment has been noticed.

11. Potentially Reviewable Transactions:

Although no material avoidable transactions have been identified, the Resolution Professional reserves the right to investigate and initiate appropriate proceedings before the Adjudicating Authority in respect of any transaction which may subsequently come to light and which falls within the ambit of Sections 43, 45, 50 or 66 of the Insolvency and Bankruptcy Code, 2016.

Any recoveries arising from such proceedings shall accrue for the benefit of the creditors and shall be distributed in accordance with the provisions of the Code and the approved Resolution Plan.

12. Representation and Undertakings by Promoters:

The promoters and directors of the Corporate Debtor have represented and confirmed that:

- ✱ No preferential or fraudulent transactions have been intentionally undertaken.
- ✱ No material assets have been concealed or transferred outside the ordinary course of business.
- ✱ Full disclosure of books and records has been made.
- ✱ All information furnished to the Resolution Professional and transaction auditor is true and complete to the best of their knowledge.

The promoters have undertaken to provide continued cooperation in any further investigation concerning transactions of the Corporate Debtor.

Hence, based upon the review of the books of account, bank statements, agreements, related party transactions and forensic observations, no material preferential, undervalued, extortionate or fraudulent transactions have been identified which require avoidance proceedings under Sections 43, 45, 50 or 66 of the Insolvency and Bankruptcy Code, 2016.

The financial stress experienced by ABC Engineering Private Limited appears to have arisen primarily from adverse business conditions, increase in raw material costs, elongated receivable cycles and liquidity constraints rather than from any fraudulent conduct or diversion of assets.

Accordingly, the Corporate Debtor is considered suitable for revival under the Pre-Packaged Insolvency Resolution Process and the interests of stakeholders are adequately protected under the proposed Base Resolution Plan.

Summary of Avoidance Transaction Review:

Particulars	Observation
Preferential Transactions (Section 43)	No Material Transactions Identified
Undervalued Transactions (Section 45)	Nil
Extortionate Credit Transactions (Section 50)	Nil
Fraudulent Trading (Section 66)	No Evidence Observed
Diversion/Siphoning of Funds	Not Observed
Related Party Transactions	Arm's Length and Properly Disclosed
Wilful Default	Not Established
Recommendation	No Avoidance Application Proposed at Present

Accordingly, no material avoidance transactions requiring adjudication have presently been identified under the Insolvency and Bankruptcy Code, 2016.

(L) IMPLEMENTATION SCHEDULE

AND

MONITORING MECHANISM

ABC ENGINEERING PRIVATE LIMITED

(Forming Part of the Base Resolution Plan under Chapter III-A of the Insolvency and Bankruptcy Code, 2016)

The successful implementation of the Base Resolution Plan depends upon a clearly defined implementation schedule and an effective monitoring mechanism to ensure timely execution of various financial, operational and governance measures envisaged under the Plan. The implementation framework has been designed with the objective of restoring the Corporate Debtor to financial health, ensuring compliance with the approved Resolution Plan, preserving enterprise value and safeguarding the interests of all stakeholders.

The implementation schedule provides specific timelines for various activities, while the monitoring mechanism establishes institutional arrangements for supervision, reporting and corrective actions during the implementation period.

2. Effective Date:

For the purpose of implementation, the “Effective Date” shall mean the date on which the Resolution Plan is approved by the Hon’ble Adjudicating Authority under Section 54L of the Insolvency and Bankruptcy Code, 2016.

All timelines mentioned in this schedule shall be reckoned from the Effective Date unless otherwise specified.

3. Implementation Period:

The implementation period of the Resolution Plan shall extend for ten years from the Effective Date. However, critical restructuring measures and revival initiatives shall be substantially completed during the first twenty-four months.

The implementation period has been divided into:

- ✱ Phase I – Immediate Actions (0 to 90 Days)
- ✱ Phase II – Stabilization Period (3 to 12 Months)
- ✱ Phase III – Revival and Growth Phase (1 to 3 Years)
- ✱ Phase IV – Long-Term Sustainability Phase (3 to 10 Years)

4. Phase I – Immediate Actions (0 to 90 Days):

Immediately upon approval of the Resolution Plan, the following actions shall be undertaken:

Payment of PPIRP Costs:

All insolvency process costs amounting to ₹2.50 crore shall be paid in full in priority to all other payments.

Constitution of Monitoring Committee:

A Monitoring Committee shall be constituted consisting of representatives of Financial Creditors, the Resolution Professional and the management of the Corporate Debtor.

Promoters' Equity Infusion:

Fresh equity contribution of ₹10 crore shall be brought in by the promoters within ninety days from the Effective Date.

Additional Working Capital Support:

The lenders shall release additional working capital assistance of ₹8 crore to restore normal business operations.

Revalidation of Banking Arrangements:

Existing banking facilities and security documents shall be reviewed and renewed wherever required.

Settlement of Critical Suppliers:

Payments to critical suppliers and operational creditors necessary for continuity of operations shall commence.

Preservation of Employment:

All employees and workmen shall continue in service without disruption.

5. Phase II – Stabilization Period (3 to 12 Months):

During this period, emphasis shall be placed on restoring normal business operations and strengthening liquidity.

Operational Measures:

- ✱ Normalization of production activities.
- ✱ Improvement in capacity utilization.
- ✱ Strengthening of procurement systems.
- ✱ Rationalization of inventory levels.
- ✱ Reduction in operating costs.
- ✱ Strengthening customer relationships.

Financial Measures:

- ✱ Debt restructuring documentation.
- ✱ Commencement of moratorium period.
- ✱ Settlement of employee dues.
- ✱ Payment of statutory liabilities in accordance with the Resolution Plan.
- ✱ Strengthening cash flow management systems.

Governance Measures:

- ✱ Appointment of independent advisors.
- ✱ Strengthening internal control systems.
- ✱ Implementation of MIS and reporting systems.

- ✱ Monthly review meetings with lenders.

6. Phase III – Revival and Growth Phase (1 to 3 Years):

The primary objective during this phase shall be improvement in profitability and cash generation.

Capacity Utilization:

Capacity utilization is expected to increase from 65% to approximately 82%.

Revenue Growth:

Annual turnover is projected to increase from ₹155 crore to ₹205 crore.

Debt Servicing:

Regular servicing of interest obligations and scheduled repayment of principal shall commence.

Working Capital Management:

Receivable cycle and inventory holding period shall be optimized.

Cost Rationalization:

Continuous monitoring of production costs and overhead expenses shall be undertaken to improve margins.

Strengthening Market Position:

The Company shall diversify customers and expand into new markets.

7. Phase IV – Long-Term Sustainability Phase (3 to 10 Years):

During this period, the Corporate Debtor is expected to achieve stable profitability and complete repayment of sustainable debt.

Major activities include:

- ✱ Completion of debt repayment.
- ✱ Strengthening net worth.
- ✱ Expansion of market share.
- ✱ Investment in modernization and technology.
- ✱ Enhancement of corporate governance practices.
- ✱ Building reserves and improving liquidity.

By the end of the tenth year, all sustainable debt obligations are expected to be discharged.

8. Implementation Schedule:

(₹ in Crores)

Activity	Timeline	Amount
Payment of PPIRP Costs	Within 30 Days	2.50
Promoters' Equity Infusion	Within 90 Days	10.00

Additional Working Capital Support	Within 90 Days	8.00
Settlement of Employee Dues	Within 6 Months	1.80
Payment to Critical Operational Creditors	Within 12 Months	8.00
Payment of Statutory Dues	Within 3 Years	4.20
Commencement of Principal Repayment	After Moratorium Period	62.00
Completion of Sustainable Debt Repayment	Within 10 Years	62.00

9. Monitoring Committee:

Immediately upon approval of the Resolution Plan, a Monitoring Committee shall be constituted to supervise implementation of the Plan.

The Monitoring Committee shall comprise:

Member	Representation
Lead Bank Representative	Chairman
Nominee of Consortium Banks	Member
Resolution Professional	Member
Managing Director of Corporate Debtor	Member
Chief Financial Officer	Member
Independent Financial Expert	Member

The Committee may co-opt additional members whenever required.

10. Functions of Monitoring Committee:

The Monitoring Committee shall:

- ✱ Oversee implementation of the Resolution Plan.
- ✱ Monitor compliance with timelines.
- ✱ Review operational performance.
- ✱ Examine cash flows and debt servicing.
- ✱ Monitor promoters' contribution.
- ✱ Review utilization of working capital facilities.
- ✱ Resolve implementation issues.
- ✱ Recommend corrective measures.
- ✱ Ensure preservation of value and going concern status.

The Committee shall continue until substantial implementation of the Resolution Plan or such period as decided by the Financial Creditors.

11. Reporting Mechanism:

The Corporate Debtor shall submit periodic reports to the Monitoring Committee.

Monthly Reports:

The management shall submit:

- ✱ Production and sales statements.
- ✱ Cash flow statements.
- ✱ Receivable ageing analysis.
- ✱ Inventory statements.
- ✱ Bank borrowings position.
- ✱ Compliance status.

Quarterly Reports:

The following shall be submitted:

- ✱ Unaudited financial statements.
- ✱ Ratio analysis.
- ✱ DSCR computation.
- ✱ Variance analysis against projections.
- ✱ Status of debt servicing.

Annual Reports:

The following shall be provided:

- ✱ Audited financial statements.
- ✱ Statutory audit reports.
- ✱ Compliance certificates.
- ✱ Business performance review.
- ✱ Progress in implementation of the Resolution Plan.

12. Key Performance Indicators (KPIs):

The following indicators shall be monitored continuously:

Particulars	Target
Capacity Utilization	Above 80%
EBITDA Margin	Above 15%
Current Ratio	Above 1.33
DSCR	Above 1.25
Inventory Holding Period	Less than 90 Days
Receivable Collection Period	Less than 90 Days
Interest Coverage Ratio	Above 2.00

Particulars	Target
Timely Debt Servicing	100% Compliance

Any significant deviation from these benchmarks shall trigger corrective measures.

13. Corrective Action Mechanism:

In the event of material deviations from projected performance, the Monitoring Committee may recommend:

Operational Measures:

- ✱ Reduction of costs.
- ✱ Rationalization of inventory.
- ✱ Enhancement of collections.
- ✱ Revision of production schedules.

Financial Measures:

- ✱ Additional infusion by promoters.
- ✱ Enhancement of working capital facilities.
- ✱ Rescheduling of repayments.
- ✱ Disposal of non-core assets.

Strategic Measures:

- ✱ Diversification of customers.
- ✱ Expansion into new markets.
- ✱ Strategic alliances or joint ventures.
- ✱ Business restructuring.

14. Audit and Compliance Monitoring:

The following audits shall be conducted periodically:

- ✱ Statutory Audit.
- ✱ Internal Audit.
- ✱ Stock Audit.
- ✱ Concurrent Audit.
- ✱ Information Systems Audit.
- ✱ Compliance Audit.

Observations arising from such audits shall be reviewed by the Monitoring Committee and corrective actions shall be implemented promptly.

15. Event of Default:

The following shall constitute material events of default:

- ✱ Failure to infuse promoters' contribution.
- ✱ Non-payment of debt obligations beyond permissible limits.
- ✱ Diversion or misuse of funds.
- ✱ Material breach of the Resolution Plan.
- ✱ Failure to furnish periodic reports.
- ✱ Wilful violation of statutory requirements.

Upon occurrence of such events, the Monitoring Committee may recommend appropriate remedial measures, including recourse available under the Insolvency and Bankruptcy Code, 2016.

16. Completion of Monitoring:

Upon successful implementation of the Resolution Plan and discharge of all obligations thereunder, the Monitoring Committee shall issue a Completion Report certifying substantial implementation of the Plan.

The management of the Corporate Debtor shall thereafter continue the operations independently in accordance with normal corporate governance practices.

Hence, the implementation schedule and monitoring framework have been designed to ensure orderly execution of the Resolution Plan, timely fulfilment of obligations and preservation of the Corporate Debtor as a going concern. The structured monitoring mechanism, periodic reporting system and corrective action framework provide adequate safeguards for all stakeholders and enhance the probability of successful revival.

Accordingly, the proposed implementation and monitoring framework is considered practical, transparent and capable of ensuring effective execution of the Base Resolution Plan under the Pre-Packaged Insolvency Resolution Process contemplated under the Insolvency and Bankruptcy Code, 2016.

(M) Bottom of Form

COMPLIANCE WITH SECTION 30(2), SECTION 54K OF THE INSOLVENCY AND BANKRUPTCY CODE, 2016 AND THE IBBI (PRE-PACKAGED INSOLVENCY RESOLUTION PROCESS) REGULATIONS, 2021

ABC ENGINEERING PRIVATE LIMITED

(Forming Part of the Base Resolution Plan under Chapter III-A of the Insolvency and Bankruptcy Code, 2016)

This Compliance Statement has been prepared to demonstrate that the Base Resolution Plan submitted by ABC Engineering Private Limited (“Corporate Debtor”) complies with the requirements prescribed under Section 30(2), Section 54K and other relevant provisions of the Insolvency and Bankruptcy Code, 2016 (“IBC, 2016”), read with the Insolvency and Bankruptcy Board of India (Pre-Packaged Insolvency Resolution Process) Regulations, 2021 (“PPIRP Regulations, 2021”).

The Resolution Plan has been formulated with the objective of preserving the Corporate Debtor as a going concern, maximizing value for stakeholders and ensuring compliance with all statutory requirements governing the Pre-Packaged Insolvency Resolution Process.

2. Compliance with Section 30(2) of the Insolvency and Bankruptcy Code, 2016:

Section 30(2) requires that the Resolution Plan shall satisfy certain mandatory conditions before approval by the Committee of Creditors and the Adjudicating Authority.

(a) Payment of Insolvency Resolution Process Costs

The Resolution Plan provides for payment in full of all PPIRP costs in priority over repayment of all other debts of the Corporate Debtor.

The estimated PPIRP costs amounting to ₹2.50 crore shall be paid within thirty days from the Effective Date.

Compliance Status

Complied

(b) Payment to Operational Creditors

The Resolution Plan provides for payment to operational creditors in a manner that is not less than the amount receivable by them under liquidation in accordance with Section 53 of the Code.

The admitted operational creditor claims amounting to ₹22 crore are proposed to be settled over a period of four years, which is substantially higher than the estimated liquidation recovery of ₹3.50 crore.

Compliance Status

Complied

(c) Payment to Dissenting Financial Creditors

In the event any financial creditor votes against the Resolution Plan, such creditor shall receive payment not less than the amount payable under Section 53 of the Code and in accordance with Section 30(2)(b).

Compliance Status**Complied****(d) Management of the Affairs of the Corporate Debtor**

The Resolution Plan provides for continuation of the existing management under the supervision of the Monitoring Committee. Necessary governance and reporting mechanisms have been incorporated to ensure proper management of the affairs of the Corporate Debtor.

Compliance Status**Complied****(e) Implementation and Supervision of Resolution Plan**

A detailed implementation schedule and monitoring framework have been incorporated in the Resolution Plan. A Monitoring Committee consisting of representatives of lenders, Resolution Professional and management shall supervise implementation.

Compliance Status**Complied****(f) Compliance with Applicable Laws**

The Resolution Plan does not contravene any provisions of law for the time being in force. All statutory dues and regulatory requirements shall be complied with in accordance with applicable laws.

Compliance Status**Complied****(g) Conformity with Regulations Specified by IBBI**

The Resolution Plan complies with the provisions of the Insolvency and Bankruptcy Board of India (Pre-Packaged Insolvency Resolution Process) Regulations, 2021 and other regulations framed under the Insolvency and Bankruptcy Code, 2016.

Compliance Status**Complied****3. Compliance with Section 54K of the Insolvency and Bankruptcy Code, 2016:**

Section 54K deals with consideration and approval of the Base Resolution Plan by the Committee of Creditors and, where necessary, invitation of competing resolution plans.

Submission of Base Resolution Plan

The Corporate Debtor has submitted the Base Resolution Plan to the Resolution Professional within the prescribed period.

Compliance Status**Complied****Examination by Resolution Professional**

The Resolution Professional shall examine the Base Resolution Plan to ensure compliance with Section 30(2) of the Code.

Compliance Status

Complied

Presentation before Committee of Creditors

The Base Resolution Plan shall be presented before the Committee of Creditors for consideration.

Compliance Status

Complied

Requirement of Swiss Challenge Process

If the Base Resolution Plan does not impair claims owed to operational creditors, the Committee of Creditors may approve the Base Resolution Plan directly.

Where the Base Resolution Plan impairs any claims owed to operational creditors, the Resolution Professional shall invite prospective resolution applicants to submit competing resolution plans.

Compliance Status

Complied

Approval by Committee of Creditors

The Resolution Plan shall be approved by not less than sixty-six percent voting share of the financial creditors.

Compliance Status

Complied

Submission to Adjudicating Authority

Upon approval by the Committee of Creditors, the Resolution Professional shall submit the Resolution Plan to the Hon'ble Adjudicating Authority for approval under Section 54L.

Compliance Status

Complied

4. Compliance with PPIRP Regulations, 2021:

Eligibility of Corporate Debtor

The Corporate Debtor is eligible to initiate PPIRP under Chapter III-A of the Code.

The Corporate Debtor:

- ✱ Is classified as an MSME under the Micro, Small and Medium Enterprises Development Act, 2006.
- ✱ Has committed default exceeding the prescribed threshold.
- ✱ Has not undergone PPIRP or CIRP during the preceding three years.
- ✱ Is not undergoing liquidation.

- ✦ Is eligible under Section 29A of the Code.

Compliance Status**Complied****Declaration and Special Resolution**

The majority of directors have made the declaration required under Section 54A(2)(f).

The members of the Corporate Debtor have passed a special resolution approving initiation of PPIRP.

Compliance Status**Complied****Approval of Unrelated Financial Creditors**

The proposal for initiation of PPIRP has been approved by unrelated financial creditors representing not less than sixty-six percent in value.

Compliance Status**Complied****Appointment of Resolution Professional**

The name of the Insolvency Professional proposed as Resolution Professional has been approved by financial creditors and confirmed by the Adjudicating Authority.

Compliance Status**Complied****Preparation of Information Memorandum**

An Information Memorandum containing all material information relating to the Corporate Debtor has been prepared in accordance with the PPIRP Regulations.

Compliance Status**Complied****Valuation Reports**

Two registered valuers have determined the Fair Value and Liquidation Value of the Corporate Debtor.

Compliance Status**Complied****Avoidance Transactions**

The Resolution Professional has reviewed transactions under Sections 43, 45, 50 and 66 of the Code and disclosed the findings in the Resolution Plan.

Compliance Status**Complied**

Management and Monitoring

A detailed implementation and monitoring mechanism has been incorporated in the Resolution Plan to ensure effective supervision.

Compliance Status

Complied

5. Compliance with Regulation 45 of PPIRP Regulations, 2021:

The Resolution Plan contains adequate provisions relating to:

Source of Funds

The Plan identifies promoters' contribution, internal accruals and lender support as sources of implementation.

Complied

Payment Schedule

Detailed timelines for payment to stakeholders have been provided.

Complied

Management and Control

The affairs of the Corporate Debtor shall continue under existing management subject to Monitoring Committee supervision.

Complied

Term of Implementation

The implementation period extends over ten years.

Complied

Adequate Means of Supervision

Monitoring Committee and periodic reporting mechanisms have been established.

Complied

Treatment of Stakeholders

Separate provisions have been incorporated for financial creditors, operational creditors, employees, statutory authorities and shareholders.

Complied

6. Compliance Matrix:

Statutory Requirement	Relevant Provision	Compliance Status
Payment of PPIRP Costs	Section 30(2)(a)	Complied
Payment to Operational Creditors	Section 30(2)(b)	Complied
Protection of Dissenting Creditors	Section 30(2)(b)	Complied

Statutory Requirement	Relevant Provision	Compliance Status
Management of Affairs	Section 30(2)(c)	Complied
Implementation and Supervision	Section 30(2)(d)	Complied
Compliance with Laws	Section 30(2)(e)	Complied
Conformity with IBBI Regulations	Section 30(2)(f)	Complied
Submission of Base Resolution Plan	Section 54K	Complied
Approval by CoC	Section 54K(10)	Complied
Eligibility for PPIRP	Section 54A	Complied
Appointment of RP	Section 54B	Complied
Information Memorandum	PPIRP Regulations	Complied
Valuation Reports	PPIRP Regulations	Complied
Avoidance Transactions Review	Sections 43, 45, 50 & 66	Complied
Monitoring Mechanism	Regulation 45	Complied
Stakeholder Treatment	Regulation 45	Complied

7. Declaration of Compliance:

The Corporate Debtor hereby declares that the Base Resolution Plan has been prepared in conformity with the provisions of the Insolvency and Bankruptcy Code, 2016, the Insolvency and Bankruptcy Board of India (Pre-Packaged Insolvency Resolution Process) Regulations, 2021 and all other applicable laws.

The Plan provides for maximization of value, continuation of the Corporate Debtor as a going concern and equitable treatment of stakeholders. The Plan is feasible, viable and capable of effective implementation and does not contravene any law for the time being in force.

Hence, based on the examination of the Base Resolution Plan and the relevant provisions of the Insolvency and Bankruptcy Code, 2016 and the PPIRP Regulations, 2021, it is concluded that the Plan satisfies all mandatory requirements prescribed under Section 30(2), Section 54K and the applicable regulations framed by the Insolvency and Bankruptcy Board of India.

Accordingly, the Base Resolution Plan is legally compliant, financially feasible and commercially viable and is therefore fit for consideration and approval by the Committee of Creditors and submission before the Hon'ble Adjudicating Authority under Section 54L of the Insolvency and Bankruptcy Code, 2016.

(N) Bottom of Form

AFFIDAVITS AND ANNEXURES REQUIRED FOR FILING THE BASE RESOLUTION PLAN BEFORE

THE ADJUDICATING AUTHORITY (NCLT)

ABC ENGINEERING PRIVATE LIMITED

(Under Chapter III-A of the Insolvency and Bankruptcy Code, 2016 and the IBBI (Pre-Packaged Insolvency Resolution Process) Regulations, 2021)

PART-I

LIST OF AFFIDAVITS TO ACCOMPANY THE APPLICATION

UNDER SECTION 54L

Upon approval of the Resolution Plan by the Committee of Creditors under Section 54K, the Resolution Professional shall file an application under Section 54L before the Hon'ble National Company Law Tribunal seeking approval of the Resolution Plan. The following affidavits are generally required to accompany the application:

1. Affidavit of the Resolution Professional:

An affidavit verifying the application filed under Section 54L and affirming that:

- ✱ The Resolution Plan complies with Section 30(2) and Section 54K of IBC, 2016.
- ✱ The Plan has been approved by not less than 66% voting share of unrelated Financial Creditors.
- ✱ The Plan is feasible and viable.
- ✱ The Resolution Plan does not contravene any law.
- ✱ All requirements of PPIRP Regulations, 2021 have been complied with.

2. Affidavit by the Corporate Debtor:

Affirming that:

- ✱ Information supplied in the Base Resolution Plan is true and correct.
- ✱ Books of accounts and financial statements are authentic.
- ✱ No material facts have been concealed.
- ✱ The Corporate Debtor shall implement the approved Resolution Plan.
- ✱ The management shall cooperate with the Monitoring Committee and creditors.

3. Affidavit under Section 29A:

Affidavit by the promoters/directors declaring that:

- ✱ The Corporate Debtor and its promoters are not disqualified under Section 29A.
- ✱ They are eligible to submit the Base Resolution Plan.

- ✱ No wilful default or fraud disqualifying them exists.
- ✱ They are not connected persons covered under Section 29A.

4. Affidavit Regarding Avoidance Transactions:

Affirming that:

- ✱ Examination of transactions under Sections 43, 45, 50 and 66 has been conducted.
- ✱ No material avoidable transactions have been concealed.
- ✱ Any subsequently discovered transactions shall be brought to the notice of the Adjudicating Authority.

5. Affidavit of Compliance with Section 30(2):

Affirming that:

- ✱ PPIRP costs shall be paid in priority.
- ✱ Operational creditors receive not less than liquidation value.
- ✱ The Plan provides effective implementation and supervision.
- ✱ The Plan complies with all applicable laws and regulations.

6. Affidavit by Successful Resolution Applicant/Corporate Debtor:

Undertaking that:

- ✱ The Resolution Plan shall be implemented in letter and spirit.
- ✱ Necessary funds shall be arranged.
- ✱ Promoters' contribution shall be infused within the stipulated period.
- ✱ Existing management shall cooperate with lenders and Monitoring Committee.

7. Affidavit Verifying List of Creditors:

Affirming that:

- ✱ Claims admitted by the Resolution Professional are correct.
- ✱ Classification of Financial Creditors and Operational Creditors is proper.
- ✱ Voting shares are correctly computed.

8. Affidavit Regarding Pending Litigations:

Disclosing:

- ✱ Civil proceedings.
- ✱ Arbitration matters.
- ✱ Tax disputes.
- ✱ Labour cases.
- ✱ Regulatory proceedings.

PART-II
FORMAT OF AFFIDAVIT OF THE RESOLUTION PROFESSIONAL
BEFORE THE NATIONAL COMPANY LAW TRIBUNAL

HYDERABAD BENCH

CP (IB) No. ____ of 20__

In the matter of ABC Engineering Private Limited

AFFIDAVIT

I, _____, Insolvency Professional having Registration No. _____, presently acting as Resolution Professional of ABC Engineering Private Limited, do hereby solemnly affirm and state as follows:

1. I am the Resolution Professional appointed in the Pre-Packaged Insolvency Resolution Process of ABC Engineering Private Limited and am competent to swear this affidavit.
2. The Resolution Plan approved by the Committee of Creditors complies with Section 30(2), Section 54K and other provisions of the Insolvency and Bankruptcy Code, 2016.
3. The Committee of Creditors approved the Resolution Plan with not less than sixty-six percent voting share.
4. The Resolution Plan provides for payment of PPIRP costs in priority over all other debts.
5. The Resolution Plan is feasible and viable and contains effective implementation and monitoring mechanisms.
6. The contents of the application and accompanying documents are true and correct to my knowledge.

DEPONENT

Verification

Verified at Hyderabad on this ____ day of _____ 20__, that the contents of this affidavit are true and correct.

DEPONENT

PART-III**ANNEXURES TO ACCOMPANY APPLICATION UNDER SECTION 54L****Annexure-A****Certified Copy of Committee of Creditors Resolution:**

Containing:

- ✱ Approval of Resolution Plan.
- ✱ Voting percentage.
- ✱ Authorization to Resolution Professional for filing application before NCLT.

Annexure-B**Copy of Base Resolution Plan:**

Including:

1. Executive Summary.
2. Background and Profile of Corporate Debtor.
3. Causes of Stress.
4. TEV Analysis.
5. Sustainable Debt Computation.
6. Projected Financial Statements.
7. Ratio Analysis and DSCR.
8. Valuation Reports.
9. Stakeholder Treatment.
10. Avoidance Transaction Disclosure.
11. Implementation Schedule.
12. Monitoring Mechanism.
13. Compliance Statement.

Annexure-C**Compliance Certificate in Form P12:**

As prescribed under Regulation 49 of PPIRP Regulations, 2021.

The Compliance Certificate shall certify that:

- ✱ The Resolution Plan complies with IBC and Regulations.
- ✱ The Plan has been approved by the Committee of Creditors.
- ✱ Fair value and liquidation value have been determined.

- ✱ The Plan is feasible and viable.

Annexure-D

Voting Results of Committee of Creditors:

Containing:

- ✱ Names of Financial Creditors.
- ✱ Voting share percentages.
- ✱ Votes cast in favour.
- ✱ Votes cast against.
- ✱ Abstentions.

Annexure-E

Information Memorandum:

Prepared under Section 54G and PPIRP Regulations.

Annexure-F

Valuation Reports:

From two Registered Valuers indicating:

- ✱ Fair Value.
- ✱ Liquidation Value.
- ✱ Valuation methodologies.

Annexure-G

Transaction Audit Report:

Covering:

- ✱ Preferential Transactions.
- ✱ Undervalued Transactions.
- ✱ Extortionate Credit Transactions.
- ✱ Fraudulent Transactions.

Annexure-H

List of Creditors:

Containing:

Financial Creditors:

- ✱ Name of creditor.
- ✱ Amount claimed.

- ✱ Amount admitted.
- ✱ Voting share.

Operational Creditors:

- ✱ Name.
- ✱ Amount admitted.

Workmen and Employees:

- ✱ Dues payable.

Annexure-I**Financial Statements:**

- ✱ Audited Balance Sheets for five years.
- ✱ Profit and Loss Accounts.
- ✱ Cash Flow Statements.
- ✱ Auditor's Reports.

Annexure-J**Board Resolution and Shareholders' Special Resolution:**

Approving:

- ✱ Initiation of PPIRP.
- ✱ Submission of Base Resolution Plan.
- ✱ Authorization of officers.

Annexure-K**Approval of Unrelated Financial Creditors:**

Showing approval by creditors representing at least 66% in value.

Annexure-L**Declaration under Section 54A(2)(f):**

Declaration by majority directors stating:

- ✱ PPIRP is not being initiated to defraud creditors.
- ✱ The Company shall file PPIRP within the prescribed period.

Annexure-M**Consent of Insolvency Professional:**

Form P1 under PPIRP Regulations.

Annexure-N

Eligibility Affidavit under Section 29A:

Declaration by promoters/directors confirming eligibility.

Annexure-O

Statement of Pending Litigations:

Including:

Sl. No.	Nature of Litigation	Forum
1	GST Appeal	GST Appellate Authority
2	Labour Dispute	Labour Court
3	Income Tax Appeal	CIT(A)

Annexure-P

Monitoring Committee Charter:

Containing:

- ✱ Composition.
- ✱ Powers.
- ✱ Reporting mechanism.
- ✱ Review frequency.

Annexure-Q

Cash Flow Projections and Debt Repayment Schedule:

For ten years together with:

- ✱ DSCR.
- ✱ IRR.
- ✱ Sensitivity Analysis.
- ✱ Ratio Analysis.

Annexure-R

Affidavit of Truth and Verification:

Sworn by authorized signatory of the Corporate Debtor.

INDEX OF DOCUMENTS FOR NCLT FILING

Sl. No.	Particulars
1	Application under Section 54L
2	Affidavit of Resolution Professional
3	Compliance Certificate (Form P12)

4	CoC Approval Resolution
5	Base Resolution Plan
6	Information Memorandum
7	Valuation Reports
8	Transaction Audit Report
9	List of Creditors
10	Financial Statements
11	Section 29A Affidavit
12	Board Resolution
13	Shareholders' Special Resolution
14	Approval of Financial Creditors
15	Declaration under Section 54A
16	Consent of Insolvency Professional
17	Pending Litigation Statement
18	Monitoring Committee Charter
19	Cash Flow Projections
20	Affidavit of Truth and Verification

Hence, the above affidavits and annexures constitute a comprehensive set of documents ordinarily required for filing an application under **Section 54L of the Insolvency and Bankruptcy Code, 2016** seeking approval of a **Base Resolution Plan under the Pre-Packaged Insolvency Resolution Process (PPIRP)** before the Hon'ble National Company Law Tribunal. These documents collectively establish the legality, feasibility, viability and implement ability of the Resolution Plan and facilitate expeditious approval by the Adjudicating Authority.

Note: Depending upon the practice directions of the respective NCLT Bench (Hyderabad, Chennai, Mumbai, Delhi, etc.), additional affidavits, synopsis, list of dates and convenience compilations may also be required.

CASE STUDY

BASE RESOLUTION PLAN UNDER PPIRP OF IBC, 2016

Background:

M/s. XYZ Precision Components Private Limited (“Corporate Debtor”) is an MSME engaged in manufacturing precision engineering components for automobile and industrial machinery manufacturers. The Company commenced operations in 2012 and established long-term relationships with major OEMs. The manufacturing facility is situated at Pune, Maharashtra.

During FY 2021-22 and FY 2022-23, the Company faced severe stress owing to:

- ✱ Increase in steel prices.
- ✱ Delay in realization of receivables.
- ✱ Loss of one major customer.
- ✱ High interest burden.
- ✱ Working capital shortages.
- ✱ Capacity utilization declining from 85% to 58%.

Consequently, the loan accounts were classified as NPA on 31 March 2024.

However, the promoters are willing to revive the Company through the Pre-Packaged Insolvency Resolution Process (PPIRP) under Chapter III-A of the Insolvency and Bankruptcy Code, 2016.

All formalities under Section 54A have been completed, including:

- ✱ Declaration by directors.
- ✱ Special Resolution of shareholders.
- ✱ Approval of unrelated financial creditors holding 76% voting share.
- ✱ Appointment of Resolution Professional.
- ✱ Preparation of Information Memorandum.

Only the Base Resolution Plan is yet to be submitted.

Financial Position on PPIRP Commencement Date

(₹ Crores)

Particulars	Amount
Equity Share Capital	12.00
Accumulated Losses	(18.00)
Net Worth	(6.00)
Fixed Assets	42.00

Particulars	Amount
Current Assets	58.00
Total Assets	100.00
Term Loans	38.00
Working Capital Limits	22.00
Interest Accrued	4.00
Operational Creditors	15.00
Statutory Dues	3.00
Promoters' Unsecured Loans	6.00
Total Liabilities	88.00

Consortium of Lenders

Bank	Exposure (₹ Cr.)
State Bank of India	28
Bank of Baroda	20
Canara Bank	12
Total Financial Debt	60

Causes of Stress:

The Transaction Auditor and TEV Consultant observed:

External Factors:

- ✱ Increase in raw material prices by 22%.
- ✱ Reduction in export orders.
- ✱ Industry slowdown.

Internal Factors:

- ✱ Poor receivable management.
- ✱ Excess inventory.
- ✱ Under-utilization of capacity.
- ✱ High finance cost.

Forensic Observations:

No diversion or siphoning of funds.

No fraudulent or preferential transactions.

No wilful default.

Valuation by Registered Valuers:**(₹ Crores)**

Particulars	Amount
Fair Value	105
Liquidation Value	62

TEV Study Findings:

The TEV consultant concluded:

- ✱ Existing facilities are technically viable.
- ✱ Capacity utilization can improve to 85%.
- ✱ EBITDA margin may improve from 8% to 16%.
- ✱ Annual sales expected to rise from ₹110 crore to ₹180 crore over five years.
- ✱ Average DSCR expected at 2.15.

The enterprise is considered economically viable.

Debt Position:**Total Debt Outstanding:**

Particulars	Amount (₹ Cr.)
Term Loans	38
Working Capital	22
Interest Accrued	4
Total Financial Debt	64

Sustainable Debt Assessment:

Based on projected cash flows:

Particulars	Amount (₹ Cr.)
Total Financial Debt	64
Sustainable Debt	48
Unsustainable Debt	16

Proposed Treatment under Base Resolution Plan:**Sustainable Debt:**

₹48 crore to be repaid over 10 years with:

- 18 months moratorium.
- Interest @ 9.25%.
- Quarterly instalments.

Unsustainable Portion:

₹16 crore proposed as:

Treatment	Amount (₹ Cr.)
Conversion into Redeemable Preference Shares	8
Waiver of Penal Interest	2
Deferred Debt Repayable after 8 years	4
Optionally Convertible Debentures	2
Total	16

Promoters' Contribution:

Fresh equity infusion: ₹8 crore.

Promoters' unsecured loans of ₹6 crore shall remain subordinated.

Operational Creditors:

Total dues: ₹15 crore.

Payment proposed:

- ✱ ₹5 crore in Year 1.
- ✱ ₹6 crore during Years 2 and 3.
- ✱ Balance ₹4 crore through structured settlements.

Operational creditors receive more than liquidation value.

Employees and Workmen:

Employee dues: ₹1.20 crore.

Proposed recovery: 100%.

No retrenchment proposed.

Present workforce: 250 employees.

Statutory Dues:

Outstanding dues: ₹3 crore.

Settlement proposed over three years.

PF and Gratuity dues to be paid in full.

Financial Projections:

Particulars	Year 1	Year 5
Sales	110	180
EBITDA	9	29
PAT	2	18

DSCR	1.40	2.75
Debt Equity Ratio	3.8	1.2
Current Ratio	1.15	1.52

Monitoring Committee:

Constituted with:

1. SBI Nominee.
2. Bank of Baroda Nominee.
3. Resolution Professional.
4. Managing Director.
5. CFO.
6. Independent Financial Expert.

Compliance Status:

The Base Resolution Plan complies with:

- Section 30(2) of IBC, 2016.
- Section 54K.
- PPIRP Regulations, 2021.
- Regulation 45.
- Section 29A eligibility.

QUESTIONS FOR PROFESSIONALS:

Question 1

The total financial debt is ₹64 crore, whereas the sustainable debt is only ₹48 crore.

How should the unsustainable portion of ₹16 crore be treated under the Base Resolution Plan? Discuss various restructuring options available under PPIRP.

Question 2

The Fair Value is ₹105 crore and Liquidation Value is ₹62 crore.

If operational creditors receive only ₹4 crore under the Base Resolution Plan, can the Committee of Creditors approve such a plan under Section 54K? Explain with reference to Section 30(2)(b) and Swiss Challenge Process.

Question 3

Assume that a transaction audit subsequently reveals that ₹3 crore was transferred to a related party within one-year preceding PPIRP commencement at substantially below market value.

Under which provisions of the IBC, 2016 can the Resolution Professional initiate proceedings? Explain the nature of avoidable transactions and remedies available.

Question 4

Suppose the Company fails to infuse the promised promoters' contribution of ₹8 crore after approval of the Resolution Plan.

What powers does the Monitoring Committee possess, and what remedies are available to Financial Creditors and the Adjudicating Authority under the IBC, 2016?

Question 5

The Company proposes to continue existing management under PPIRP and repay sustainable debt over ten years.

Prepare a brief note explaining whether the proposed Base Resolution Plan satisfies the requirements of Section 30(2), Section 54K and Regulation 45 of the PPIRP Regulations, 2021, and whether the Resolution Professional should certify the Plan for submission before the NCLT.

Learning Objective

This case study enables professionals to understand:

- ✱ Preparation of a Base Resolution Plan.
- ✱ Sustainable debt computation.
- ✱ TEV analysis.
- ✱ Fair value and liquidation value.
- ✱ Treatment of stakeholders.
- ✱ Avoidance transactions.
- ✱ Monitoring mechanism.

- ✱ Compliance with Sections 30(2), 54K and PPIRP Regulations.
- ✱ Practical issues faced by Resolution Professionals and lenders in PPIRP proceedings.

SUGGESTED ANSWERS TO CASE STUDY QUESTIONS

Base Resolution Plan under PPIRP of IBC, 2016

Question 1

The total financial debt is ₹64 crore, whereas the sustainable debt is only ₹48 crore. How should the unsustainable portion of ₹16 crore be treated under the Base Resolution Plan? Discuss various restructuring options available under PPIRP.

Suggested Answer:

The principal objective of a Base Resolution Plan under the Pre-Packaged Insolvency Resolution Process (PPIRP) is to preserve the Corporate Debtor as a going concern and maximize value for stakeholders. Therefore, only that portion of debt which can be serviced through future cash flows should remain as funded debt. The balance debt, which is incapable of being serviced from projected earnings, should be restructured through appropriate instruments.

In the present case, out of the total financial debt of ₹64 crore, the Techno-Economic Viability (TEV) Study and cash flow projections indicate that only ₹48 crore is sustainable. Consequently, ₹16 crore represents unsustainable debt.

The unsustainable portion may be dealt with through one or more of the following restructuring measures:

(a) Conversion into Redeemable Preference Shares:

A portion of the debt may be converted into redeemable preference shares carrying a nominal dividend, redeemable after restoration of profitability. Such conversion reduces immediate repayment burden and strengthens the balance sheet.

(b) Optionally Convertible Debentures (OCDs):

Debt may be converted into long-term optionally convertible instruments, enabling lenders to participate in future appreciation of the enterprise value.

(c) Deferred Debt:

Repayment of a portion of debt may be postponed and linked to future cash surpluses generated by the Corporate Debtor.

(d) Waiver of Penal Interest and Charges:

Additional interest, liquidated damages and penal charges may be waived to improve viability.

(e) Conversion into Equity:

Subject to approval, lenders may convert part of their debt into equity shares.

(f) Sale of Non-Core Assets:

Proceeds from disposal of surplus assets may be utilized for reducing unsustainable debt.

Accordingly, in the present case, the ₹16 crore unsustainable debt may be structured as follows:

Treatment	Amount (₹ Crores)
Redeemable Preference Shares	8
Deferred Debt	4
Optionally Convertible Debentures	2
Waiver of Penal Interest	2
Total	16

Thus, debt restructuring under PPIRP seeks to align debt obligations with the future earning capacity of the Corporate Debtor.

Question 2

The Fair Value is ₹105 crore and Liquidation Value is ₹62 crore. If operational creditors receive only ₹4 crore under the Base Resolution Plan, can the Committee of Creditors approve such a plan under Section 54K? Explain with reference to Section 30(2)(b) and Swiss Challenge Process.

Suggested Answer:

Section 30(2)(b) of the Insolvency and Bankruptcy Code, 2016 mandates that operational creditors must receive an amount not less than the amount they would have received under liquidation in accordance with Section 53 of the Code.

The amount payable to operational creditors under liquidation depends upon the waterfall mechanism under Section 53 and not upon the total liquidation value itself. Therefore, the first step is to determine the amount that operational creditors would receive in liquidation.

Assuming that under the liquidation waterfall operational creditors are entitled to ₹3 crore, a payment of ₹4 crore under the Base Resolution Plan would satisfy Section 30(2)(b), and the Committee of Creditors may approve the Plan.

However, if operational creditors would have received ₹6 crore in liquidation, then payment of only ₹4 crore would violate Section 30(2)(b), and such a plan cannot be approved.

Further, under Section 54K:

- ✱ If the Base Resolution Plan impairs claims owed to operational creditors, the Resolution Professional must invite competing resolution plans.
- ✱ This process is commonly referred to as the Swiss Challenge Process.
- ✱ The Committee of Creditors shall compare the competing plan with the Base Resolution Plan and approve the plan providing maximum value.

Hence, compliance with Section 30(2)(b) is mandatory and cannot be compromised.

Question 3

Assume that a transaction audit reveals that ₹3 crore was transferred to a related party within one-year preceding PPIRP commencement at substantially below market value. Under which provisions can the

Resolution Professional initiate proceedings?

Suggested Answer:

The transaction described represents a potential avoidable transaction under the Insolvency and Bankruptcy Code, 2016.

(a) Section 45 – Undervalued Transactions:

A transfer of assets at substantially less than market value constitutes an undervalued transaction. Since the transfer has occurred within the relevant look-back period and has diminished the value available to creditors, the Resolution Professional may file an application before the Adjudicating Authority seeking reversal of the transaction.

(b) Section 43 – Preferential Transactions:

If the transaction was intended to confer a benefit upon a related party creditor, it may also amount to a preferential transaction.

(c) Section 66 – Fraudulent Trading:

Where the transfer was made with intent to defraud creditors or siphon assets, proceedings may be initiated under Section 66.

Remedies Available:

The Adjudicating Authority may:

- ✱ Declare the transaction void.
- ✱ Restore the property to the Corporate Debtor.
- ✱ Direct repayment of money.
- ✱ Reverse the transfer.
- ✱ Pass any order necessary to protect creditors' interests.

Any recoveries arising out of such proceedings would form part of the assets available for distribution under the Resolution Plan.

Question 4:

Suppose the Company fails to infuse the promised promoters' contribution of ₹8 crore after approval of the Resolution Plan. What powers does the Monitoring Committee possess, and what remedies are available?

Suggested Answer:

Promoters' contribution is generally a material component of the Base Resolution Plan and forms the basis for viability and debt restructuring.

Failure to bring in the committed amount constitutes a breach of the Resolution Plan.

Powers of Monitoring Committee:

The Monitoring Committee may:

- ✱ Issue notices to promoters.
- ✱ Call for explanations.

- ✱ Review reasons for default.
- ✱ Recommend corrective measures.
- ✱ Seek additional security.
- ✱ Require infusion of funds within a specified period.
- ✱ Monitor utilization of available funds.
- ✱ Report non-compliance to lenders.

Rights of Financial Creditors:

Financial Creditors may:

- ✱ Enforce contractual rights.
- ✱ Invoke guarantees.
- ✱ Recall facilities.
- ✱ Seek directions from the Adjudicating Authority.
- ✱ Initiate proceedings for implementation of the approved Resolution Plan.

Powers of Adjudicating Authority:

Under Section 54L and other provisions of the Code, the Adjudicating Authority may:

- ✱ Direct implementation of the Resolution Plan.
- ✱ Issue suitable directions.
- ✱ Pass consequential orders.
- ✱ Take action for breach of the approved Plan.

Thus, promoters are legally bound to fulfil their obligations under the approved Resolution Plan.

Question 5

The Company proposes to continue existing management under PPIRP and repay sustainable debt over ten years. Does the Base Resolution Plan satisfy the requirements of Section 30(2), Section 54K and Regulation 45 of the PPIRP Regulations, 2021?

Suggested Answer

The proposed Base Resolution Plan appears to satisfy the statutory requirements under the Insolvency and Bankruptcy Code, 2016 and the PPIRP Regulations, 2021.

Compliance with Section 30(2):

The Plan provides for:

- ✱ Payment of PPIRP costs in priority.
- ✱ Payment to operational creditors not less than liquidation value.
- ✱ Proper management of the affairs of the Corporate Debtor.

- ✱ Mechanism for implementation and supervision.
- ✱ Compliance with applicable laws.
- ✱ Conformity with IBBI Regulations.

Therefore, the requirements of Section 30(2) are satisfied.

Compliance with Section 54K:

The Corporate Debtor has:

- ✱ Submitted the Base Resolution Plan.
- ✱ Obtained approval of unrelated financial creditors.
- ✱ Ensured examination by the Resolution Professional.
- ✱ Provided for consideration by the Committee of Creditors.

Hence, the requirements of Section 54K are fulfilled.

Compliance with Regulation 45 of PPIRP Regulations, 2021:

The Resolution Plan contains:

- ✱ Source of funds.
- ✱ Payment schedules.
- ✱ Treatment of stakeholders.
- ✱ Management and control provisions.
- ✱ Implementation schedule.
- ✱ Monitoring mechanism.
- ✱ Adequate means of supervision.

Thus, Regulation 45 has been complied with.

Certification by Resolution Professional:

Since the Resolution Plan is:

- ✱ Legally compliant;
- ✱ Financially feasible;
- ✱ Commercially viable;
- ✱ Supported by TEV study;
- ✱ Capable of implementation;

The Resolution Professional should issue the Compliance Certificate in Form P12 and submit the Resolution Plan before the Hon'ble National Company Law Tribunal under Section 54L for approval.

Hence, the above case study demonstrates that a Base Resolution Plan under PPIRP is not merely a debt restructuring document but a comprehensive revival framework involving financial restructuring, operational turnaround,

stakeholder protection, valuation, monitoring mechanisms and statutory compliance. Proper understanding of sustainable debt, stakeholder treatment, avoidance transactions and legal requirements under Sections 30(2) and 54K enables Insolvency Professionals, Bankers, Chartered Accountants and Company Secretaries to effectively implement the objectives of the Insolvency and Bankruptcy Code, 2016.

The Base Resolution Plan is the cornerstone of the Pre-Packaged Insolvency Resolution Process under the IBC, 2016. It combines the advantages of a negotiated restructuring with the discipline of a formal insolvency framework. By allowing MSME promoters to submit a restructuring proposal while retaining control over operations, the BRP promotes business continuity, faster debt resolution, and value maximization. The built-in Swiss Challenge mechanism further ensures transparency and competitive outcomes, thereby balancing the interests of debtors, creditors, employees, and other stakeholders.

It is therefore correct to state that **a Base Resolution Plan under PPIRP is, in substance, very similar to a restructuring package of bank loans**, as both are founded on viability analysis and debt restructuring principles. However, the BRP is distinguished by its statutory backing, involvement of all stakeholders, oversight by the Resolution Professional and Committee of Creditors, and final approval by the Adjudicating Authority, making it a more comprehensive and legally binding restructuring framework.

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Chapter 11

Digital Footprint Analysis and Monitoring of Borrowers

(A Modern Due Diligence Tool for Banks)

Synopsis:

Digital Footprint Analysis and Monitoring of Borrowers highlight the growing importance of digital data in modern banking and credit risk assessment. The chapter explains how banks use digital footprints generated through websites, social media platforms, GST filings, income tax records, MCA filings, digital payment systems, e-commerce activities, credit bureau reports, geotagging, news reports, and transaction analytics to verify borrower identity, business continuity, financial behaviour, market reputation, and regulatory compliance. It emphasizes that digital footprints complement traditional credit appraisal methods and have become a critical tool in loan restructuring, Techno-Economic Viability (TEV) studies, sustainable debt assessment, fraud detection, and early warning signal (EWS) frameworks. By providing real-time insights into business operations, cash flows, customer sentiment, and management quality, digital footprint analysis enables banks to distinguish viable borrowers from non-viable entities, prevent fund diversion and evergreening of loans, improve monitoring of restructured accounts, and enhance credit underwriting standards. The chapter concludes that digital footprints have emerged as the “fifth pillar” of credit appraisal, making loan restructuring more evidence-based, predictive, and effective in reducing non-performing assets (NPAs).

Traditional credit appraisal by banks relied mainly on financial statements, collateral security, income tax returns, CIBIL scores, and market enquiries. However, with increasing digitization of businesses and individuals, borrowers leave extensive **digital footprints** through websites, social media, e-commerce platforms, payment systems, government portals, and online transactions. These digital footprints provide valuable information regarding the borrower’s identity, reputation, business activity, financial behaviour, and integrity.

Digital footprints supplement conventional due diligence and help banks assess the **character, capacity, and credibility** of prospective borrowers, thereby reducing frauds and improving credit quality.

Meaning of Digital Footprints

A **digital footprint** refers to the trail of data created by individuals or businesses through their activities on the internet and digital platforms. These footprints may be:

1. Active Digital Footprints

Information intentionally shared online:

- ✱ Company websites
- ✱ Social media posts
- ✱ LinkedIn profiles

- ✱ Product catalogs
- ✱ Customer reviews
- ✱ Business advertisements

2. Passive Digital Footprints

Information generated automatically:

- ✱ GST filings
- ✱ UPI transactions
- ✱ E-commerce activities
- ✱ Geolocation data
- ✱ Search engine records
- ✱ Online payment patterns

Banks can analyse these footprints to verify whether the borrower actually conducts the business claimed in the loan proposal.

Objectives of Digital Footprint Verification

Banks undertake digital footprint analysis to:

- ✱ Establish borrower identity and authenticity.
- ✱ Verify existence of business operations.
- ✱ Detect fraud and shell companies.
- ✱ Assess management quality and reputation.
- ✱ Validate turnover and business volumes.
- ✱ Monitor industry standing.
- ✱ Understand customer sentiment.
- ✱ Identify legal or regulatory issues.
- ✱ Supplement traditional credit appraisal.
- ✱ Improve early warning systems.

Areas of Digital Footprint Verification

1. Website Verification

Banks verify:

- ✱ Whether the borrower has an official website.
- ✱ Age of domain registration.
- ✱ Nature of products and services offered.

- ✱ Contact details and physical address.
- ✱ Customer information and testimonials.
- ✱ Export and international presence.

Red Flags

- ✱ Newly created websites.
- ✱ Incomplete contact details.
- ✱ Fake addresses.
- ✱ No evidence of business activities.
- ✱ Poorly maintained websites.

2. Social Media Presence

Platforms monitored include:

- ✱ LinkedIn
- ✱ Facebook
- ✱ Instagram
- ✱ X (Twitter)
- ✱ YouTube

Information Obtained

- ✱ Number of followers.
- ✱ Business promotions.
- ✱ Customer engagement.
- ✱ Employee information.
- ✱ Brand reputation.
- ✱ Complaints and negative publicity.

Red Flags

- ✱ No social media presence despite large claimed turnover.
- ✱ Fake followers.
- ✱ Excessive customer complaints.
- ✱ Sudden inactivity.

3. LinkedIn and Professional Profiles

For promoters and directors, banks examine:

- ✱ Educational qualifications.

- ✱ Employment history.
- ✱ Industry experience.
- ✱ Professional network.
- ✱ Current business roles.

Red Flags

- ✱ Frequent job changes.
- ✱ False qualifications.
- ✱ Mismatch between experience and business scale.
- ✱ Multiple unrelated ventures.

4. GST Portal Verification

GST returns provide reliable information regarding:

- ✱ Sales turnover.
- ✱ Tax compliance.
- ✱ Monthly trends.
- ✱ Input tax credits.
- ✱ Major customers and suppliers.

Bankers Compare

Particulars	With
GST Turnover	Financial Statements
Sales Figures	Bank Statements
Tax Payments	Cash Flows
Input Credits	Purchase Data

Red Flags

- ✱ Large variation between GST and financial statements.
- ✱ Nil returns despite high sales claimed.
- ✱ Frequent default in GST payments.

5. Income Tax Portal Verification

Banks verify:

- ✱ ITR acknowledgements.
- ✱ Tax payment records.
- ✱ Form 26AS.

- ✱ AIS (Annual Information Statement).
- ✱ TDS credits.

Red Flags

- ✱ Low taxable income compared with declared turnover.
- ✱ Delayed filings.
- ✱ Mismatch between ITR and audited accounts.

6. MCA Portal and Corporate Information

For companies, bankers verify:

- ✱ CIN number.
- ✱ Directors and shareholders.
- ✱ Charges registered.
- ✱ Annual returns.
- ✱ Financial statements.
- ✱ Compliance status.

Red Flags

- ✱ Disqualified directors.
- ✱ Frequent changes in directors.
- ✱ Multiple companies with same promoters.
- ✱ Pending filings.

7. Credit Information Companies (CIBIL, Experian, Equifax, CRIF)

Digital credit reports reveal:

- ✱ Existing loans.
- ✱ Repayment history.
- ✱ Defaults.
- ✱ Overdues.
- ✱ Number of enquiries.
- ✱ Credit score.

Red Flags

- ✱ Multiple loan applications.
- ✱ Wilful default history.
- ✱ Frequent restructuring.

8. UPI and Digital Payment Patterns

Banks increasingly analyse:

- ✱ UPI transaction frequency.
- ✱ Merchant collections.
- ✱ POS transactions.
- ✱ QR code receipts.
- ✱ Wallet transactions.

These provide insights into actual business activity.

Red Flags

- ✱ High cash withdrawals.
- ✱ Circular transactions.
- ✱ Abnormal spikes.

9. E-Commerce Presence

For MSMEs and traders, banks verify:

- ✱ Amazon, Flipkart, IndiaMART, Meesho, and other platforms.
- ✱ Customer ratings.
- ✱ Product reviews.
- ✱ Sales rankings.

Red Flags

- ✱ Negative reviews.
- ✱ No online visibility despite claimed turnover.
- ✱ Sudden surge in sales.

10. Google Reviews and Customer Feedback

Banks assess:

- ✱ Ratings.
- ✱ Customer complaints.
- ✱ Quality of service.
- ✱ Market reputation.

Red Flags

- ✱ Poor ratings.
- ✱ Repeated complaints.

- ✱ Fraud allegations.

11. Geotagging and Location Verification

Banks use:

- ✱ GPS-enabled site inspections.
- ✱ Satellite images.
- ✱ Geo-tagged photographs.

These confirm:

- ✱ Factory existence.
- ✱ Warehouse location.
- ✱ Agricultural land.
- ✱ Assets offered as collateral.

Red Flags

- ✱ Non-existent premises.
- ✱ Vacant properties.
- ✱ Mismatch in addresses.

12. News and Media Search

Bankers search for:

- ✱ Litigation.
- ✱ Financial distress.
- ✱ Bankruptcy proceedings.
- ✱ Fraud investigations.
- ✱ Regulatory penalties.

Red Flags

- ✱ Adverse media reports.
- ✱ Arrests or criminal proceedings.
- ✱ Environmental violations.

13. Legal Databases and Court Cases

Verification includes:

- ✱ NCLT proceedings.
- ✱ DRT cases.
- ✱ High Court matters.

- ✱ Consumer disputes.
- ✱ Arbitration cases.

Red Flags

- ✱ Insolvency proceedings.
- ✱ Recovery suits.
- ✱ Multiple litigations.

14. Export-Import Data

For exporters/importers:

Banks verify:

- ✱ IEC registration.
- ✱ Customs records.
- ✱ Shipping activities.
- ✱ Overseas buyers.

Red Flags

- ✱ No export evidence despite export claims.
- ✱ Abnormal fluctuations.

15. Banking Transaction Analytics

Through account statements, banks analyse:

Cash Flow Pattern

- ✱ Monthly credits and debits.
- ✱ Seasonality.
- ✱ Working capital cycle.

Transaction Behaviour

- ✱ Round tripping.
- ✱ Layering.
- ✱ Structured transactions.
- ✱ Related party transactions.

Red Flags

- ✱ Circular movement of funds.
- ✱ Heavy cash deposits.
- ✱ Frequent cheque returns.

Digital Footprints in Personal Lending

For salaried individuals, lenders may verify:

Employment Verification

- ✱ LinkedIn profile.
- ✱ Company website.
- ✱ Salary credits.

Lifestyle Analysis

- ✱ Spending patterns.
- ✱ EMI obligations.
- ✱ Credit card utilization.

Stability Indicators

- ✱ Residential address consistency.
- ✱ Mobile number continuity.
- ✱ Email history.

Artificial Intelligence and Alternative Data

Modern banks use AI-based models that analyse:

- ✱ Mobile recharge patterns.
- ✱ Utility bill payments.
- ✱ Telecom records.
- ✱ E-commerce transactions.
- ✱ Digital wallet usage.
- ✱ Social media sentiment.
- ✱ Device information.
- ✱ Behavioural analytics.

These are known as **alternative credit assessment models**, particularly useful for MSMEs and first-time borrowers with limited credit history.

Early Warning Signals Identified Through Digital Footprints

Warning Signal	Risk Indication
Frequent loan enquiries	Overleveraging
Negative online reviews	Business deterioration
Tax filing defaults	Cash flow stress
Website inactivity	Business slowdown

Multiple litigations	Legal risk
Sudden social media silence	Operational distress
Large cash withdrawals	Diversion of funds
Circular transactions	Fraud risk
Fake addresses	Shell company risk
Negative news reports	Reputation risk

Benefits to Banks

◆ Improved Credit Quality

Digital footprints provide additional information beyond financial statements.

◆ Fraud Prevention

Fake borrowers and shell entities can be identified.

◆ Faster Loan Processing

Digital verification reduces dependence on physical documents.

◆ Better Risk Pricing

Interest rates can be aligned with risk profiles.

◆ Enhanced Monitoring

Continuous monitoring enables early detection of stress.

◆ Reduced NPAs

Timely intervention prevents accounts from slipping into default.

Regulatory Perspective

Banks are expected to comply with:

- ✱ Reserve Bank of India (RBI) Guidelines on Digital Lending.
- ✱ KYC and Anti-Money Laundering (AML) norms.
- ✱ Prevention of Money Laundering Act (PMLA), 2002.
- ✱ Master Directions on Know Your Customer (KYC), 2016.
- ✱ Fair Practices Code.
- ✱ Data Privacy and Information Security standards.
- ✱ Account Aggregator Framework.
- ✱ Consent-based data sharing mechanisms.

Digital footprint verification should always be conducted with **borrower consent**, maintaining confidentiality and ensuring compliance with privacy regulations.

Practical Digital Due Diligence Checklist for Bankers

Area	Verification Source
Identity	Aadhaar, PAN, CKYC
Credit Behaviour	CIBIL, Experian
Tax Compliance	GST and Income Tax Portals
Corporate Records	MCA Portal
Business Existence	Website, Google Maps
Reputation	Social Media and Reviews
Legal Cases	Courts, DRT, NCLT
Cash Flows	Bank Statements
Export Activity	DGFT, Customs
Assets	Geo-tagging and Site Visits
Digital Payments	UPI, POS Analytics
Market Intelligence	News and Media Reports

Hence, In the era of digital banking, **digital footprint analysis has become the fifth pillar of credit appraisal**, complementing the traditional assessment of **Character, Capacity, Capital, Collateral, and Conditions**. Proper examination of digital footprints enables banks to distinguish genuine borrowers from fraudulent entities, assess repayment capacity more accurately, and strengthen credit underwriting standards. As banking moves toward data-driven lending and AI-based credit assessment, digital due diligence will increasingly become an indispensable component of prudent loan sanctioning and risk management, ultimately contributing to lower NPAs and a healthier banking system. Top of Form

Role of Digital Footprints in Restructuring of Loans and Advances by Banks:

While restructuring loans and advances, banks are required to determine whether the financial stress faced by the borrower is temporary and reversible or whether the business has become unviable. Traditionally, banks relied on audited financial statements, stock statements, projected cash flows, and market enquiries. However, in the present digital economy, **digital footprints have emerged as an important source of real-time information**, enabling banks to verify the actual operations, financial behaviour, and future viability of borrowers. Digital footprints help lenders assess whether restructuring would revive the account or merely postpone eventual default.

Importance of Digital Footprints During Loan Restructuring

Digital footprints assist banks in answering four critical questions:

1. **Is the business still operational?**
2. **Is the borrower generating sufficient cash flows?**
3. **Is the stress temporary or structural?**
4. **Will the borrower be able to service the restructured debt?**

Thus, digital information complements the Techno-Economic Viability (TEV) study and helps banks take informed restructuring decisions.

1. Verification of Continuity of Business Operations

Banks examine:

- ✱ Official websites.
- ✱ Google Business profiles.
- ✱ E-commerce presence.
- ✱ Customer reviews.
- ✱ Social media activity.

Purpose

To determine whether the business is actively functioning or merely exists on paper.

Example

A textile manufacturer seeking restructuring may claim that sales are recovering. Continuous product promotions, customer interactions, and active websites indicate ongoing business operations.

Warning Signals:

- ✱ Website inactive for several months.
- ✱ Closed Google location.
- ✱ Absence of customer interactions.
- ✱ Negative reviews indicating closure.

These signs may suggest that restructuring would not be effective.

2. Cash Flow Assessment Through Digital Transactions

Banks analyse:

- ✱ UPI collections.
- ✱ POS transactions.
- ✱ Internet banking transactions.
- ✱ Merchant payment receipts.
- ✱ GST-generated sales data.

Importance:

Restructuring depends primarily on future cash generation.

Bankers Compare

Particulars	Historical Data	Current Digital Data
Sales Turnover	Audited Accounts	GST Returns
Cash Collections	Bank Statements	UPI/POS Receipts
Customer Base	Debtors Ledger	Online Transactions

Benefit:

Real-time cash flow analysis provides better confidence in repayment capability.

3. Validation of Projected Sales

Borrowers generally submit projected sales and profitability while seeking restructuring.

Banks verify projections through:

- ✱ GST filings.
- ✱ E-commerce sales.
- ✱ Website orders.
- ✱ Customer reviews.
- ✱ Market trends.

Example:

Projected turnover for FY 2027: ₹50 crore.

Digital data indicates:

- ✱ Monthly GST turnover increasing.
- ✱ Higher online customer traffic.
- ✱ Expansion into new markets.

This supports the feasibility of projections.

4. Identification of Early Warning Signals

Digital footprints reveal stress indicators much earlier than audited financial statements.

Warning Signals

Digital Indicator	Implication
Reduced website activity	Declining business
Negative customer feedback	Loss of market share
Falling GST turnover	Reduced demand
Multiple cheque returns	Liquidity stress
Social media inactivity	Business slowdown
Increased credit enquiries	Overleveraging

These indicators help banks determine whether restructuring should be approved or rejected.

5. Techno-Economic Viability (TEV) Analysis

During restructuring, banks conduct TEV studies to evaluate:

- ✱ Technical feasibility.
- ✱ Market demand.

- ✱ Financial viability.

Digital footprints strengthen TEV studies by providing:

Market Validation:

- ✱ Product demand through online reviews.
- ✱ Competitor analysis.
- ✱ Customer satisfaction.

Industry Position:

- ✱ Brand recognition.
- ✱ Social media engagement.
- ✱ Export presence.

Revenue Trends:

- ✱ GST data.
- ✱ Online order volumes.
- ✱ Payment collections.

Thus, TEV studies become more realistic and evidence-based.

6. Detection of Fund Diversion

Restructuring packages often involve additional working capital support.

Banks use transaction analytics to detect:

Diversion of Funds:

- ✱ Related-party transfers.
- ✱ Circular transactions.
- ✱ Unusual withdrawals.
- ✱ Non-business payments.

Importance:

Restructuring should not support borrowers who have diverted funds.

Red Flags:

- ✱ Frequent transfers to promoter accounts.
- ✱ Payments unrelated to business.
- ✱ Cash withdrawals disproportionate to operations.

7. Monitoring Post-Restructuring Performance:

After restructuring, banks continuously monitor:

◆ GST Returns

Monthly turnover trends.

◆ Account Operations

Credits and debits.

◆ Digital Payment Receipts

Cash flow generation.

◆ Social Media Activity

Business continuity.

◆ Customer Feedback

Market acceptance.

◆ Website Traffic

Business growth.

This enables banks to detect stress at an early stage and initiate corrective actions.

8. Assessment of Working Capital Requirement

Digital footprints provide insight into:

- ✱ Inventory turnover.
- ✱ Sales cycles.
- ✱ Customer payments.
- ✱ Supplier relationships.

Banks can estimate:

- ✱ Working capital gaps.
- ✱ Sustainable debt levels.
- ✱ Cash conversion cycles.

This helps avoid over-financing during restructuring.

9. Evaluation of Management Quality

Promoter behaviour significantly affects restructuring success.

Banks analyse:

LinkedIn Profiles

- ✱ Experience.
- ✱ Qualifications.
- ✱ Stability.

Social Media Presence

- ✱ Business focus.
- ✱ Reputation.

News Reports

- ✱ Litigation.
- ✱ Fraud allegations.

MCA Filings

- ✱ Director changes.
- ✱ Compliance history.

Benefit:

Management competence is a major determinant of revival success.

10. Sector and Market Analysis

Digital platforms help banks understand:

- ✱ Industry trends.
- ✱ Competitor performance.
- ✱ Demand conditions.
- ✱ Market sentiments.

Example:

A hotel industry borrower may experience stress due to temporary tourism slowdown. Online bookings and customer reviews may indicate improving occupancy levels, supporting restructuring.

11. Fraud Detection During Restructuring:

Digital footprint analysis helps identify:

◆ Evergreening of Loans

Artificial turnover creation.

◆ Shell Companies

Fake entities with no real operations.

◆ Round-Tripping

Circular fund movements.

◆ Layering Transactions

Money laundering risks.

◆ Fake Invoices

GST mismatches.

Thus, banks avoid extending further credit to fraudulent borrowers.

12. Stress Testing and Scenario Analysis

Digital data helps banks perform:

◆ **Base Case**

Current cash flows continue.

◆ **Optimistic Case**

Sales improve by 20%.

◆ **Stress Case**

Demand falls by 15%.

Banks can estimate:

- ✱ DSCR.
- ✱ EBITDA.
- ✱ Break-even levels.
- ✱ Debt servicing capacity.

Consequently, restructuring packages become realistic and sustainable.

13. Assistance in Sustainable Debt Computation

As per RBI restructuring frameworks, banks distinguish:

◆ **Sustainable Debt**

Debt serviceable from future cash flows.

◆ **Unsustainable Debt**

Debt exceeding repayment capability.

Digital footprints help estimate:

- ✱ Actual revenues.
- ✱ Customer retention.
- ✱ Sales trends.
- ✱ Recovery potential.

This enables proper debt resizing.

14. Monitoring Covenants After Restructuring

Banks monitor:

Financial Covenants

- ✱ Sales turnover.

- ✱ EBITDA margins.
- ✱ DSCR.

Operational Covenants

- ✱ GST compliance.
- ✱ Website activity.
- ✱ Digital transactions.

Behavioural Covenants

- ✱ Credit discipline.
- ✱ Timely tax payments.

Early warning signals trigger corrective measures.

Integration with Early Warning Signal (EWS) Framework

Digital Footprint	Indication	Restructuring Impact
Declining GST turnover	Reduced demand	Lower projections
Negative online reviews	Customer dissatisfaction	Need for operational improvements
Multiple loan enquiries	Financial stress	Conservative lending
Social media inactivity	Business slowdown	Higher monitoring
UPI transaction decline	Cash flow pressure	Reduced debt capacity
Website closure	Operational cessation	Restructuring may not be viable
Litigation reports	Legal risk	Additional safeguards required
Frequent cheque returns	Liquidity problems	Increased provisioning risk

How Banks Use Digital Footprints During Different Stages of Restructuring

Stage 1: Pre-Restructuring

- ✱ Verify existence of business.
- ✱ Analyse cash flow trends.
- ✱ Identify stress causes.
- ✱ Assess promoter credibility.

Stage 2: TEV Study

- ✱ Validate sales projections.
- ✱ Determine sustainable debt.
- ✱ Conduct sensitivity analysis.

Stage 3: Approval of Restructuring

- ✱ Fix repayment schedule.

- ✦ Assess additional funding requirement.
- ✦ Define covenants.

Stage 4: Post-Implementation Monitoring

- ✦ Monitor GST returns.
- ✦ Analyse account turnover.
- ✦ Review digital transactions.
- ✦ Detect early warning signals.

Benefits to Banks

◆ **Better Viability Assessment**

Real-time data improves restructuring decisions.

◆ **Prevention of Evergreening**

Additional finance is extended only to viable borrowers.

◆ **Early Detection of Stress**

Banks can intervene before accounts become NPAs.

◆ **Improved Monitoring**

Continuous surveillance reduces credit risk.

◆ **Lower Provisioning Requirements**

Successful restructuring improves asset quality.

◆ **Reduction in NPAs**

Better rehabilitation outcomes strengthen the banking system.

Hence, digital footprints have become an indispensable tool in the restructuring of loans and advances. They enable banks to move beyond historical financial statements and obtain real-time insights into business operations, cash flows, market reputation, and management quality. By integrating digital footprint analysis with TEV studies, stress testing, sustainable debt computation, and Early Warning Signal (EWS) frameworks, banks can distinguish viable borrowers from non-viable ones, prevent evergreening of loans, and ensure that restructuring packages are realistic, sustainable, and capable of restoring the borrower to long-term financial health. Consequently, digital footprints are emerging as a vital component of modern credit monitoring and resolution strategies in the banking sector.

Concept and Live Case Study:

Restructuring of loans and advances is intended to provide relief to borrowers facing temporary financial stress while ensuring the recovery of bank dues. Traditionally, banks relied upon audited financial statements, stock statements, collateral valuation, and market enquiries. However, the increasing digitization of businesses has transformed credit monitoring. Digital footprints now provide real-time evidence of business operations, customer demand, cash flows, tax compliance, and management quality.

Digital footprints help banks distinguish between:

- ✱ Temporary stress and permanent impairment;
- ✱ Genuine business difficulties and fraudulent diversion of funds;
- ✱ Viable and non-viable restructuring proposals.

Accordingly, digital data has become an integral part of Techno-Economic Viability (TEV) studies, stress testing, and sustainable debt computation.

Live Case Study

Case Background

Borrower

ABC Furniture Private Limited

Industry

Manufacturing and sale of modular furniture

Location

Hyderabad

Banking Consortium

- ✱ State Bank of India – Lead Bank
- ✱ Bank of Baroda
- ✱ Canara Bank

Credit Facilities Outstanding

Facility	Amount (₹ Crores)
Cash Credit	18
Term Loan	12
Working Capital Demand Loan	5
Bank Guarantees	2
Total Exposure	37

Security

- ✱ Factory land and building
- ✱ Plant and machinery
- ✱ Stocks and receivables

Stress in the Account

During FY 2025-26:

- ✱ Sales declined due to slowdown in real estate sector.

- ✱ EBITDA margin fell from 14% to 6%.
- ✱ Working capital cycle increased.
- ✱ Interest servicing became irregular.
- ✱ Account slipped into SMA-2 category.

The borrower requested restructuring under RBI prudential framework.

Information Submitted by Borrower

Claimed Position

Particulars	FY 2025	FY 2026
Sales	₹85 crore	₹72 crore
EBITDA	₹12 crore	₹4.5 crore
PAT	₹5 crore	Loss ₹1 crore
Debtors	₹18 crore	₹25 crore
Inventory	₹14 crore	₹20 crore

The company projected recovery to ₹95 crore turnover in FY 2027.

Traditional Analysis Raised Doubts

Bankers observed:

- ✱ Increasing inventory.
- ✱ Rising receivables.
- ✱ Delayed interest payments.
- ✱ Continuous enhancement requests.

The consortium ordered a TEV study and initiated digital footprint verification.

Digital Footprint Analysis

1. GST Verification

Findings

Year	GST Turnover
FY 2025	₹84 crore
FY 2026	₹69 crore

Difference between audited turnover and GST turnover was insignificant.

Conclusion

Sales figures appeared reliable.

2. Website Activity

The company website showed:

- ✱ New product launches.
- ✱ Updated catalogues.
- ✱ Dealer network expansion.
- ✱ Active customer enquiries.

Conclusion

Business operations were continuing.

3. Social Media Presence

Instagram and Facebook pages showed:

- ✱ Daily promotions.
- ✱ Customer testimonials.
- ✱ New showroom openings.
- ✱ Increased followers.

Conclusion:

Brand recognition remained intact.

4. Google Reviews

Average rating:

4.4/5

Positive reviews indicated:

- ✱ Timely deliveries.
- ✱ Product quality.
- ✱ Customer satisfaction.

Conclusion

Market reputation remained healthy.

5. UPI and Digital Collections

Monthly collections:

Period	Monthly Collections
FY 2025	₹6.8 crore
FY 2026	₹5.9 crore
April–June 2026	₹7.1 crore

Conclusion

Sales recovery had commenced.

6. E-commerce Platforms

The company sold products through:

- ✱ Amazon
- ✱ Flipkart
- ✱ IndiaMART

Order volumes had increased by 18%.

Conclusion:

Future growth potential existed.

7. MCA and Compliance Review

Findings:

- ✱ No charges by other lenders.
- ✱ No disqualified directors.
- ✱ Timely annual filings.
- ✱ No adverse qualifications by auditors.

Conclusion:

Governance quality was satisfactory.

8. News and Litigation Search

No:

- ✱ NCLT proceedings.
- ✱ DRT cases.
- ✱ Fraud allegations.
- ✱ Income Tax raids.

Conclusion:

No adverse developments.

9. Account Transaction Analytics

Bankers noticed:

Positive Features

- ✱ Regular salary payments.
- ✱ Vendor payments matched purchases.
- ✱ No abnormal cash withdrawals.

Warning Sign

₹3 crore transferred to a promoter-related entity.

Further examination showed:

The amount represented temporary inter-corporate adjustment and was brought back within 30 days.

Conclusion:

No diversion of funds.

10. Industry Digital Indicators

Online searches indicated:

- ✱ Housing demand improving.
- ✱ Real estate registrations rising.
- ✱ Furniture market expected to grow by 15%.

Conclusion:

Stress was cyclical and temporary.

TEV Study Findings

Existing Debt

₹37 crore

Sustainable Debt

₹32 crore

Additional Working Capital Needed

₹3 crore

DSCR After Restructuring

1.45

EBITDA Margin Expected

11%

Break-even Capacity Utilization

62%

Current Capacity Utilization

68%

Conclusion

Business was viable.

Restructuring Package Approved



Existing Debt

₹37 crore

Relief Measures

1. Moratorium

12 months on principal repayment.

2. Tenure Extension

From 6 years to 9 years.

3. Additional Working Capital

₹3 crore.

4. Interest Rate Rationalization

Reduced from 11.50% to 10.25%.

5. Monthly Monitoring

Based on:

- ✱ GST turnover.
- ✱ UPI collections.
- ✱ Stock statements.
- ✱ Website activity.
- Social media engagement.
- ✱ Account turnover.

Post-Restructuring Monitoring Through Digital Footprints

Month 1

GST sales increased by 8%.

Month 3

Digital collections crossed ₹8 crore/month.

Month 6

Customer reviews improved.

Month 9

Capacity utilization reached 76%.

Month 12

Interest servicing became regular.

Month 18

Outstanding reduced from ₹37 crore to ₹33 crore.

Alternate Scenario (What If Digital Footprints Were Negative?)

Suppose bankers observed:

- ✱ Website inactive for one year.
- ✱ Negative customer reviews.
- ✱ Falling GST turnover.
- ✱ Social media inactivity.
- ✱ Multiple court cases.
- ✱ Circular transactions.
- ✱ Cash withdrawals by promoters.
- ✱ Adverse news reports.

Then:

- ✱ TEV study would indicate non-viability.
- ✱ Sustainable debt would be lower.
- ✱ Additional finance would be denied.
- ✱ Recovery proceedings or insolvency resolution could be initiated.

Lessons for Bankers

Digital footprints help determine:

Area	Impact on Restructuring
GST turnover	Revenue validation
Website activity	Continuity of operations
Social media presence	Brand strength
Customer reviews	Market acceptance
UPI collections	Cash flow assessment
E-commerce sales	Growth prospects
Transaction analytics	Fund diversion detection
News and litigation	Reputation risk
MCA records	Governance quality
Industry indicators	Future demand

Key Learning:

Financial statements reveal the past; digital footprints reveal the present; projections estimate the future. Successful restructuring depends on integrating all three.

Case Study Questions

Question 1

ABC Furniture Private Limited had total bank exposure of:

- (a) ₹25 crore
- (b) ₹32 crore
- (c) ₹37 crore
- (d) ₹45 crore

Question 2

Which digital source enabled bankers to validate the turnover reported in financial statements?

- (a) LinkedIn Profile
- (b) GST Returns
- (c) Google Reviews
- (d) Facebook Page

Question 3

Which indicator suggested that the company's business operations were continuing?

- (a) Court cases
- (b) Website activity and new product launches
- (c) Increase in NPAs
- (d) Decline in stock value

Question 4

What was the average customer rating received by the company?

- (a) 2.8/5
- (b) 3.2/5
- (c) 4.4/5
- (d) 5.0/5

Question 5

Which digital footprint indicated recovery in cash flows?

- (a) UPI and digital collections
- (b) Share capital
- (c) Fixed assets
- (d) Auditor's report

Question 6

How much debt was found sustainable by the TEV study?

- (a) ₹20 crore
- (b) ₹25 crore
- (c) ₹32 crore
- (d) ₹40 crore

Question 7

Which warning signal was detected in account transaction analytics?

- (a) Fake invoices
- (b) Cash diversion through cash withdrawals
- (c) Transfer of ₹3 crore to promoter-related entity
- (d) NCLT proceedings

Question 8

Which restructuring relief was provided by the consortium?

- (a) One-time settlement
- (b) Waiver of principal
- (c) Additional working capital and tenure extension
- (d) Sale of collateral assets

Question 9

Which parameter was continuously monitored after restructuring?

- (a) Personal expenditure of promoters
- (b) GST turnover and digital collections
- (c) Share market price
- (d) Political affiliations

Question 10

What was the final conclusion of the consortium after digital footprint analysis and TEV study?

- (a) Liquidation of the company
- (b) Wilful default classification
- (c) Business was viable and eligible for restructuring
- (d) Immediate SARFAESI action

Answers

Question	Answer
Q1	(c) ₹37 crore
Q2	(b) GST Returns
Q3	(b) Website activity and new product launches
Q4	(c) 4.4/5
Q5	(a) UPI and digital collections
Q6	(c) ₹32 crore
Q7	(c) Transfer of ₹3 crore to promoter-related entity
Q8	(c) Additional working capital and tenure extension
Q9	(b) GST turnover and digital collections
Q10	(c) Business was viable and eligible for restructuring

Professional Insight:

In modern banking, **digital footprints function as a real-time Early Warning Signal (EWS) mechanism and an indispensable input to Techno-Economic Viability (TEV) studies.** They enable banks to distinguish between temporary stress and permanent business deterioration, thereby improving the success rate of restructuring and reducing future NPAs.

1. Why It Is Superior to the Earlier Restructuring Process:

Restructuring of loans and advances has always been an important mechanism available to banks for reviving financially stressed but potentially viable borrowers. The primary objective of restructuring is not merely to postpone repayments but to restore the borrower's ability to generate sustainable cash flows and repay bank dues over an extended period. Traditionally, restructuring decisions were based on historical financial statements, stock statements, collateral valuations, market enquiries, and projections submitted by borrowers. However, the evolution of digital banking, artificial intelligence, and data analytics has fundamentally changed the restructuring landscape. The emergence of digital footprints has transformed restructuring from a largely retrospective exercise into a dynamic, real-time, and evidence-based process. Consequently, modern restructuring through digital footprints is proving to be more effective, transparent, and sustainable than the earlier restructuring practices.

a) Traditional Restructuring Process: A Historical Perspective

In earlier years, banks relied heavily on audited balance sheets, profit and loss accounts, stock statements, and information furnished by borrowers. Since audited financial statements represented events that had already occurred, they generally reflected the financial condition of the borrower with a significant time lag. In many cases, the financial information available to banks was six months to one year old by the time restructuring proposals were considered.

Bankers supplemented this information with market intelligence, personal discussions with promoters, and site visits. Techno-Economic Viability (TEV) studies were conducted based on assumptions and projections prepared by borrowers themselves. Consequently, restructuring decisions often depended on the reliability of information supplied by borrowers rather than independently verifiable real-time data.

This approach had inherent limitations. Financial statements represented the past rather than the present, and projections represented expectations rather than realities. Therefore, banks frequently encountered situations where restructuring packages failed because the actual business conditions had deteriorated much more severely than reflected in the documents submitted by borrowers.

b) Dependence on Historical Data in Earlier Restructuring

The conventional restructuring process was predominantly backward-looking. Bankers analysed previous years' turnover, profitability, debt service coverage ratio (DSCR), and asset values. While these parameters were important, they provided only a historical perspective.

Economic conditions, customer preferences, industry dynamics, and business models could change rapidly, but the restructuring framework had limited mechanisms to capture these changes in real time. Consequently, many restructuring exercises were based on outdated information, resulting in incorrect assumptions regarding future cash flows and repayment capacity.

Digital footprints have altered this paradigm by providing continuous, real-time information regarding business performance, thereby enabling bankers to make decisions based on current realities rather than historical records alone.

c) Transformation from Static Information to Dynamic Information

One of the most significant advantages of digital footprint-based restructuring lies in the transformation from static data to dynamic data.

Under the earlier approach, bankers assessed annual audited accounts and monthly stock statements. These documents represented fixed snapshots of financial position. In contrast, digital footprints provide continuous streams of information generated through GST filings, UPI transactions, e-commerce activities, social media engagement, website traffic, online customer reviews, and digital payments.

This dynamic information enables banks to monitor changes in sales, customer behaviour, market demand, and operational performance almost in real time. As a result, restructuring decisions become more responsive and realistic.

d) Enhanced Verification of Business Continuity

In traditional restructuring exercises, determining whether a borrower was actually conducting business often depended upon physical inspections and discussions with promoters. Such methods were time-consuming and sometimes unreliable.

Digital footprints have introduced multiple independent mechanisms to verify business continuity. Active websites, online product catalogues, social media campaigns, customer reviews, e-commerce transactions, GST returns, and digital payment collections provide evidence regarding ongoing operations.

Thus, instead of relying solely on declarations made by borrowers, banks can independently assess whether the business remains active and capable of revival. This significantly improves the quality of restructuring decisions.

e) Better Assessment of Cash Flows

Cash flow estimation forms the foundation of any restructuring package. Earlier, projected cash flows were derived primarily from management estimates and assumptions. The reliability of these projections often depended upon the honesty and competence of promoters.

Digital footprints provide banks with actual transaction-level information. UPI receipts, POS collections, account turnover, GST data, and e-commerce sales enable bankers to observe the real pattern of cash generation. This allows more accurate computation of sustainable debt, debt servicing capacity, and repayment schedules.

Consequently, restructuring based on digital footprints minimizes the risk of unrealistic assumptions and improves the probability of successful rehabilitation.

f) Improved Detection of Fund Diversion and Evergreening

One of the major criticisms of traditional restructuring frameworks was that they occasionally facilitated evergreening of loans. Additional facilities were sanctioned without adequately verifying whether the borrower had diverted funds or manipulated financial statements.

Modern digital analytics allow banks to trace transaction patterns, identify related-party payments, detect circular transactions, and monitor unusual cash withdrawals. These capabilities provide a much stronger defence against fund diversion and fraudulent activities.

Therefore, digital footprint analysis ensures that restructuring support is extended only to genuinely distressed but viable borrowers rather than to entities attempting to postpone inevitable defaults.

g) More Reliable Techno-Economic Viability Studies

Earlier TEV studies were primarily dependent upon data furnished by borrowers and assumptions made by consultants. Although professional expertise played an important role, the quality of the study depended largely on the accuracy of the underlying information.

Digital footprints have strengthened TEV studies by incorporating market realities. Customer reviews, online demand patterns, digital sales channels, industry trends, website activity, and tax data enable consultants to validate projections objectively.

As a result, viability assessments have become more evidence-based and less dependent upon subjective assumptions. This increases the reliability of restructuring decisions and reduces the possibility of future slippages into non-performing assets.

h) Continuous Monitoring Instead of Periodic Monitoring

Earlier restructuring mechanisms involved quarterly or annual reviews. Problems often came to the notice of banks only after substantial deterioration had already occurred.

Digital footprints have converted monitoring into a continuous process. Monthly GST returns, digital collections, account turnover, social media activity, and online customer sentiment provide early warning signals regarding emerging stress.

Consequently, banks can initiate corrective measures at an early stage instead of waiting for the account to become irrecoverable. This proactive approach significantly improves the success rate of restructuring.

i) Reduction in Information Asymmetry

In conventional restructuring, borrowers possessed significantly more information regarding their businesses than banks. This imbalance, known as information asymmetry, often resulted in adverse selection and moral hazard.

Digital footprints reduce this asymmetry by enabling banks to obtain independent information from multiple sources. Data obtained from GST portals, payment systems, e-commerce platforms, company registries, and digital channels help banks verify the authenticity of borrower representations.

This increased transparency promotes better credit discipline and enhances trust between lenders and borrowers.

j) Strengthening Early Warning Signal Systems

Traditional Early Warning Signal (EWS) frameworks relied on delayed indicators such as cheque returns, overdue interest, declining profitability, or stock shortages. By the time these indicators emerged, the account often had already deteriorated significantly.

Digital footprints provide much earlier indications of stress. Reduced website activity, falling online orders, de-

clining digital collections, negative customer reviews, or diminishing social media engagement may indicate operational problems long before financial statements reflect them.

Accordingly, digital footprint analysis acts as a preventive mechanism rather than a post-facto diagnostic tool.

k) Integration with Artificial Intelligence and Predictive Analytics

The earlier restructuring process was largely based on human judgment and manual analysis. While experience and intuition remain valuable, they are susceptible to biases and limitations.

Modern digital footprints can be analysed using artificial intelligence, machine learning, and predictive analytics. These technologies can identify hidden patterns, forecast cash flows, estimate default probabilities, and assess sectoral risks with greater accuracy.

Therefore, restructuring decisions become increasingly scientific, objective, and data-driven.

l) Better Compliance with Regulatory Expectations

Regulators expect banks to recognize stress early and avoid indiscriminate restructuring. Earlier frameworks sometimes resulted in postponement of recognition of underlying weaknesses.

Digital footprint-based restructuring enhances transparency and enables banks to comply with prudential norms relating to viability assessment, stress recognition, and monitoring. Since decisions are supported by objective digital evidence, the quality of governance and accountability also improves.

m) Improvement in Recovery Prospects and Reduction in NPAs

The ultimate measure of a successful restructuring framework lies in its ability to restore borrowers and reduce non-performing assets. Traditional restructuring occasionally failed because the revival packages were based on incomplete information and optimistic assumptions.

Digital footprint-based restructuring enables banks to distinguish between temporary financial stress and permanent business impairment. Consequently, additional funding is directed towards businesses that have genuine revival potential.

This improves recovery prospects, strengthens asset quality, and contributes to the stability of the banking system.

n) The Evolution from Relationship Banking to Data-Driven Banking

Earlier restructuring decisions were influenced substantially by relationship banking, promoter reputation, collateral values, and subjective assessments. While these factors continue to be important, the banking industry is increasingly moving toward data-driven decision-making.

Digital footprints provide objective evidence regarding business performance, customer behaviour, market acceptance, and financial discipline. This evolution represents a shift from intuition-based restructuring to intelligence-based restructuring.

Hence, the restructuring of loans and advances through digital footprints represents a paradigm shift in modern banking. Unlike the earlier restructuring process, which relied heavily on historical financial statements, borrower representations, and periodic reviews, digital footprint-based restructuring provides real-time, continuous, and independently verifiable information regarding business operations and cash flows. It strengthens Techno-Economic Viability studies, improves stress recognition, enhances monitoring mechanisms, detects fund diversion, and facilitates scientific assessment of sustainable debt. Most importantly, it transforms restructuring from a reactive exercise into a proactive and predictive framework. In essence, while traditional restructuring attempted to understand the borrower's past, digital footprint-based restructuring seeks to understand the borrower's present and anticipate the future, thereby significantly improving the effectiveness and sustainability of loan rehabilitation and reducing

the incidence of non-performing assets in the banking sector.

1. Case Study: Revival of M/s GreenTech Packaging Private Limited through Digital Footprint-Based Restructuring:

M/s **GreenTech Packaging Private Limited** was incorporated in 2017 and engaged in the manufacture of biodegradable packaging materials used by food delivery companies, pharmaceutical industries, and FMCG manufacturers. The company established a manufacturing unit near Hyderabad with an installed capacity of 12,000 metric tons per annum.

During FY 2022-23 and FY 2023-24, the company experienced rapid growth and expanded its capacity with term loans from a consortium of banks. However, due to a sudden increase in raw material prices, delay in receivables from major customers, and temporary slowdown in demand, the company started facing liquidity stress during FY 2025-26.

Banking Arrangements

Consortium Members

Bank	Facility	Outstanding (₹ Crore)
State Bank of India	Cash Credit	25
Punjab National Bank	Term Loan	20
Union Bank of India	Working Capital Term Loan	10
Total Exposure		55 Crore

Security Available

Primary Security

- ✦ Stocks and receivables

Collateral Security

- ✦ Factory land and building
- ✦ Plant and machinery
- ✦ Personal guarantee of directors

Financial Performance

FY 2023-24

Particulars	Amount (₹ Crore)
Revenue	120
EBITDA	18
PAT	7
DSCR	1.75
Capacity Utilization	82%

FY 2024-25

Particulars	Amount (₹ Crore)
Revenue	102
EBITDA	9
PAT	1
DSCR	1.12
Capacity Utilization	68%

FY 2025-26

Particulars	Amount (₹ Crore)
Revenue	85
EBITDA	4
PAT	(-3)
DSCR	0.78
Capacity Utilization	52%

The account slipped into SMA-2 category, and the company requested restructuring under RBI Prudential Framework.

Traditional Analysis by Banks

Based on conventional parameters:

- ✱ Declining sales.
- ✱ Increase in inventory.
- ✱ Delayed interest servicing.
- ✱ Lower profitability.
- ✱ Negative cash flows.

The consortium initially viewed the account as potentially non-viable.

A Techno-Economic Viability (TEV) Study was ordered.

Digital Footprint Investigation by Banks:

Instead of relying solely on historical financial statements, the consortium decided to undertake Digital Footprint Analysis.

Step 1: GST Data Verification**Findings**

Financial Year	Audited Sales (₹ Crore)	GST Sales (₹ Crore)
2023-24	120	118
2024-25	102	100

Financial Year	Audited Sales (₹ Crore)	GST Sales (₹ Crore)
2025-26	85	84

Observation

Minimal difference existed between books and GST returns.

Conclusion

Sales figures were genuine.

Step 2: Website Analytics

The company website revealed:

- ✦ New biodegradable products launched.
- ✦ Export enquiries received from UAE and Singapore.
- ✦ Monthly website traffic increasing by 15%.
- ✦ Product catalogues updated regularly.

Conclusion

Business operations were active.

Step 3: Social Media Presence

LinkedIn and Instagram pages showed:

- ✦ Participation in international packaging exhibitions.
- ✦ New customer acquisitions.
- ✦ Positive engagement from FMCG companies.

Conclusion

Brand visibility remained strong.

Step 4: Google Reviews and Customer Sentiment

Average rating:

4.5 out of 5

Major customer comments highlighted:

- ✦ Quality consistency.
- ✦ Timely delivery.
- ✦ Environment-friendly products.

Conclusion

Market reputation was healthy.

Step 5: E-Commerce and B2B Platforms

The company had active presence on:

- ✱ IndiaMART
- ✱ TradeIndia
- ✱ Alibaba

New enquiries increased by 28%.

Conclusion

Demand prospects were improving.

Step 6: UPI and Account Transaction Analysis

Monthly collections:

Period	Average Monthly Collection (₹ Crore)
FY 2024	10.5
FY 2025	8.2
Apr-Jun FY 2026	9.8

Observation

Collections were recovering.

Step 7: Export Digital Footprints

DGFT records indicated:

- ✱ IEC active.
- ✱ Export orders under negotiation.
- ✱ Trial shipments already dispatched.

Conclusion

Future revenues likely to improve.

Step 8: MCA Compliance Review

Bankers observed:

- ✱ No disqualified directors.
- ✱ Annual returns filed.
- ✱ Charges registered properly.
- ✱ No pending litigation.

Conclusion

Corporate governance remained satisfactory.

Step 9: Transaction Pattern Analytics

Using AI-based transaction monitoring, banks found:

Positive Findings

- ✱ Vendor payments aligned with purchases.
- ✱ Salary payments regular.
- ✱ Statutory dues being paid.

One Red Flag

₹5 crore transferred to sister concern.

Detailed investigation showed:

The amount represented temporary operational support and was fully reversed within 45 days.

Conclusion

No diversion of funds.

Step 10: Industry Digital Indicators

Internet and market intelligence showed:

- ✱ Global demand for eco-friendly packaging expected to grow by 18%.
- ✱ Ban on plastic packaging increasing demand.
- ✱ FMCG companies shifting to biodegradable alternatives.

Conclusion

Business stress was temporary and cyclical.

TEV Study Findings

◆ Existing Exposure

₹55 Crore

◆ Enterprise Value

₹72 Crore

◆ Sustainable Debt

₹48 Crore

◆ Additional Working Capital Requirement

₹6 Crore

◆ Average DSCR after Restructuring

1.48

◆ Capacity Utilization Required for Break-even

61%

◆ **Expected Capacity Utilization**

74%

◆ **Overall Assessment**

The unit was commercially viable.

Restructuring Package Approved

◆ **Existing Debt**

₹55 Crore

◆ **Relief Measures**

◆ **Moratorium**

12 months on principal repayment.

◆ **Extension of Repayment**

From 7 years to 10 years.

◆ **Additional Working Capital**

₹6 Crore.

◆ **Reduction in Interest Rate**

11.25% to 9.85%.

Quarterly Monitoring

Through:

- ✱ GST returns.
- ✱ UPI collections.
- ✱ Website traffic.
- ✱ Social media activity.
- ✱ E-commerce enquiries.
- ✱ Account turnover.
- ✱ Stock statements.

Monitoring through Digital Footprints

After 6 Months

Revenue improved to ₹95 crore annualized.

Capacity utilization increased to 66%.

After 12 Months

Export orders commenced.

Monthly collections crossed ₹11 crore.

Interest servicing became regular.

After 18 Months

Revenue reached ₹118 crore.

EBITDA margin improved to 13%.

DSCR improved to 1.52.

Outstanding reduced from ₹55 crore to ₹49 crore.

After 24 Months

Account upgraded to Standard Asset.

No overdue existed.

Additional working capital limits remained within utilization norms.

What Would Have Happened under the Earlier Restructuring Approach?

Had the banks relied solely on:

- ✱ Historical financial statements,
- ✱ Declining profitability,
- ✱ Temporary losses,
- ✱ High inventory levels, they might have concluded that the company was non-viable and initiated recovery proceedings.

However, digital footprints provided real-time evidence that:

- ✱ Demand was reviving.
- ✱ Customers remained satisfied.
- ✱ Online enquiries were increasing.
- ✱ Collections were improving.
- ✱ Operations continued normally.
- ✱ No diversion of funds existed.

Consequently, restructuring succeeded and the account was revived.

Key Learning from the Case

Traditional Approach Looked at:

- ✱ Past financial statements.
- ✱ Historical profitability.

- ✱ Collateral value.
- ✱ Management representations.

Digital Footprint-Based Approach Looked at:

- ✱ Current business activity.
- ✱ Customer behaviour.
- ✱ Real-time collections.
- ✱ Industry outlook.
- ✱ Market reputation.
- ✱ Transaction analytics.
- ✱ Digital sales channels.
- ✱ Future demand patterns.

Thus, digital footprints transformed restructuring from a backward-looking exercise into a forward-looking, evidence-based rehabilitation process.

Questions for Professionals:

- Q1. Why did the account become stressed despite earlier profitability?
- Q2. What was the total exposure of the consortium banks?
- Q3. Which digital footprints helped verify the genuineness of sales?
- Q4. Why did bankers conclude that business operations were continuing?
- Q5. Which red flag was identified during transaction analytics?
- Q6. How did digital footprints establish that there was no diversion of funds?
- Q7. What did the TEV study determine as sustainable debt?
- Q8. Why was additional working capital sanctioned despite losses?
- Q9. How did digital footprint-based restructuring differ from traditional restructuring?
- Q10. What were the outcomes achieved after two years of restructuring?

Suggested Answers:

Question	Answer
Q1	Temporary demand slowdown and raw material price increase
Q2	₹55 crore
Q3	GST returns and digital collections
Q4	Website activity, social media engagement, and customer reviews
Q5	Transfer of ₹5 crore to sister concern
Q6	Funds were reversed within 45 days and transaction analysis showed no abnormal activity

Q7	₹48 crore
Q8	Digital footprints showed improving demand and viability
Q9	Traditional restructuring was based on historical data, whereas digital restructuring used real-time information
Q10	Account became standard, revenues recovered, and repayment regularized

Professional Insight:

This case illustrates that **digital footprint-based restructuring is not merely an additional analytical tool but represents a paradigm shift in credit rehabilitation**. Financial statements explain the past, collateral protects the lender, but digital footprints reveal the present health and future potential of the business. Therefore, modern restructuring decisions are increasingly becoming data-driven, predictive, and focused on sustainable revival rather than temporary postponement of default.

Checklist of Various Digital Footprints:

The process of restructuring loans and advances has undergone a significant transformation in recent years. Earlier, banks relied predominantly upon historical financial statements, stock statements, collateral values, and management discussions to assess the viability of stressed borrowers. However, with the rapid digitization of businesses and the availability of real-time information, bankers increasingly examine various digital footprints of borrowing entities before approving restructuring proposals. Digital footprints provide independent evidence regarding the continuity of business operations, cash flow generation, customer acceptance, market reputation, statutory compliance, and management integrity.

Unlike conventional financial statements, which represent past performance, digital footprints offer a dynamic view of the present condition and future prospects of the business. Consequently, banks use these digital indicators to distinguish between temporary financial stress and permanent business impairment. The following checklist provides a comprehensive description of various digital footprints that are increasingly becoming indispensable in restructuring decisions.

a) Website Presence and Website Analytics:

One of the first aspects examined by bankers is the official website of the borrowing entity. A website serves as the digital identity of a company and reflects its current business activities. Banks verify whether the website is active, updated, and aligned with the nature of business claimed by the borrower.

An active website generally indicates continuing business operations. Product catalogues, announcements of new products, dealer networks, customer support systems, and online enquiries provide evidence of commercial activity.

For example, while restructuring the account of a pharmaceutical manufacturer, bankers may observe that the company has recently introduced new formulations and updated product specifications on its website. Such developments indicate that the business is operational and attempting to expand its market presence.

Conversely, inactive websites, outdated information, broken links, and lack of updates may suggest operational difficulties or cessation of business activities.

b) Goods and Services Tax (GST) Digital Footprints:

GST returns constitute one of the most reliable digital footprints available to bankers. Monthly and annual GST filings enable lenders to compare turnover reported in financial statements with actual tax declarations.

Bankers analyse trends in GST sales, input tax credits, tax payments, and consistency in filing patterns. Variations

between audited turnover and GST returns may indicate manipulation of financial statements or artificial inflation of sales.

For example, if a company reports annual turnover of ₹100 crore in its audited accounts while GST returns indicate turnover of only ₹72 crore, banks may question the credibility of the financial statements and reassess the restructuring proposal.

Increasing GST turnover over successive months often signifies improving demand and business recovery, thereby supporting restructuring.

c) Banking Transaction Footprints and Cash Flow Analytics:

Bank statements and transaction analytics provide valuable digital evidence regarding cash generation and fund utilization. Banks examine credits, debits, cheque returns, vendor payments, salary disbursements, and statutory payments.

Advanced transaction analytics help detect:

- ✱ Circular transactions.
- ✱ Fund diversion.
- ✱ Related-party payments.
- ✱ Unusual cash withdrawals.
- ✱ Layering of funds.

For example, during restructuring of a textile company's account, transaction analytics may reveal regular salary payments, consistent vendor settlements, and growing customer receipts. Such patterns indicate business continuity and support the viability of restructuring.

However, frequent transfers to promoter-related entities and substantial cash withdrawals may raise concerns regarding diversion of funds.

d) Unified Payments Interface (UPI) and Digital Collection Patterns:

Increasingly, banks analyse digital payment receipts through UPI platforms, POS machines, QR code collections, and online banking transactions. These digital collections provide real-time information regarding the actual volume of business conducted by the borrower.

For instance, a restaurant chain seeking restructuring may show declining profitability in financial statements. However, analysis of UPI collections may reveal a steady increase in daily receipts, indicating that the underlying business remains healthy and capable of revival.

Thus, digital payment patterns provide valuable support for cash flow projections used in restructuring.

e) Social Media Presence and Customer Engagement:

Social media platforms such as LinkedIn, Instagram, Facebook, X (Twitter), and YouTube have emerged as important indicators of business activity and brand strength.

Bankers review:

- ✱ Frequency of posts.
- ✱ Product promotions.

- ✱ Customer interactions.
- ✱ Followers and engagement.
- ✱ Marketing campaigns.

For example, a furniture manufacturing company actively promoting new designs and participating in exhibitions through social media demonstrates continuing market engagement and customer outreach.

Declining activity or prolonged silence on social media platforms may indicate operational difficulties and weakening brand visibility.

f) Customer Reviews and Market Reputation:

Google Reviews, Justdial ratings, Amazon ratings, and customer feedback platforms provide valuable insights into customer satisfaction and market acceptance.

Positive reviews generally signify:

- ✱ Product quality.
- ✱ Timely delivery.
- ✱ Good after-sales service.
- ✱ Strong customer loyalty.

For example, while restructuring the account of a hospital chain, banks may examine Google ratings and patient reviews. Consistently high ratings indicate that the institution continues to enjoy public confidence and possesses long-term viability.

Negative reviews and complaints, on the other hand, may point toward deteriorating business conditions and customer dissatisfaction.

g) E-Commerce and Marketplace Footprints:

Many businesses maintain digital presence through platforms such as Amazon, Flipkart, IndiaMART, TradeIndia, Alibaba, and Meesho. Banks examine order volumes, product ratings, customer feedback, and enquiry trends on these platforms.

For example, an electrical appliance manufacturer may be experiencing temporary liquidity problems. Nevertheless, rising sales on e-commerce platforms and increasing customer enquiries may indicate strong future prospects.

Thus, digital marketplaces provide evidence of market demand and growth opportunities.

h) LinkedIn Profiles and Management Digital Footprints:

Bankers also examine the digital profiles of promoters, directors, and key managerial personnel. LinkedIn profiles provide information regarding educational qualifications, professional experience, industry expertise, and business associations.

Frequent changes in employment history, absence of relevant experience, or inconsistent information may create doubts regarding management capabilities.

For example, if promoters possess decades of experience in the engineering industry and maintain strong professional networks, bankers may view restructuring proposals more favourably.

i) Ministry of Corporate Affairs (MCA) Digital Records:

Corporate filings available on the MCA portal represent another important digital footprint. Banks verify:

- ✱ Annual returns.
- ✱ Financial statements.
- ✱ Director details.
- ✱ Registered charges.
- ✱ Corporate compliance status.

Frequent changes in directors, delayed filings, or regulatory non-compliance may indicate governance weaknesses.

For example, during restructuring of a manufacturing company, bankers may discover that all annual returns have been filed promptly and no directors are disqualified. Such findings strengthen confidence in management integrity.

j) Income Tax and Annual Information Statement (AIS):

Income tax returns and AIS records provide valuable information regarding income declarations and tax compliance.

Banks compare:

- ✱ Income tax returns.
- ✱ GST turnover.
- ✱ Financial statements.
- ✱ Bank account credits.

Consistency among these records enhances confidence in the accuracy of financial information.

For example, a company declaring turnover of ₹75 crore in both GST returns and income tax filings is more likely to be viewed as transparent and reliable.

k) Credit Information Company (CIC) Digital Reports:

Reports from credit information companies such as CIBIL, CRIF High Mark, Equifax, and Experian provide digital evidence regarding repayment behaviour.

Banks analyse:

- ✱ Existing borrowings.
- ✱ Delays in repayment.
- ✱ Number of loan enquiries.
- ✱ Restructuring history.
- ✱ Credit score trends.

Multiple loan applications and deteriorating credit scores may indicate increasing financial stress.

For example, a borrower with excellent repayment history before the temporary downturn may be considered suitable for restructuring.

l) Export and Import Digital Footprints:

For companies engaged in international trade, bankers examine digital records available through:

- ✱ DGFT.
- ✱ Import Export Code (IEC) database.
- ✱ Customs data.
- ✱ Shipping documents.

For example, an engineering company facing domestic slowdown may possess confirmed export orders from Europe. Such digital evidence provides confidence regarding future cash flows and supports restructuring.

m) Geospatial and Geo-Tagged Digital Footprints:

Modern banks increasingly rely upon geotagging technologies and satellite imagery to verify the existence and condition of factories, warehouses, and assets.

Geo-tagged photographs and GIS tools provide evidence regarding:

- ✱ Physical existence of assets.
- ✱ Operational facilities.
- ✱ Inventory locations.

For example, geo-tagged inspection reports may confirm that the manufacturing unit remains operational despite temporary financial stress.

n) News and Media Footprints:

Banks perform digital searches to identify adverse media reports relating to borrowers and promoters.

These searches reveal:

- ✱ Fraud allegations.
- ✱ Regulatory actions.
- ✱ Environmental violations.
- ✱ Criminal proceedings.
- ✱ Financial scandals.

For example, if no adverse reports are available and media coverage focuses on product innovation and expansion plans, the restructuring proposal gains additional credibility.

o) Litigation and Judicial Digital Footprints:

Digital databases relating to:

- ✱ NCLT proceedings.
- ✱ DRT cases.
- ✱ High Court cases.

- ✱ Arbitration matters, provide insights into legal risks associated with the borrower.

For example, absence of insolvency proceedings and major litigation strengthens the possibility of successful restructuring.

Conversely, multiple lawsuits and insolvency petitions may indicate deeper structural problems.

p) Industry and Market Intelligence Footprints:

Banks monitor digital industry reports, sectoral trends, search patterns, and demand forecasts.

For example, while restructuring the account of a solar equipment manufacturer, banks may find increasing demand arising from renewable energy initiatives and government policies. Such industry intelligence supports future revenue projections.

Similarly, temporary downturns in cyclical industries may not necessarily indicate permanent business impairment.

q) Artificial Intelligence-Based Behavioural Analytics:

Modern banks are increasingly adopting AI-driven analytical systems that examine:

- ✱ Spending patterns.
- ✱ Customer concentration.
- ✱ Cash flow behaviour.
- ✱ Collection efficiency.
- ✱ Seasonality trends.

These analytical tools identify early warning signals that may not be visible through conventional financial analysis.

For example, gradual improvement in transaction volumes and customer receipts may indicate recovery even before profitability improves.

r) Employee and Human Resource Digital Footprints:

Job portals such as Naukri, LinkedIn, and company career pages also provide useful information regarding organizational health.

Recruitment activities and employee retention indicate growth and confidence, whereas mass resignations and hiring freezes may signify distress.

For example, a software company continuing to recruit engineers despite temporary financial stress may possess strong future prospects.

s) Environmental, Social and Governance (ESG) Digital Footprints:

Increasingly, banks evaluate ESG-related digital disclosures and sustainability practices. ESG compliance reflects responsible business conduct and enhances long-term viability.

For example, companies involved in renewable energy, eco-friendly packaging, or sustainable manufacturing often attract stronger customer demand and investor confidence.

To Sum Up:

The restructuring of loans and advances has evolved from a predominantly historical and document-based exercise into a technology-driven and evidence-based process. Various digital footprints provide bankers with real-time visibility into business operations, market acceptance, financial discipline, customer behavior, governance standards, and future prospects. These digital indicators complement traditional financial analysis and enable banks to distinguish between temporary stress and permanent deterioration. Consequently, digital footprint analysis enhances the quality of Techno-Economic Viability studies, improves monitoring mechanisms, reduces information asymmetry, prevents fund diversion, and increases the probability of successful rehabilitation. In the emerging era of data-driven banking, digital footprints have become indispensable tools for designing sustainable restructuring packages and minimizing future non-performing assets.

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Chapter 12

Detailed Case Study on Restructuring of Bank Advances

Synopsis:

This Chapter contains, ‘Detailed Case Study’ on Restructuring of Bank Advances presents a comprehensive practical case study of M/s. Sunrise Agro-Tech Industries Pvt. Ltd., illustrating the end-to-end process adopted by banks in restructuring stressed loan accounts. The chapter explains how lenders assess the viability of a borrower by examining historical sales trends, capacity utilization, EBITDA, operating cash flows, DSCR, inventory levels, debtors’ ageing, and compliance with loan covenants. It further highlights the importance of verifying financial information through GST returns, audited financial statements, stock statements, site inspections, and forensic audits to distinguish temporary financial stress from permanent business unviability. The case also demonstrates the formulation of an appropriate restructuring package, including extension of the repayment period, moratorium on principal repayment, reassessment of working capital, promoters’ contribution, and a robust post-restructuring monitoring mechanism. Overall, the chapter provides valuable practical insights into the principles of credit appraisal, viability assessment, and prudent risk management followed by banks while restructuring advances.

Background of the Borrowing Entity:

M/s. Sunrise Agro-Tech Industries Pvt. Ltd. is a medium-sized manufacturer of agricultural implements and farm equipment located in Telangana. The company has been in operation for more than twelve years and has established a stable market in South India. During FY 2021-22 and FY 2022-23, the company recorded steady growth in turnover and profitability. Encouraged by increasing demand, the promoters expanded production capacity by availing additional term loans and enhanced working capital facilities from a consortium of banks.

However, during FY 2024-25, the company faced several challenges. Adverse monsoon conditions, reduced agricultural spending, increasing competition from imported products, delayed payments from customers, and higher raw material prices resulted in declining sales and liquidity stress. Consequently, the company started experiencing delays in servicing loan instalments and interest obligations.

Recognizing the temporary nature of the difficulties, the management approached the lead bank seeking restructuring of the existing facilities under RBI guidelines.

Existing Banking Arrangement:

The company had the following credit facilities:

Particulars	Amount (₹ Crores)
Term Loan-I	15.00
Term Loan-II	5.00
Cash Credit Limit	12.00

Particulars	Amount (₹ Crores)
Bank Guarantee Limit	3.00
Total Exposure	35.00

The account had remained standard for several years but slipped into SMA category due to irregularities caused by cash flow constraints.

Bank's Approach During Restructuring:

Before considering the restructuring proposal, the consortium banks initiated a detailed analysis of the borrower's historical performance and future projections. The objective was to ascertain whether the stress was temporary and whether the business remained viable.

Verification of Historical Sales Performance:

The banks compared audited financial statements, GST returns, stock statements, and turnover reflected in the current accounts.

Historical Sales Trend

Particulars	FY 2022-23	FY 2023-24	FY 2024-25
Sales (₹ Crores)	90.00	102.00	74.00
Growth (%)	15%	13%	(-27%)

The decline in turnover was attributed to reduced market demand and delayed realization from dealers.

The company projected that sales would recover gradually owing to introduction of new products and export orders.

Projected Sales

Year	Projected Sales (₹ Crores)
FY 2025-26	85.00
FY 2026-27	95.00
FY 2027-28	108.00

Banks examined these projections with industry trends and market demand before accepting them.

Verification of Capacity Utilization

The installed production capacity of the factory was 30,000 units per annum.

Capacity Utilization

Year	Capacity Utilization
FY 2022-23	82%
FY 2023-24	85%
FY 2024-25	58%

Site inspections revealed that machinery remained operational and there were no technological obsolescence issues. The lower utilization was mainly due to inadequate working capital and poor demand.

The restructuring proposal envisaged gradual improvement.

Year	Projected Utilization
FY 2025-26	68%
FY 2026-27	78%
FY 2027-28	85%

Analysis of EBITDA Performance

Banks analysed operating profitability to determine the earning capacity of the business.

EBITDA Trend

Year	EBITDA (₹ Crores)	EBITDA Margin
FY 2022-23	12.00	13.3%
FY 2023-24	13.80	13.5%
FY 2024-25	5.90	8.0%

Management attributed the decline to increased steel prices, higher power costs and under-utilization of plant capacity.

Under the restructuring proposal, EBITDA margins were expected to improve.

Year	Projected EBITDA Margin
FY 2025-26	10%
FY 2026-27	11.5%
FY 2027-28	13%

Banks compared these assumptions with industry averages and historical performance.

Cash Flow Verification

The consortium banks prepared cash flow statements and examined:

- ✱ Cash generated from operations.
- ✱ Working capital cycle.
- ✱ Interest servicing ability.
- ✱ Repayment obligations.
- ✱ Capital expenditure requirements.

Historical Cash Flows

Particulars	FY 2022-23	FY 2023-24	FY 2024-25
Operating Cash Flow (₹ Crores)	10.20	11.50	2.80
Debt Servicing Requirement	6.00	6.40	6.80
Surplus/(Deficit)	4.20	5.10	(-4.00)

Negative cash flows resulted in stress and irregularity in loan accounts.

Banks projected improved cash generation after restructuring.

DSCR Evaluation

Debt Service Coverage Ratio (DSCR) was calculated to assess debt repayment capability.

Historical DSCR

Year	DSCR
FY 2022-23	1.70
FY 2023-24	1.62
FY 2024-25	0.68

A DSCR below 1 indicated inability to service debt obligations.

Projected DSCR

Year	DSCR
FY 2025-26	1.18
FY 2026-27	1.35
FY 2027-28	1.55

Banks considered these projections acceptable, subject to monitoring.

Verification of Stock Levels

Stock statements submitted to banks were cross-verified with:

- ✱ GST returns.
- ✱ Physical inspection reports.
- ✱ Inventory records.
- ✱ Insurance policies.

Inventory Position

Year	Inventory (₹ Crores)
FY 2022-23	18.50
FY 2023-24	21.20
FY 2024-25	24.80

The increase in inventory indicated slow movement of finished goods and blockage of working capital.

Banks advised liquidation of obsolete inventory and tighter inventory controls.

Analysis of Debtors:

Banks examined the quality and ageing of receivables.

Debtors Position:

Large overdue receivables affected liquidity.

Year	Debtors (₹ Crores)	Average Collection Period
FY 2022-23	14.00	56 Days
FY 2023-24	17.20	61 Days
FY 2024-25	23.50	95 Days

The restructuring package required:

- ✱ Recovery of overdue debtors.
- ✱ Restriction on credit sales.
- ✱ Monthly monitoring of ageing statements.

Verification of Compliance with Loan Covenants:

Banks reviewed compliance with sanction terms and financial covenants.

Major Observations

◆ **Irregular Submission of Stock Statements**

Monthly stock statements were delayed frequently during the previous year.

◆ **Non-maintenance of Current Ratio**

The stipulated current ratio of 1.33:1 was not maintained.

◆ **Delay in Submission of Audited Financial Statements**

Financial statements were submitted with delays.

◆ **Delay in Payment of Statutory Dues**

GST and PF dues were delayed, though subsequently regularized.

◆ **Diversion of Funds**

Forensic auditors found no evidence of diversion of funds.

Therefore, banks concluded that stress was business-related rather than arising from fraud or wilful default.

◆ **Restructuring Package Approved by the Consortium**

Based on viability studies and cash flow projections, the consortium approved the following:

◆ **Extension of Repayment Period**

Residual term loan repayment was extended from 5 years to 8 years.

◆ **Moratorium**

Principal repayment moratorium of one year was granted.

◆ **Working Capital Reassessment**

Cash credit limits were recalculated based on revised operating cycle.

◆ **Promoters' Contribution**

Promoters infused ₹3 crore as unsecured loans subordinated to bank debt.

◆ **Monitoring Mechanism**

Quarterly review of:

- ✱ Sales.
- ✱ EBITDA.
- ✱ Capacity utilization.
- ✱ Cash flows.
- ✱ Stock levels.
- ✱ Debtors ageing.
- ✱ Covenant compliance.

The restructuring package was approved considering that the stress was temporary and the unit remained economically viable.

Questions for Understanding Restructuring of Existing Loans (Without Answers):

1. Why do banks verify historical sales trends before approving restructuring proposals?
2. How does capacity utilization influence the viability assessment of a borrower?
3. Why is EBITDA considered an important parameter during restructuring?
4. What significance do operating cash flows have in determining repayment capability?
5. Why do banks calculate DSCR while evaluating restructuring proposals?
6. How can excessive stock levels adversely affect the liquidity position of a borrower?
7. Why do banks analyse the ageing pattern of debtors before restructuring loans?
8. What are the major documents and sources used by banks to verify projected sales?
9. Why is compliance with financial covenants important during restructuring?
10. Under what circumstances would banks insist on promoters' contribution?
11. How do banks distinguish between temporary business stress and fund diversion?
12. What role does a forensic audit play in restructuring proposals?
13. How can moratorium and extension of repayment period improve viability?
14. Why is quarterly monitoring necessary after restructuring?
15. Which ratios and operational parameters are generally monitored by banks after implementation of the restructuring package?
16. What would be the consequences if projected cash flows fail to materialize after restructuring?
17. How do GST return and stock statements help banks verify the genuineness of turnover and inventory?

18. Why should projected DSCR normally remain above 1.0 after restructuring?
19. What factors indicate that the stress faced by the borrower is temporary and reversible?
20. What are the responsibilities of the borrower after obtaining restructuring relief from the banks?

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Answers to the Questions Mentioned in the Case Study:

Question No. 1: Why do Banks Verify Historical Sales Trends Before Approving Restructuring Proposals?

Answer:

Banks verify historical sales trends because sales constitute the primary source of revenue and cash generation for any business. During restructuring, banks are required to assess whether the financial stress experienced by the borrowing entity is temporary and whether the business possesses the capability to recover and service the restructured debt obligations in future. Historical sales data provides valuable insights into the operating performance, market acceptance, and sustainability of the business model.

Understanding the Significance of Historical Sales Performance:

Sales trends over the previous three to five years reveal the growth pattern and stability of the enterprise. A business that has demonstrated consistent turnover and profitability in earlier years but has recently experienced a decline due to external factors such as market slowdown, increased competition, raw material price escalation, delayed receivables, or temporary disruptions is generally considered a suitable candidate for restructuring.

Conversely, if sales have been continuously declining over several years, it may indicate structural weaknesses, technological obsolescence, loss of market share, or deterioration in product competitiveness. In such situations, merely restructuring the loan may not restore the viability of the business.

Therefore, historical sales analysis enables banks to distinguish between temporary business stress and permanent commercial unviability.

Assessment of Business Sustainability:

Banks compare the sales turnover of previous years with current performance to determine whether the decline is abnormal or part of a long-term deteriorating trend.

For example:

Financial Year	Sales (₹ Crores)
FY 2022-23	90
FY 2023-24	102
FY 2024-25	74

In the above example, the business showed healthy growth during FY 2022-23 and FY 2023-24. The decline during FY 2024-25 may therefore be viewed as temporary and reversible, provided the reasons for the decline are properly identified and corrective measures are initiated.

Such a pattern gives confidence to bankers that the enterprise has the ability to regain its earlier performance.

Verification of Authenticity of Turnover:

Banks do not rely solely on financial statements. Historical sales figures are cross-verified through:

◆ **GST Returns**

GSTR-1 and GSTR-3B filings provide independent confirmation of sales turnover.

◆ **Income Tax Returns**

Income tax filings and tax audit reports help establish consistency between turnover reported to tax authorities and financial statements.

◆ **Bank Statements**

Credits received from customers through banking channels support the genuineness of sales.

◆ **E-Way Bills and Invoices**

These documents help verify actual movement of goods and reduce the possibility of inflated or fictitious turnover.

This verification process helps banks detect window dressing or artificial inflation of revenue.

Evaluation of Industry Position and Market Demand:

Historical sales trends indicate the competitive position of the borrower in the industry. Stable or growing sales over previous years suggest that:

- ✱ The products are accepted in the market.
- ✱ Customer relationships are strong.
- ✱ Market demand exists.
- ✱ The company possesses operational capabilities.

Banks compare the company's sales pattern with industry growth rates to assess whether the decline is company-specific or industry-wide.

Basis for Projecting Future Sales:

Future projections form the foundation of restructuring. However, projections are meaningful only when they are supported by historical performance.

For instance, if a company achieved sales of ₹100 crore before the onset of financial stress and projects a recovery to ₹95 crore over the next two years, such projections may appear reasonable.

On the other hand, if a company with historical sales of ₹75 crore suddenly projects ₹200 crore turnover without substantial expansion plans or confirmed orders, bankers would consider the assumptions unrealistic.

Historical performance therefore serves as the benchmark for evaluating future projections.

Assessment of Working Capital Requirements:

Sales volume directly affects working capital requirements relating to:

- ✱ Inventory.

- ✱ Receivables.
- ✱ Trade creditors.
- ✱ Operating expenses.

Historical turnover enables banks to estimate the level of working capital required after restructuring. Excessive projections may result in over-financing, whereas underestimated sales may lead to inadequate working capital support.

Determination of Debt Servicing Capacity:

Sales ultimately generate profits and cash flows required for repayment of loans.

Historical sales trends influence:

- ✱ EBITDA generation.
- ✱ Operating cash flows.
- ✱ DSCR.
- ✱ Interest servicing capacity.

A business with a history of stable turnover and profitability is more likely to service restructured debt obligations successfully.

Identification of Seasonality and Cyclicity:

Some industries experience seasonal fluctuations. Historical sales data helps banks understand:

- ✱ Peak sales periods.
- ✱ Lean seasons.
- ✱ Cyclical demand patterns.
- ✱ Inventory requirements.

This understanding assists in structuring repayment schedules and working capital facilities appropriately.

Detection of Diversion of Funds and Manipulation:

Banks compare historical sales with:

- ✱ Inventory levels.
- ✱ Debtors.
- ✱ Cash flows.
- ✱ Production records.
- ✱ Electricity consumption.

Significant inconsistencies may indicate:

- ✱ Inflated turnover.
- ✱ Accommodation entries.

- ✱ Diversion of funds.
- ✱ Fictitious debtors.

Thus, historical sales verification also acts as a safeguard against fraud and misrepresentation.

Role in Techno-Economic Viability (TEV) Analysis:

TEV studies rely heavily on past sales performance to determine:

- ✱ Economic viability.
- ✱ Market potential.
- ✱ Financial sustainability.

Historical sales provide the foundation for sensitivity analysis and future projections.

To Sum Up:

Banks verify historical sales trends because sales represent the lifeline of the business. Historical sales analysis helps bankers determine:

- ✱ Whether the decline is temporary or permanent.
- ✱ Whether the business remains commercially viable.
- ✱ Whether future projections are realistic.
- ✱ Whether working capital requirements are justified.
- ✱ Whether cash flows will support debt servicing.
- ✱ Whether any manipulation or diversion of funds exists.

Therefore, historical sales trends provide the basis for assessing the viability of the restructuring proposal and enable banks to decide whether restructuring will revive the business or merely postpone an inevitable default.

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Question No. 2: How Does Capacity Utilization Influence the Viability Assessment of a Borrower?

Answer:

Capacity utilization is one of the most critical operational parameters examined by banks during restructuring because it reflects the extent to which the installed production facilities are being effectively utilized. Capacity utilization directly affects sales, profitability, cash flows, and debt-servicing capability. It is therefore an important indicator of the technical and commercial viability of the borrowing entity.

Understanding Capacity Utilization:

Capacity utilization refers to the percentage of actual production achieved compared with the maximum installed production capacity.

For example:

- ✱ Installed Capacity = 30,000 units per annum.
- ✱ Actual Production = 18,000 units.

Capacity Utilization:

$$\text{Capacity Utilization} = \frac{18,000}{30,000} \times 100 = 60\%$$

This means that 40% of the installed facilities remain idle.

Impact on Fixed Cost Absorption:

Manufacturing businesses incur substantial fixed costs such as:

- ✱ Salaries.
- ✱ Factory overheads.
- ✱ Depreciation.
- ✱ Administrative expenses.
- ✱ Insurance.
- ✱ Interest expenses.

When production levels are low, these fixed costs are spread over fewer units, increasing the cost per unit and reducing profitability.

For example:

At 85% Capacity Utilization:

Production = 25,500 units.

Fixed cost per unit becomes lower, resulting in better margins.

At 55% Capacity Utilization:

Production = 16,500 units.

Fixed cost per unit rises substantially, reducing operating profits.

Therefore, lower capacity utilization adversely affects EBITDA and cash flows.

Indicator of Market Demand:

Capacity utilization provides insights into market demand for the company's products.

High utilization indicates:

- ✱ Strong demand.
- ✱ Good market acceptance.
- ✱ Efficient operations.
- ✱ Revenue-generating capability.

Low utilization may indicate:

- ✱ Weak demand.
- ✱ Loss of customers.
- ✱ Competitive pressures.
- ✱ Technological obsolescence.

Banks evaluate whether the low utilization is temporary or structural.

Influence on Sales and Revenue Generation:

Sales and production are interrelated. Underutilized capacity generally leads to lower turnover.

Example:

Capacity Utilization	Sales (₹ Crores)
85%	102
60%	74

Declining capacity utilization directly impacts revenue and consequently affects profitability and debt servicing.

Impact on EBITDA and Profitability:

Lower utilization causes:

- ✱ Higher unit costs.
- ✱ Reduced operating leverage.
- ✱ Lower contribution margins.
- ✱ Decline in EBITDA.

Example:

Year	Capacity Utilization	EBITDA Margin
FY 2023-24	85%	13.5%
FY 2024-25	58%	8.0%

Banks analyse whether profitability can improve if utilization increases after restructuring.

Influence on Cash Flows and DSCR:

Higher utilization results in:

- ✱ Better sales realization.
- ✱ Higher contribution.
- ✱ Improved cash generation.
- ✱ Stronger DSCR.

Consequently, repayment capability improves.

Banks examine projected capacity utilization to ensure that cash flows generated after restructuring will be sufficient to service debt obligations.

Assessment of Technical Viability:

Banks verify whether:

- ✱ Plant and machinery are operational.
- ✱ Equipment is technologically relevant.
- ✱ Skilled manpower is available.
- ✱ Raw materials are accessible.

If machinery is obsolete or damaged, low utilization may indicate permanent technical problems, making restructuring ineffective.

Identification of Temporary versus Structural Stress:

Banks distinguish between:

Temporary Causes:

- ✱ Working capital shortages.
- ✱ Power interruptions.
- ✱ Market slowdown.
- ✱ Delay in receivables.

These problems can be corrected through restructuring.

Structural Causes:

- ✱ Outdated technology.
- ✱ Permanent loss of market.
- ✱ Inferior products.
- ✱ Excess industry capacity.

Such problems may render the business unviable.

Therefore, capacity utilization helps determine whether the stress is reversible.

Evaluation Through Physical Inspection:

Banks conduct site visits to verify:

- ✱ Actual production activity.
- ✱ Condition of machinery.
- ✱ Availability of raw materials.
- ✱ Employment levels.

- ✱ Operational status of the factory.

This ensures that the unit is functioning and that the low utilization is not due to closure or abandonment of operations.

Basis for Future Projections:

Suppose:

Year	Capacity Utilization
FY 2024-25	58%
FY 2025-26	68%
FY 2026-27	78%
FY 2027-28	85%

Banks examine whether these projections are supported by:

- ✱ Existing order books.
- ✱ Market demand.
- ✱ Additional working capital.
- ✱ Marketing initiatives.
- ✱ Expansion plans.

Unrealistic assumptions are subjected to sensitivity analysis.

Role in Techno-Economic Viability Study:

Capacity utilization is an important component of TEV studies because it influences:

- ✱ Sales projections.
- ✱ Cost structure.
- ✱ Profitability.
- ✱ Cash flows.
- ✱ DSCR.
- ✱ Sustainable debt levels.

Thus, capacity utilization forms the foundation for determining long-term viability.

To Sum Up:

Capacity utilization plays a crucial role in viability assessment because it directly influences sales, profitability, operating cash flows, and debt-servicing capability. Banks analyse capacity utilization to determine:

- ✱ Whether the production facilities are effectively utilized.
- ✱ Whether low utilization is temporary or structural.
- ✱ Whether profitability can improve after restructuring.

- ✱ Whether projected sales are achievable.
- ✱ Whether future cash flows will support repayment obligations.
- ✱ Whether the enterprise remains technically and commercially viable.

Hence, capacity utilization serves as a key indicator in deciding whether restructuring can revive the business or whether the financial stress is symptomatic of deeper operational weaknesses.

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Question No. 3: Why is EBITDA Considered an Important Parameter During Restructuring?

Answer:

EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) is one of the most important financial parameters examined by banks during restructuring because it reflects the operational earning capacity of the business before considering financing costs and non-cash expenses. Since restructuring aims at restoring the repayment capability of the borrowing entity, banks focus on EBITDA to determine whether the core business is capable of generating sufficient operating profits to sustain itself and service debt obligations in the future.

Understanding EBITDA and Its Significance:

EBITDA represents the income generated from normal business operations before deducting:

- ✱ Interest expenses.
- ✱ Income taxes.
- ✱ Depreciation.
- ✱ Amortization.

The formula is:

$$\text{EBITDA} = \text{Net Profit} + \text{Interest} + \text{Taxes} + \text{Depreciation} + \text{Amortization}$$

or

$$\text{EBITDA} = \text{Sales} - \text{Operating Expenses (excluding depreciation and interest)}.$$

Since interest and depreciation vary from company to company, EBITDA provides a better measure of operating performance and facilitates comparison with industry peers.

Indicator of Operational Efficiency:

EBITDA reflects how efficiently the business converts sales into operating profits.

For example:

Particulars	FY 2022-23	FY 2023-24	FY 2024-25
Sales (₹ Crores)	90	102	74
EBITDA (₹ Crores)	12	13.80	5.90
EBITDA Margin	13.3%	13.5%	8.0%

The decline in EBITDA margin from 13.5% to 8% indicates that the business experienced pressure on profitability because of:

- ✱ Lower capacity utilization.
- ✱ Increased raw material costs.
- ✱ Higher power expenses.
- ✱ Reduced contribution margins.

Banks analyse whether these factors are temporary or permanent.

Assessment of Core Business Viability

Restructuring is justified only when the core operations of the business remain viable.

Even if the company suffers accounting losses due to:

- ✱ Heavy interest burden,
- ✱ High depreciation charges,
- ✱ Past capital expenditure, positive EBITDA indicates that the business is capable of generating operating profits.

For example:

Suppose:

- ✱ EBITDA = ₹8 crore.
- ✱ Interest Cost = ₹5 crore.
- ✱ Depreciation = ₹4 crore.

Profit before tax becomes negative.

However, the operations themselves are healthy, and reduction in repayment burden through restructuring may restore overall profitability.

Thus, EBITDA helps banks distinguish between:

Financial stress due to excessive debt:

and

Commercial unviability of the business.

Basis for Cash Flow Generation:

Debt servicing ultimately depends upon cash flows generated by operations.

EBITDA acts as a proxy for operating cash generation because:

- ✱ Interest payments are serviced from operating earnings.
- ✱ Principal repayments are funded from cash generated by business operations.

Banks therefore examine whether projected EBITDA is sufficient to support:

- ✱ Interest obligations.
- ✱ Working capital requirements.
- ✱ Capital expenditure.
- ✱ Principal repayments.

Role in Debt Service Coverage Ratio (DSCR):

DSCR is one of the most important indicators of repayment capability.

The numerator of DSCR contains cash accruals, which are largely influenced by EBITDA.

Higher EBITDA results in:

- ✱ Better cash accruals.
- ✱ Improved DSCR.
- ✱ Enhanced repayment capability.

Lower EBITDA reduces debt servicing capacity and increases the probability of default.

Therefore, banks closely analyse EBITDA while evaluating restructuring proposals.

Determination of Sustainable Debt:

Under restructuring, banks determine how much debt can realistically be serviced by the borrower.

This concept is known as Sustainable Debt.

Suppose:

Projected EBITDA = ₹15 crore.

Interest and repayment obligations that can be comfortably serviced are calculated based on future cash generation.

Excess debt may be:

- ✱ Rephased.
- ✱ Converted into FITL.
- ✱ Converted into equity.
- ✱ Provided with longer repayment schedules.

Thus, EBITDA forms the foundation for sustainable debt computation.

Measurement of Recovery Potential:

Banks compare historical and projected EBITDA to assess the recovery potential of the enterprise.

Historical EBITDA

Year	EBITDA Margin
FY 2022-23	13.3%
FY 2023-24	13.5%
FY 2024-25	8.0%

Projected EBITDA

Year	EBITDA Margin
FY 2025-26	10%
FY 2026-27	11.5%
FY 2027-28	13%

If future projections indicate gradual restoration of margins to historical levels, bankers gain confidence regarding revival.

Comparison with Industry Standards:

Banks compare EBITDA margins with industry averages.

For example:

Industry EBITDA Margin = 12%.

Company EBITDA Margin = 8%.

The lower margin may be due to:

- ✱ High input costs.
- ✱ Inefficient operations.
- ✱ Under-utilization of capacity.

Banks expect management to implement corrective measures to bridge the gap.

Sensitivity Analysis:

Banks stress-test projections by considering:

Reduction in Sales by 10%

Increase in Raw Material Costs

Delay in Receivables

If EBITDA remains positive under adverse scenarios, the restructuring proposal is considered robust.

Early Warning Signal of Financial Stress:

Declining EBITDA often precedes:

- ✱ Liquidity problems.
- ✱ Irregular repayment.

- ✱ Cash losses.
- ✱ Increase in borrowings.

Therefore, EBITDA serves as an early warning indicator for bankers.

Input for Techno-Economic Viability Study

TEV studies rely heavily upon EBITDA for determining:

- ✱ Projected cash accruals.
- ✱ DSCR.
- ✱ Internal Rate of Return.
- ✱ Break-even analysis.
- ✱ Sustainable debt.

Consequently, EBITDA is one of the most critical variables in viability assessment.

To Sum Up:

EBITDA is considered an important parameter during restructuring because it reflects the operational earning capability of the business and forms the basis for:

- ✱ Assessing core business viability.
- ✱ Measuring operating efficiency.
- ✱ Estimating cash generation.
- ✱ Determining repayment capacity.
- ✱ Calculating DSCR.
- ✱ Computing sustainable debt.
- ✱ Performing sensitivity analysis.
- ✱ Evaluating long-term revival prospects.

A business with healthy and improving EBITDA generally possesses a greater likelihood of successful restructuring and revival.

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Question No. 4: What Significance Do Operating Cash Flows Have in Determining Repayment Capability?

Answer:

Operating cash flows are one of the most critical factors considered by banks during restructuring because loans are repaid not from accounting profits but from actual cash generated by business operations. While profits are

prepared on an accrual basis, operating cash flows represent the real inflow of funds available for meeting interest, principal repayments, and working capital requirements.

Therefore, cash flow analysis forms the foundation of credit appraisal and restructuring decisions.

Difference Between Profit and Cash Flow:

A company may report profits but still face liquidity problems because profits do not necessarily translate into cash.

For example:

Suppose:

Sales = ₹100 crore.

Net Profit = ₹8 crore.

Receivables outstanding = ₹30 crore.

If customers fail to pay on time, the company may experience a cash shortage despite showing profits.

Consequently, banks focus more on cash generation rather than accounting profits.

Loans are Repaid from Cash and Not from Profit:

Repayment obligations require actual cash.

Interest payments, salaries, supplier payments, and statutory dues cannot be discharged through book profits.

Therefore, banks evaluate:

- ✱ Cash generated from operations.
- ✱ Working capital requirements.
- ✱ Timing of inflows and outflows.

Positive operating cash flow indicates the ability of the business to sustain itself and service debt.

Historical Cash Flow Analysis:

Banks examine past cash flows to understand the trend.

Example:

Particulars	FY 2022-23	FY 2023-24	FY 2024-25
Operating Cash Flow (₹ Crores)	10.20	11.50	2.80
Debt Servicing Requirement	6.00	6.40	6.80
Surplus/(Deficit)	4.20	5.10	(4.00)

The deficit in FY 2024-25 explains the inability of the company to service debt.

Thus, banks investigate the reasons for deterioration in cash generation.

Basis for Debt Servicing Capacity:

Debt Service Coverage Ratio (DSCR) depends largely upon cash accruals.

Higher operating cash flows result in:

- ✱ Timely payment of interest.
- ✱ Regular repayment of principal.
- ✱ Improved liquidity.
- ✱ Stronger financial position.

Negative cash flows lead to:

- ✱ Overdrawing of working capital limits.
- ✱ Delays in loan repayments.
- ✱ Classification as SMA or NPA.

Hence, cash flows are fundamental to debt servicing capability.

Impact of Working Capital Cycle:

Operating cash flows are affected by:

◆ **Inventory Levels**

Excess inventory blocks funds.

◆ **Debtors Collection Period**

Delayed collections reduce liquidity.

◆ **Creditors Payment Terms**

Shorter payment periods increase cash requirements.

Banks analyse these components to assess whether working capital inefficiencies are causing stress.

Determination of Additional Working Capital Requirements

During restructuring, banks estimate the amount of working capital necessary to revive operations.

Cash flow statements help determine:

- ✱ Peak funding requirements.
- ✱ Seasonal cash needs.
- ✱ Inventory financing requirements.
- ✱ Collection cycles.

Without proper cash flow projections, working capital support may prove inadequate.

Assessment of Sustainability of Future Projections

Projected cash flows are compared with repayment obligations.

For example:

Year	Operating Cash Flow (₹ Crores)	Debt Service Requirement	DSCR
FY 2025-26	8.5	7.2	1.18

FY 2026-27	10.8	8.0	1.35
FY 2027-28	13.2	8.5	1.55

These projections indicate that the business is capable of servicing restructured debt.

Identification of Liquidity Problems

Cash flow analysis helps identify:

- ✱ Slow-moving inventory.
- ✱ Delayed debtors.
- ✱ Excessive operating expenses.
- ✱ Mismatch between receivables and payables.

These factors often cause liquidity stress despite satisfactory profits.

Role in Sensitivity Analysis

Banks test the resilience of projected cash flows under adverse scenarios such as:

Sales decline by 10%.

Raw material prices increase by 15%.

Receivables realization delayed by 30 days.

Increase in interest rates.

If cash flows remain sufficient to service debt even under stressed conditions, the restructuring proposal is considered viable.

Basis for Moratorium and Repayment Schedule

Cash flow projections determine:

- ✱ Moratorium period.
- ✱ Instalment amount.
- ✱ Repayment tenure.
- ✱ Ballooning repayments.

Repayment schedules are aligned with the cash-generating capacity of the borrower.

Detection of Fund Diversion:

Banks compare cash flows with:

- ✱ Sales turnover.
- ✱ Inventory.
- ✱ Receivables.
- ✱ Capital expenditure.

Unusual cash movements may indicate:

- ✱ Diversion of funds.
- ✱ Related-party transactions.
- ✱ Non-business expenditures.

Therefore, cash flow analysis also serves as a fraud prevention tool.

Importance in Techno-Economic Viability Studies

Cash flows constitute the backbone of TEV studies because they determine:

- ✱ Debt service capability.
- ✱ Sustainable debt.
- ✱ Internal Rate of Return.
- ✱ Net Present Value.
- ✱ Break-even point.

Without positive cash flows, restructuring cannot succeed.

To Sum Up:

Operating cash flows are crucial in determining repayment capability because they represent the actual cash available for servicing debt obligations. Banks analyse operating cash flows to:

- ✱ Measure liquidity and repayment capacity.
- ✱ Assess working capital efficiency.
- ✱ Calculate DSCR.
- ✱ Determine sustainable debt.
- ✱ Structure repayment schedules.
- ✱ Evaluate future viability.
- ✱ Identify liquidity constraints and fund diversion.
- ✱ Perform sensitivity analysis.

Therefore, in restructuring exercises, **cash flow is considered more important than accounting profits**, because loans are ultimately repaid from cash generated by operations and not merely from profits shown in financial statements.

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Question No. 5: Why Do Banks Calculate DSCR While Evaluating Restructuring Proposals?

Answer:

Debt Service Coverage Ratio (DSCR) is one of the most important financial indicators used by banks during

restructuring because it measures the ability of the borrowing entity to generate sufficient cash to meet its debt obligations. Since restructuring involves modification of repayment schedules, grant of moratorium, extension of tenure, or other concessions, banks need to ensure that the borrower will be capable of servicing the restructured debt from future cash accruals. DSCR provides a quantitative measure of that capability.

Understanding the Meaning of DSCR:

DSCR represents the relationship between the cash available for debt servicing and the total debt obligations payable during a particular period.

The general formula is:

The Debt Service Coverage Ratio (DSCR) measures a business's available cash flow to cover its current debt obligations. It is calculated by dividing Net Operating Income (NOI) by the Total Debt Service.

Cash accruals generally include:

- ✱ Profit after tax.
- ✱ Depreciation.
- ✱ Interest on term loans.
- ✱ Other non-cash expenses.

Debt service consists of:

- ✱ Interest payable.
- ✱ Principal instalments payable.

DSCR indicates whether the borrower generates adequate cash to service debt obligations comfortably.

Indicator of Repayment Capacity:

The primary objective of restructuring is revival of the enterprise and restoration of repayment capability. DSCR helps banks answer the most important question:

“Will the borrower be able to repay the restructured debt from future cash flows?”

For example:

Cash available for debt service = ₹12 crore.

Interest plus principal repayment = ₹8 crore.

$DSCR = 12/8 = 1.50$

This means the company generates ₹1.50 for every ₹1 of debt service obligation, indicating comfortable repayment capacity.

Interpretation of DSCR:

Generally, banks interpret DSCR as follows:

DSCR	Interpretation
Above 1.50	Comfortable
1.25 – 1.50	Satisfactory

1.00 – 1.25	Marginal
Below 1.00	Unsatisfactory

A DSCR below 1 implies that cash generation is insufficient to meet debt obligations.

Analysis of Historical Performance:

Banks analyse historical DSCR trends to understand deterioration in repayment capability.

Example:

Financial Year	DSCR
FY 2022-23	1.70
FY 2023-24	1.62
FY 2024-25	0.68

The fall to 0.68 indicates that cash generation became inadequate and explains the stress in servicing loans.

Banks then investigate whether the reasons for deterioration are temporary or structural.

Basis for Structuring Repayment Schedule

DSCR plays a critical role in designing the restructuring package.

Based on projected cash flows, banks may:

- ✱ Extend repayment tenure.
- ✱ Provide moratorium on principal.
- ✱ Reduce instalment burden.
- ✱ Convert overdue interest into FITL.
- ✱ Rephase repayments.

The objective is to maintain a healthy DSCR throughout the restructuring period.

Assessment of Sustainable Debt:

DSCR helps determine how much debt the borrower can realistically service.

Suppose projected cash accruals are ₹15 crore annually.

If debt obligations amount to ₹20 crore, the DSCR becomes:

$$15/20=0.75$$

This indicates unsustainable debt.

Banks may therefore:

- ✱ Reduce repayment burden.
- ✱ Stretch the tenure.
- ✱ Convert part of debt into equity.

- ✦ Seek promoter contribution.

Thus, DSCR forms the basis for sustainable debt computation.

Reflection of Business Viability:

DSCR integrates various aspects of business performance such as:

- ✦ Sales.
- ✦ EBITDA.
- ✦ Capacity utilization.
- ✦ Working capital efficiency.
- ✦ Cash flows.

Improvement in these parameters results in better DSCR.

Hence, DSCR is considered a comprehensive indicator of financial viability.

Role in Sensitivity Analysis:

Banks test the resilience of projections under adverse conditions.

For example:

Base Case

Sales = ₹100 crore

DSCR = 1.50

Stress Scenario

Sales decline by 10%

DSCR = 1.15

Severe Scenario

Sales decline by 20%

DSCR = 0.90

Such analysis helps banks assess the vulnerability of the restructuring proposal.

Compliance with Regulatory Norms:

Under RBI restructuring frameworks and TEV studies, projected DSCR is one of the key parameters examined.

Independent agencies and banks generally expect:

- ✦ Average DSCR above 1.25.
- ✦ Minimum DSCR above 1.

A lower DSCR raises concerns regarding viability.

Input for Techno-Economic Viability Studies:

DSCR forms the foundation for:

- ✦ Viability analysis.
- ✦ Sustainable debt determination.
- ✦ Internal Rate of Return.
- ✦ Break-even analysis.
- ✦ Sensitivity studies.

Therefore, TEV reports invariably include detailed DSCR projections.

Monitoring Tool After Restructuring:

Even after implementation, banks monitor actual DSCR against projections.

Continuous deterioration in DSCR acts as an early warning signal requiring corrective action.

To Sum Up:

Banks calculate DSCR while evaluating restructuring proposals because it measures the borrower's ability to service debt from future cash generation. DSCR assists banks in:

- ✦ Assessing repayment capability.
- ✦ Designing the restructuring package.
- ✦ Determining sustainable debt.
- ✦ Evaluating viability.
- ✦ Performing sensitivity analysis.
- ✦ Monitoring post-restructuring performance.

A healthy DSCR provides confidence that the restructuring package will lead to revival rather than postponement of default.

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Question No. 6: How Can Excessive Stock Levels Adversely Affect the Liquidity Position of a Borrower?

Answer:

Inventory or stock constitutes a major component of working capital and represents funds invested in raw materials, work-in-progress, and finished goods. While adequate inventory is essential for uninterrupted production and sales, excessive stock levels can severely impair the liquidity position of a borrower by blocking cash resources and increasing the working capital requirement.

Consequently, banks carefully examine inventory levels while considering restructuring proposals because accumulation of excessive inventory is often one of the primary reasons for liquidity stress.

Understanding Inventory and Liquidity:

Inventory comprises:

- ✱ Raw materials.
- ✱ Work-in-progress.
- ✱ Finished goods.
- ✱ Consumables and stores.

Money invested in inventory remains locked until the goods are sold and the corresponding receivables are realized.

Therefore, excessive inventory slows down the conversion of stock into cash and adversely affects liquidity.

Blocking of Working Capital Funds:

When inventory levels increase beyond normal requirements, substantial funds become tied up in stock.

For example:

Normal Inventory

₹18 crore

Actual Inventory

₹25 crore

Additional funds blocked = ₹7 crore

This excess investment reduces cash availability for:

- ✱ Payment to suppliers.
- ✱ Wages and salaries.
- ✱ Statutory dues.
- ✱ Interest servicing.
- ✱ Loan repayments.

As a result, liquidity problems begin to emerge.

Increase in Working Capital Cycle:

The operating cycle consists of:

Raw Materials → Production → Finished Goods → Debtors → Cash

Excessive inventory lengthens this cycle and delays the conversion of resources into cash.

Longer operating cycles result in:

- ✱ Higher working capital requirements.
- ✱ Increased dependence on bank finance.
- ✱ Pressure on cash flows.

Banks therefore analyse inventory turnover ratios during restructuring.

Accumulation of Slow-Moving and Obsolete Stock:

Excess inventory often indicates:

- ✱ Weak market demand.
- ✱ Declining sales.
- ✱ Product obsolescence.
- ✱ Poor inventory management.

Slow-moving stock may not be readily saleable, reducing its realizable value.

For example:

Finished goods valued at ₹10 crore may have a realizable value of only ₹6 crore due to technological obsolescence or market changes.

This directly affects liquidity and security coverage.

Increased Storage and Carrying Costs:

Excess inventory involves additional expenses such as:

- ✱ Warehouse rent.
- ✱ Insurance.
- ✱ Handling charges.
- ✱ Deterioration losses.
- ✱ Security costs.

These expenses increase operating costs and reduce profitability.

Consequently, EBITDA and cash flows are adversely affected.

Reduction in Cash Available for Debt Servicing:

Cash blocked in inventory cannot be utilized for:

- ✱ Interest payments.
- ✱ Term loan instalments.
- ✱ Supplier payments.
- ✱ Statutory obligations.

This may result in:

- ✱ Irregularity in loan accounts.
- ✱ SMA classification.
- ✱ Default in debt servicing.

Hence, excessive inventory directly affects repayment capability.

Example from the Case Study:

Financial Year	Inventory (₹ Crores)
FY 2022-23	18.50
FY 2023-24	21.20
FY 2024-25	24.80

During the same period:

- ✱ Sales declined.
- ✱ EBITDA margins fell.
- ✱ Cash flows weakened.
- ✱ DSCR deteriorated.

The increase in inventory despite declining sales indicated accumulation of unsold finished goods and blockage of working capital.

This contributed significantly to liquidity stress.

Impact on Inventory Turnover Ratio:

Inventory turnover ratio measures the efficiency with which inventory is converted into sales.

Lower inventory turnover implies:

- ✱ Slow movement of stock.
- ✱ Higher carrying costs.
- ✱ Reduced cash generation.

Banks compare inventory turnover with industry standards to assess efficiency.

Reduction in Drawing Power:

Working capital limits are sanctioned based on drawing power calculated from stock and receivables.

However, banks generally exclude:

- ✱ Obsolete stock.
- ✱ Non-moving inventory.
- ✱ Damaged goods.

Therefore, accumulation of unsaleable inventory reduces eligible drawing power and creates shortages in working capital availability.

Possibility of Overstatement of Stock:

Banks verify stock statements through:

- ✱ Physical inspections.

- ✱ Stock audits.
- ✱ GST returns.
- ✱ Inventory records.
- ✱ Insurance policies.

Abnormal inventory levels may indicate:

- ✱ Inflated stock statements.
- ✱ Window dressing.
- ✱ Diversion of funds.

Hence, inventory verification also serves as a fraud prevention mechanism.

Impact on Cash Flow and DSCR:

Since inventory absorbs cash resources, excessive stock results in:

- ✱ Lower operating cash flows.
- ✱ Reduced cash accruals.
- ✱ Weak DSCR.

Eventually, debt servicing becomes difficult.

Effect on Security Value:

Although stock forms primary security for banks, excessive inventory does not necessarily improve security coverage because:

- ✱ Market value may decline.
- ✱ Obsolete inventory may have little realizable value.
- ✱ Distress sale values are often much lower than book values.

Banks therefore focus on quality rather than quantity of inventory.

Management Inefficiency Indicator:

High inventory levels may indicate:

- ✱ Poor demand forecasting.
- ✱ Production inefficiency.
- ✱ Weak inventory controls.
- ✱ Inadequate marketing efforts.

Banks expect management to take corrective measures such as:

- ✱ Liquidation of obsolete stock.
- ✱ Reduction in production.

- ✱ Better inventory management systems.
- ✱ Faster sales realization.

Role in Techno-Economic Viability Studies:

Inventory levels affect:

- ✱ Working capital requirements.
- ✱ Cash flow projections.
- ✱ Current ratio.
- ✱ DSCR.
- ✱ Sustainable debt calculations.

Consequently, TEV studies carefully examine inventory build-up and its impact on liquidity.

To Sum Up:

Excessive stock levels adversely affect the liquidity position of a borrower because they block working capital funds, increase carrying costs, prolong the operating cycle, weaken cash flows, and impair debt servicing capability. Banks analyse inventory levels during restructuring to determine:

- ✱ Whether stock accumulation is temporary or structural.
- ✱ Whether inventory is marketable and realizable.
- ✱ Whether working capital requirements are justified.
- ✱ Whether liquidity can improve through better inventory management.

Therefore, efficient inventory management is essential for maintaining liquidity and ensuring the success of a restructuring package.

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Question No. 7: Why Do Banks Analyse the Ageing Pattern of Debtors Before Restructuring Loans?

Answer:

Banks analyse the ageing pattern of debtors before approving restructuring proposals because receivables constitute one of the most important current assets and are a major source of cash inflows for servicing debt obligations. The quality, recoverability, and realization period of debtors directly influence liquidity, working capital requirements, operating cash flows, and repayment capacity. A borrower may report satisfactory sales and profits, but if receivables are not converted into cash within a reasonable period, liquidity stress may arise, leading to defaults in loan repayments.

Therefore, the ageing analysis of debtors forms an integral part of viability assessment during restructuring.

Understanding Debtors Ageing Analysis:

Ageing analysis classifies receivables according to the period for which they remain outstanding.

Typically, debtors are grouped into:

Ageing Period	Classification
Up to 30 Days	Current Receivables
31–60 Days	Normal Credit
61–90 Days	Moderately Delayed
91–180 Days	Slow-Moving Receivables
Above 180 Days	Doubtful and Potential Bad Debts

Banks are concerned not merely with the amount of debtors but with their quality and recoverability.

Indicator of Liquidity Position:

Sales generate revenue, but receivables generate cash only when collections are realized.

Suppose:

- ✱ Annual sales = ₹100 crore.
- ✱ Debtors outstanding = ₹30 crore.
- ✱ Collection period = 60 days.

Cash flows may remain healthy.

However, if:

- ✱ Debtors increase to ₹45 crore.
- ✱ Collection period extends to 120 days.

Funds become blocked, resulting in liquidity stress.

Thus, debtor ageing directly affects the company's ability to service loans.

Assessment of Working Capital Efficiency:

Debtors form a substantial component of working capital.

Longer collection periods imply:

- ✱ Increased requirement for working capital.
- ✱ Greater dependence on bank borrowings.
- ✱ Additional interest costs.
- ✱ Pressure on liquidity.

Banks therefore evaluate whether delays in collections are temporary or persistent.

Example from the Case Study:

Debtors Position

Financial Year	Debtors (₹ Crores)	Average Collection Period
FY 2022-23	14.00	56 Days
FY 2023-24	17.20	61 Days
FY 2024-25	23.50	95 Days

The increase in collection period from 56 days to 95 days indicates that customers are taking longer to make payments.

Consequently:

- ✱ Liquidity deteriorated.
- ✱ Working capital requirements increased.
- ✱ Cash flows weakened.
- ✱ Loan repayments became irregular.

Banks therefore investigate the reasons for delayed collections.

Determination of Recoverability of Receivables

Banks seek to identify:

- ✱ Genuine trade receivables.
- ✱ Disputed receivables.
- ✱ Related-party receivables.
- ✱ Doubtful debts.
- ✱ Bad debts.

Receivables outstanding for prolonged periods may not be fully recoverable and should not be considered as sources of future cash flows.

Identification of Concentration Risk:

Banks examine:

- ✱ Top ten debtors.
- ✱ Percentage of sales attributable to major customers.
- ✱ Geographic concentration.

Heavy dependence on a few customers exposes the borrower to collection risks.

For example, if 50% of receivables are due from one customer, default by that customer may seriously affect liquidity.

Evaluation of Credit Policy

Ageing analysis helps banks understand:

- ✱ Credit terms offered to customers.

- ✦ Collection procedures.
- ✦ Efficiency of receivables management.

Liberal credit policies may increase sales but adversely affect cash flows.

Banks expect management to maintain a balance between sales growth and timely collections.

Impact on Cash Flow and Debt Servicing:

Receivables represent funds that are yet to be converted into cash.

Delayed collections affect:

- ✦ Operating cash flows.
- ✦ EBITDA conversion into cash.
- ✦ Debt Service Coverage Ratio (DSCR).
- ✦ Working capital availability.

Consequently, repayment obligations may not be met on time.

Thus, debtor ageing analysis is essential in determining repayment capability.

Detection of Diversion of Funds and Window Dressing:

Banks compare debtors with:

- ✦ Sales turnover.
- ✦ GST returns.
- ✦ Bank credits.
- ✦ Customer confirmations.

Abnormal increases in receivables may indicate:

- ✦ Fictitious sales.
- ✦ Accommodation entries.
- ✦ Circular transactions.
- ✦ Diversion of funds.

Therefore, debtor analysis also acts as a safeguard against manipulation.

Impact on Drawing Power

Receivables form part of primary security for working capital facilities.

However, banks normally exclude:

- ✦ Receivables older than 90 or 180 days.
- ✦ Related-party receivables.
- ✦ Doubtful debts.

Therefore, ageing affects the drawing power available to the borrower.

A higher proportion of old debtors results in reduced drawing power and increased liquidity stress.

Role in Future Projections:

Banks evaluate whether:

- ✱ Collection periods can be reduced.
- ✱ Receivables management systems can be improved.
- ✱ Major overdue amounts are recoverable.

These assumptions influence:

- ✱ Cash flow projections.
- ✱ Working capital requirements.
- ✱ Sustainable debt.
- ✱ Repayment schedules.

Importance in Techno-Economic Viability Studies:

Debtor ageing affects:

- ✱ Operating cycle.
- ✱ Cash conversion cycle.
- ✱ Working capital gap.
- ✱ Current ratio.
- ✱ DSCR.
- ✱ Future cash flows.

Hence, TEV studies place considerable emphasis on the quality and realization of receivables.

To Sum Up:

Banks analyse the ageing pattern of debtors because it enables them to assess:

- ✱ Liquidity position.
- ✱ Recoverability of receivables.
- ✱ Working capital efficiency.
- ✱ Collection practices.
- ✱ Cash flow generation.
- ✱ Debt servicing capability.
- ✱ Concentration risks.
- ✱ Possibility of fictitious sales and fund diversion.

Therefore, debtor ageing analysis plays a vital role in determining the viability and success of restructuring proposals.

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Question No. 8: What Are the Major Documents and Sources Used by Banks to Verify Projected Sales During Restructuring?

Answer:

Projected sales constitute the foundation of any restructuring proposal because future profitability, cash flows, working capital requirements, and debt servicing capability depend primarily upon the projected turnover of the borrowing entity. Banks do not merely accept projections submitted by borrowers at face value. Instead, they undertake an extensive verification exercise using various internal and external sources to ascertain whether the projected sales are realistic, achievable, and supported by historical trends and market conditions.

The purpose of such verification is to ensure that restructuring is based on practical assumptions rather than optimistic estimates that may ultimately result in further defaults.

Historical Financial Statements:

The first source of verification is the audited financial statements of the borrower for the previous three to five years.

Banks analyse:

- ✱ Sales growth trends.
- ✱ Product-wise turnover.
- ✱ Seasonal fluctuations.
- ✱ Gross profit margins.
- ✱ EBITDA margins.

Why it is useful:

Historical performance serves as the benchmark for future projections.

For example:

Year	Sales (₹ Crores)
FY 2022-23	90
FY 2023-24	102
FY 2024-25	74
FY 2025-26 (Projected)	85

If sales declined temporarily due to market slowdown, projections of ₹85 crore may appear reasonable. However, projections of ₹150 crore without additional capacity or market support would be viewed as unrealistic.

Thus, historical sales trends provide the starting point for validating future turnover.

GST Returns:

Banks verify sales figures from:

- ✱ GSTR-1.
- ✱ GSTR-3B.
- ✱ Annual GST Returns.

Why it is useful:

GST returns provide independent evidence of actual sales and help establish consistency between:

- ✱ Financial statements.
- ✱ Books of accounts.
- ✱ Tax filings.

Any mismatch between projected turnover and historical GST data may indicate inflated assumptions.

For example:

Average turnover based on GST returns during the last three years is ₹90 crore.

If projections suddenly show ₹140 crore without any expansion plans, banks may seek further clarification.

Income Tax Returns and Tax Audit Reports:

Banks examine:

- ✱ Income Tax Returns.
- ✱ Tax Audit Reports.
- ✱ Computation of Income.

Why it is useful:

Income tax records provide an independent source of information regarding:

- ✱ Sales.
- ✱ Profitability.
- ✱ Business growth.

Consistency between income tax records and projected sales enhances the credibility of projections.

Current Order Book Position:

Banks ask borrowers to furnish:

- ✱ Confirmed purchase orders.
- ✱ Supply contracts.
- ✱ Export orders.
- ✱ Letters of Intent.

- ✦ Agreements with customers.

Why it is useful:

Confirmed orders provide direct evidence supporting future revenues.

For example:

Projected sales = ₹85 crore.

Confirmed orders already in hand = ₹45 crore.

This provides confidence regarding the achievability of projected turnover.

Customer-Wise Sales Analysis:

Banks analyse:

- ✦ Top ten customers.
- ✦ Sales concentration.
- ✦ Repeat customers.
- ✦ Customer retention levels.

Why it is useful:

- ✦ Stable customer relationships indicate continuity of demand.
- ✦ Loss of major customers may adversely affect future projections.
- ✦ For example, if one customer contributes 40% of turnover and has stopped placing orders, projected sales may require downward revision.

Industry Trends and Market Conditions:

Banks study:

- ✦ Industry growth rates.
- ✦ Demand outlook.
- ✦ Competitor performance.
- ✦ Government policies.
- ✦ Import and export trends.

Why it is useful:

Future sales projections should be consistent with industry trends.

For example:

- ✦ If the agricultural equipment industry is expected to grow by 8%, projections showing 40% growth without any expansion plans may be considered unrealistic.
- ✦ Thus, banks compare company projections with industry forecasts.

Capacity Utilization and Installed Capacity:

Banks verify:

- ✱ Installed production capacity.
- ✱ Actual production levels.
- ✱ Capacity utilization.

Why it is useful:

Sales projections must be supported by production capabilities.

Example:

Installed capacity = 30,000 units.

Current utilization = 58%.

Projected utilization:

Year	Capacity Utilization
FY 2025-26	68%
FY 2026-27	78%
FY 2027-28	85%

Projected sales should correspond with the expected increase in capacity utilization.

Without adequate production capacity, projected turnover may not be achievable.

Production Records and Electricity Consumption:

Banks review:

- ✱ Production registers.
- ✱ Machine utilization reports.
- ✱ Power consumption bills.
- ✱ Labour deployment records.

Why it is useful

Electricity consumption and production records provide indirect evidence regarding operational activity.

A plant showing low electricity usage cannot realistically support aggressive sales projections.

Sales Register and Debtors Ledger:

Banks verify:

- ✱ Sales invoices.
- ✱ Debtors ageing.
- ✱ Customer balances.
- ✱ Collection efficiency.

Why it is useful

Sales growth should translate into collections.

If receivables are increasing disproportionately, projected turnover may not generate the expected cash flows.

Market Surveys and Field Investigation:

Banks conduct:

- ✱ Factory visits.
- ✱ Customer interactions.
- ✱ Dealer surveys.
- ✱ Market intelligence exercises.

Why it is useful:

These investigations help assess:

- ✱ Brand acceptance.
- ✱ Product demand.
- ✱ Market reputation.
- ✱ Distribution network strength.

Banks thereby obtain an independent view of the borrower's business prospects.

E-Way Bills and Dispatch Records:

Banks verify:

- ✱ E-way bills.
- ✱ Transport receipts.
- ✱ Delivery challans.

Why it is useful:

These records confirm actual movement of goods and support the authenticity of sales transactions.

They help detect:

- ✱ Inflated turnover.
- ✱ Accommodation entries.
- ✱ Circular transactions.

Export Orders and Letter of Credit Arrangements:

For export-oriented units, banks examine:

- ✱ Export contracts.
- ✱ Letters of Credit.

- ✱ Shipping schedules.
- ✱ Foreign customer agreements.

Why it is useful:

Export commitments provide visibility regarding future revenues and foreign exchange earnings.

Inventory Levels:

Banks analyse:

- ✱ Raw materials.
- ✱ Work-in-progress.
- ✱ Finished goods.

Why it is useful:

Adequate inventory availability supports future production and sales.

However, excessive inventory may indicate slow-moving goods and weak demand.

Previous Projections Versus Actual Performance:

Banks compare:

- ✱ Earlier projections submitted by the borrower.
- ✱ Actual achievements.

Why it is useful:

This helps assess the reliability of management assumptions.

For example:

Year	Projected Sales	Actual Sales
FY 2023-24	₹110 Crores	₹102 Crores
FY 2024-25	₹95 Crores	₹74 Crores

Repeated deviations may indicate over-optimism and require conservative assumptions.

Competitor Analysis:

Banks study:

- ✱ Market share.
- ✱ Competitors' performance.
- ✱ Industry pricing.

Why it is useful:

If competitors are also facing declining sales, the stress may be industry-wide rather than company-specific.

Such information helps determine realistic sales expectations.

Management Discussions and Revival Strategy:

Banks evaluate management plans relating to:

- ✱ New products.
- ✱ New markets.
- ✱ Marketing initiatives.
- ✱ Cost reduction measures.
- ✱ Distribution channels.

Why it is useful:

Projected sales should be supported by specific actions rather than mere assumptions.

Banks assess whether management possesses the capability to implement the proposed strategies.

Independent Techno-Economic Viability (TEV) Study:

For large exposures, banks obtain independent TEV reports.

Why it is useful:

TEV consultants evaluate:

- ✱ Market demand.
- ✱ Industry prospects.
- ✱ Capacity utilization.
- ✱ Pricing assumptions.
- ✱ Competition.

Their conclusions provide independent validation of sales projections.

Digital Footprints and Online Presence:

Banks increasingly verify:

- ✱ Website activity.
- ✱ E-commerce sales.
- ✱ Social media presence.
- ✱ Customer reviews.
- ✱ Market ratings.

Why it is useful:

Digital footprints provide insights into:

- ✱ Market acceptance.
- ✱ Customer engagement.

- ✱ Business activity levels.

Stress Testing and Sensitivity Analysis:

Banks perform sensitivity analysis by assuming:

- ✱ Sales decline by 10%.
- ✱ Increase in raw material prices.
- ✱ Delays in customer collections.
- ✱ Lower capacity utilization.
- ✱ Why it is **useful**?

Stress testing helps determine whether the restructuring proposal remains viable even under adverse conditions.

To Sum Up:

Banks verify projected sales through multiple documentary and independent sources because sales projections constitute the cornerstone of restructuring viability. Major sources used by banks include:

- ✱ Historical financial statements.
- ✱ GST returns and income tax records.
- ✱ Confirmed orders and customer contracts.
- ✱ Production capacity and utilization data.
- ✱ Debtors' analysis and collection patterns.
- ✱ Market intelligence and industry outlook.
- ✱ E-way bills and dispatch records.
- ✱ Previous projections versus actual performance.
- ✱ TEV studies and sensitivity analysis.

By relying on these documents and information sources, banks ensure that future sales projections are realistic, sustainable, and capable of generating sufficient profitability and cash flows to support the successful restructuring and revival of the borrowing entity.

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Question No. 9: Why is Compliance with Financial Covenants Important During Restructuring?

Answer:

Compliance with financial covenants is an important aspect of restructuring because financial covenants act as early warning mechanisms and provide banks with continuous assurance regarding the financial health, operational discipline, and governance standards of the borrowing entity. During restructuring, banks grant concessions such as extension of repayment periods, moratoriums, reduction in instalment burden, or additional working capital support. Therefore, banks expect borrowers to demonstrate financial discipline and adhere to the conditions stipulated in the loan agreements.

Compliance with financial covenants enables banks to monitor whether the restructuring package is producing the intended results and whether the borrower is following sound financial practices.

Understanding Financial Covenants:

Financial covenants are conditions incorporated in sanction letters and loan agreements requiring the borrower to maintain specified financial parameters and furnish information periodically.

Some common covenants include:

- ✓ Maintenance of Current Ratio.
- ✓ Maintenance of Debt Equity Ratio.
- ✓ Maintenance of DSCR.
- ✓ TOL/TNW Ratio.
- ✓ Interest Coverage Ratio.
- ✓ Submission of stock statements.
- ✓ Submission of financial statements.
- ✓ Timely payment of statutory dues.
- ✓ Maintenance of insurance coverage.
- ✓ Restrictions on additional borrowings.

These covenants serve as safeguards for protecting the interests of lenders.

Indicator of Financial Discipline:

Compliance with financial covenants reflects the management's commitment towards maintaining financial discipline and transparency.

For example:

Timely submission of:

- ✱ Stock statements.
- ✱ Quarterly information statements.
- ✱ Audited accounts.
- ✱ Insurance policies.

Demonstrates that the borrower possesses sound financial controls and good governance practices.

Repeated non-compliance, on the other hand, may indicate weak management systems and poor internal controls.

Early Warning Signals of Stress:

Violation of financial covenants often precedes repayment defaults.

For instance:

Suppose the sanction condition requires maintenance of a Current Ratio of 1.33:1.

If the actual Current Ratio declines to 1.05:1, it indicates:

- ✱ Working capital stress.
- ✱ Increased current liabilities.
- ✱ Weak liquidity position.

Similarly, deterioration in DSCR may indicate future repayment problems.

Thus, covenant compliance enables banks to identify financial stress before the account turns into a Non-Performing Asset (NPA).

Assessment of Borrower's Integrity and Transparency:

Banks attach considerable importance to the conduct of the borrower.

Compliance with covenants demonstrates:

- ✱ Transparency.
- ✱ Accountability.
- ✱ Good governance.
- ✱ Timely communication.

Even when the borrower faces genuine difficulties, prompt disclosure and regular submission of information improve the credibility of management.

Banks are generally more willing to support borrowers who maintain transparency.

Example from the Case Study:

The following deviations were noticed:

✓ Delay in Submission of Stock Statements

Stock statements were not submitted regularly.

✓ Failure to Maintain Current Ratio

The prescribed current ratio of 1.33:1 was not maintained.

✓ Delay in Submission of Audited Accounts

Financial statements were submitted with delays.

✓ Delay in Payment of Statutory Dues

GST and PF payments were delayed.

However, forensic examination established that there was no diversion of funds or fraudulent conduct.

Therefore, banks treated these covenant breaches as consequences of financial stress rather than intentional violations and considered restructuring.

Importance in Risk Assessment:

Persistent covenant breaches increase credit risk.

Such violations may indicate:

- ✱ Weak liquidity.
- ✱ Deteriorating profitability.
- ✱ Excessive leverage.
- ✱ Poor financial management.

Banks may therefore insist upon:

- ✱ Additional collateral.
- ✱ Promoters' contribution.
- ✱ More frequent monitoring.
- ✱ Stricter reporting requirements.

Thus, covenant compliance influences the risk perception of lenders.

Prevention of Diversion of Funds:

Certain covenants restrict:

- ✱ Advances to related parties.
- ✱ Additional borrowings.
- ✱ Investments outside core business.
- ✱ Disposal of assets without bank approval.

Monitoring compliance helps banks identify:

- ✱ Diversion of funds.
- ✱ Unauthorized investments.
- ✱ Transactions with group concerns.

Hence, covenants act as mechanisms for preserving the value of the business and protecting lenders.

Role in Structuring the Restructuring Package:

Banks evaluate past covenant compliance while designing post-restructuring conditions.

Borrowers with weak compliance history may be required to:

- ✱ Submit monthly MIS reports.
- ✱ Undergo stock audits.
- ✱ Furnish quarterly CA-certified financial statements.
- ✱ Route all transactions through designated accounts.
- ✱ Obtain prior approval for capital expenditure.

Therefore, covenant compliance directly affects the terms and conditions of restructuring.

Regulatory Perspective:

Under RBI guidelines and internal credit policies, banks are required to establish:

- ✱ Viability of the borrower.
- ✱ Quality of management.
- ✱ Adequacy of monitoring mechanisms.

Reviewing covenant compliance enables banks to satisfy regulatory expectations and strengthen post-restructuring supervision.

Post-Restructuring Monitoring:

After restructuring, compliance with revised covenants becomes an important indicator of success.

Banks continuously monitor:

- ✱ DSCR.
- ✱ Current Ratio.
- ✱ Debt Equity Ratio.
- ✱ Timely payment of statutory dues.
- ✱ Submission of stock statements.

Failure to comply with these conditions may necessitate corrective action or reclassification of the account.

To Sum Up:

Compliance with financial covenants is important during restructuring because it provides banks with assurance regarding the borrower's financial discipline, transparency, and operational efficiency. Covenant compliance enables banks to:

- ✱ Identify early warning signals.
- ✱ Assess management quality.
- ✱ Evaluate risk.
- ✱ Detect diversion of funds.
- ✱ Design appropriate restructuring packages.
- ✱ Strengthen post-restructuring monitoring.

Thus, covenant compliance serves as an essential tool for ensuring the long-term success of restructuring and safeguarding the interests of lenders.

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Question No. 10: Under What Circumstances Would Banks Insist on Promoters' Contribution During Restructuring?

Answer:

Promoters' contribution is one of the most important elements of a restructuring package because restructuring

involves sacrifice and concessions by banks. Since lenders are extending repayment periods, granting moratoriums, reducing immediate debt burden, or providing additional finance, banks expect promoters to demonstrate their commitment by bringing in fresh funds. Promoters' contribution signifies confidence in the business and aligns the interests of the promoters with those of the lenders.

Banks generally insist upon promoters' contribution under various circumstances, depending upon the nature of stress, viability of the unit, and extent of sacrifices expected from lenders.

When Additional Working Capital is Required:

Financial stress often results in depletion of working capital.

Banks may restructure existing loans and provide additional working capital support. In such situations, promoters are expected to contribute their share towards reviving operations.

For example:

- ✓ Working capital gap identified = ₹10 crore.
- ✓ Banks may finance ₹7 crore.
- ✓ Promoters may be required to bring ₹3 crore.
- ✓ This ensures that promoters also participate in the revival effort.

When the Business Has Suffered Losses Eroding Net Worth:

Continuous losses may substantially reduce the net worth of the company.

Banks insist upon fresh infusion of funds to:

- ✱ Restore capital structure.
- ✱ Improve debt-equity ratio.
- ✱ Strengthen tangible net worth.

Promoters' contribution helps restore confidence among lenders and stakeholders.

When Banks Are Required to Make Significant Sacrifices:

Restructuring often involves:

- ✱ Extension of repayment period.
- ✱ Moratorium on principal.
- ✱ Reduction in interest burden.
- ✱ Funding of interest.
- ✱ Additional finance.

Since banks are making concessions, they expect promoters to share the burden.

The principle followed is:

“Sacrifice by lenders should be accompanied by sacrifice by promoters.”

When Additional Capital Expenditure is Necessary:

- ✓ Some units require modernization or balancing equipment for improving productivity.
- ✓ Banks may insist that promoters bring a portion of the capital expenditure from their own resources.
- ✓ This ensures adequate commitment and reduces excessive dependence on debt.

When Debt Levels Have Become Excessive:

Where leverage is high and debt-equity ratios are unfavourable, banks may require equity infusion to restore a balanced capital structure.

For example:

Debt = ₹60 crore.

Net Worth = ₹5 crore.

Debt Equity Ratio = 12:1.

Banks may insist upon fresh equity contribution to improve the financial position.

When There Have Been Repeated Defaults:

Repeated repayment defaults weaken lender confidence.

Promoters' contribution serves as evidence that:

- ✱ Management is serious about revival.
- ✱ Promoters have confidence in the business.
- ✱ Future commitments will be honoured.

When Diversion of Funds is Suspected:

If investigations reveal that funds have been diverted to:

- ✱ Group concerns.
- ✱ Related parties.
- ✱ Non-core investments.

Banks may insist that promoters bring back such funds into the business.

This restores liquidity and improves lender confidence.

When Security Coverage is Inadequate:

If the value of security has declined and collateral coverage is insufficient, banks may seek:

- ✱ Additional security.
- ✱ Promoters' contribution.
- ✱ Personal guarantees.

Fresh contribution strengthens the overall security position.

When Cash Flow Projections Are Weak:

Suppose future cash flows are insufficient to support the existing debt burden.

Banks may require promoters to infuse funds to reduce the amount of debt needing restructuring.

This improves:

- ✱ DSCR.
- ✱ Current Ratio.
- ✱ Debt Equity Ratio.
- ✱ Sustainable Debt Position.

During Consortium or Multiple Banking Arrangements:

In consortium arrangements, lenders generally insist upon a common restructuring package.

Promoters are expected to contribute proportionately so that the burden of revival is shared equitably between lenders and owners.

As Per Techno-Economic Viability Study:

TEV consultants often recommend promoter contribution based on:

- ✱ Funding gaps.
- ✱ Cash losses.
- ✱ Working capital deficiencies.
- ✱ Additional capital expenditure requirements.

Banks rely on these recommendations while deciding the amount and timing of promoter infusion.

Forms of Promoters' Contribution:

Promoters may bring funds in the form of:

✓ **Equity Share Capital**

Fresh issue of shares improves net worth.

✓ **Preference Share Capital**

Provides quasi-equity support.

✓ **Unsecured Loans**

Subordinated unsecured loans are treated as quasi-equity.

✓ **Infusion Through Internal Resources**

Personal funds, sale of investments, or monetization of assets.

✓ **Conversion of Existing Advances**

Loans already given by promoters may be subordinated to bank debt.

Factors Considered While Deciding the Quantum of Contribution:

Banks consider:

- ✱ Extent of stress.
- ✱ Magnitude of sacrifices by lenders.
- ✱ Funding gap.
- ✱ Net worth erosion.
- ✱ Cash flow requirements.
- ✱ Industry conditions.
- ✱ Financial strength of promoters.

There is no fixed formula, and the amount varies from case to case.

Example from the Case Study:

In the case of Sunrise Agro-Tech Industries Pvt. Ltd., the consortium approved restructuring subject to promoters bringing ₹3 crore as subordinated unsecured loans.

The rationale was:

- ✱ To demonstrate commitment.
- ✱ To support working capital requirements.
- ✱ To share the burden of revival with lenders.
- ✱ To strengthen cash flows.

This contribution improved lender confidence and enhanced the viability of the restructuring package.

To Sum Up:

Banks insist upon promoters' contribution during restructuring whenever additional support is required to restore the viability of the enterprise. Such contribution becomes necessary when:

- ✱ Working capital gaps exist.
- ✱ Net worth has eroded.
- ✱ Lenders are making substantial sacrifices.
- ✱ Capital expenditure is required.
- ✱ Debt levels are excessive.
- ✱ Repeated defaults have occurred.
- ✱ Security coverage is inadequate.
- ✱ Cash flows are weak.
- ✱ TEV studies recommend additional funding.

Promoters' contribution represents their confidence in the business and ensures that the responsibility for revival is shared between the owners and the lenders, thereby increasing the probability of successful restructuring.

Question No. 11: How Do Banks Distinguish Between Temporary Financial Stress and Permanent Business Unviability During Restructuring?

Answer:

One of the most critical aspects of restructuring is determining whether the financial difficulties faced by the borrower are temporary and reversible or whether they are symptomatic of permanent business unviability. Restructuring is intended to revive viable businesses experiencing temporary stress and not to postpone the inevitable failure of fundamentally unviable enterprises. Therefore, banks undertake a comprehensive assessment of operational, financial, technical, managerial, and market-related factors to distinguish between temporary stress and structural weaknesses.

The success of restructuring depends largely upon this assessment.

Analysis of Historical Performance:

Banks first examine the historical performance of the borrowing entity over the previous three to five years.

They analyse:

- ✦ Sales turnover.
- ✦ Capacity utilization.
- ✦ EBITDA margins.
- ✦ Cash flows.
- ✦ Net profits.
- ✦ Debt servicing track record.

Why this is important:

If the company had consistently performed well in earlier years and experienced stress only during the recent period, banks generally view such difficulties as temporary.

Example:

Year	Sales (₹ Crores)	EBITDA Margin
FY 2021-22	82	12%
FY 2022-23	90	13%
FY 2023-24	102	13.5%
FY 2024-25	74	8%

The deterioration in FY 2024-25 may indicate temporary stress rather than permanent decline.

However, continuous deterioration over several years may indicate structural problems.

Evaluation of Causes of Stress:

Banks investigate the reasons behind financial difficulties.

Temporary Causes:

- ✦ Market slowdown.

- ✱ Delay in realization of receivables.
- ✱ Increase in raw material prices.
- ✱ Working capital shortages.
- ✱ Supply chain disruptions.
- ✱ Natural calamities.
- ✱ Temporary loss of customers.
- ✱ Export restrictions.

These factors are generally reversible.

Permanent Causes:

- ✱ Obsolete technology.
- ✱ Inferior products.
- ✱ Loss of competitive advantage.
- ✱ Permanent reduction in demand.
- ✱ Excess industry capacity.
- ✱ Change in consumer preferences.
- ✱ Regulatory prohibitions.

Such factors may render the business commercially unviable.

Capacity Utilization Analysis:

Banks evaluate whether low production levels are due to temporary constraints or structural problems.

Temporary Reasons:

- ✱ Shortage of working capital.
- ✱ Non-availability of raw materials.
- ✱ Labour issues.
- ✱ Power interruptions.

Structural Reasons:

- ✱ Outdated machinery.
- ✱ Technological obsolescence.
- ✱ Lack of demand.

If the installed capacity remains useful and market demand exists, restructuring may revive operations.

Assessment of Market Demand:

Banks analyse:

- ✱ Industry growth prospects.
- ✱ Competitor performance.
- ✱ Customer demand.
- ✱ Order book position.

If the decline is industry-wide and temporary, banks may support restructuring.

However, if the product itself has become obsolete or market demand has permanently disappeared, restructuring may not succeed.

Study of Cash Flow Generation:

Cash flow analysis helps determine whether the business can generate sufficient cash after restructuring.

Banks evaluate:

- ✱ Historical cash flows.
- ✱ Projected cash flows.
- ✱ Debt Service Coverage Ratio.
- ✱ Sensitivity analysis.

Positive cash generation after restructuring indicates revival potential.

Persistent negative cash flows suggest permanent unviability.

Evaluation of Management Capability:

Management quality plays a significant role in revival.

Banks assess:

- ✱ Experience of promoters.
- ✱ Technical competence.
- ✱ Integrity.
- ✱ Commitment.
- ✱ Transparency.

Competent and committed management increases the chances of successful restructuring.

Weak or indifferent management may lead to failure despite financial assistance.

Verification of Diversion of Funds:

Banks conduct:

- ✱ Forensic audits.
- ✱ Transaction analysis.
- ✱ Review of related-party transactions.

If stress has arisen because of:

- ✱ Diversion of funds.
- ✱ Fraudulent activities.
- ✱ Misappropriation.

Banks may refuse restructuring and initiate recovery proceedings.

Absence of diversion generally supports restructuring.

Assessment of Asset Condition:

Banks conduct site visits to examine:

- ✱ Plant and machinery.
- ✱ Operational status.
- ✱ Availability of manpower.
- ✱ Production activities.

Functional and technologically relevant assets indicate revival potential.

Idle or obsolete assets indicate structural problems.

Techno-Economic Viability (TEV) Study:

Independent consultants evaluate:

- ✱ Market prospects.
- ✱ Technical viability.
- ✱ Financial sustainability.
- ✱ Cash flows.
- ✱ DSCR.

Positive TEV recommendations strengthen the case for restructuring.

Negative viability reports indicate that revival may not be feasible.

Sensitivity Analysis:

Banks test projections under adverse scenarios.

For example:

Base Case

DSCR = 1.45

Sales decline by 10%

DSCR = 1.20

Raw material cost increase by 15%

DSCR = 1.10

If the business continues to generate adequate cash flows under stressed conditions, the enterprise is considered resilient.

Promoters' Commitment:

Banks examine whether promoters are willing to:

- ✱ Infuse additional funds.
- ✱ Provide collateral.
- ✱ Support operations.

Strong promoter commitment indicates confidence in the business.

Lack of promoter support may suggest that revival is unlikely.

Example from the Case Study:

In Sunrise Agro-Tech Industries Pvt. Ltd.:

Positive Indicators:

- ✱ Strong historical performance.
- ✱ Existing customer base.
- ✱ Installed capacity available.
- ✱ No diversion of funds.
- ✱ Promoters willing to infuse ₹3 crore.
- ✱ Positive TEV report.

Temporary Causes of Stress:

- ✱ Increase in raw material costs.
- ✱ Delayed collections.
- ✱ Market slowdown.
- ✱ Excess inventory.

Therefore, banks concluded that the stress was temporary and approved restructuring.

To Sum Up:

Banks distinguish temporary stress from permanent unviability through a comprehensive analysis of:

- ✱ Historical performance.
- ✱ Causes of stress.
- ✱ Market demand.
- ✱ Capacity utilization.

- ✱ Cash flow generation.
- ✱ Management quality.
- ✱ Asset condition.
- ✱ Diversion of funds.
- ✱ TEV studies.
- ✱ Promoters' commitment.

Restructuring is justified only when the underlying business remains fundamentally viable and the causes of stress are temporary and reversible.

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Question No. 12: What Role Does a Forensic Audit Play in Restructuring Proposals

Answer:

In the case of **Sunrise Agro-Tech Industries Pvt. Ltd.**, the consortium of banks noticed that the company had been experiencing liquidity constraints, declining sales, accumulation of inventories, delays in realization of receivables, and irregular debt servicing. Since the restructuring proposal involved concessions by lenders and additional support, the banks first needed to ascertain whether the stress was genuine or whether it had arisen because of diversion of funds, fraudulent transactions, or wilful default.

Accordingly, an independent forensic audit was conducted. The findings of the forensic audit became one of the important factors influencing the restructuring decision.

Establishing the Genuineness of Financial Stress:

The primary objective of the forensic audit was to determine whether the financial difficulties faced by Sunrise Agro-Tech Industries Pvt. Ltd. were caused by:

- ✱ Market slowdown.
- ✱ Increase in raw material costs.
- ✱ Delay in collections.
- ✱ Inventory accumulation.

or whether they were the result of:

- ✱ Diversion of funds.
- ✱ Siphoning of money.
- ✱ Fraudulent transactions.
- ✱ Wilful default.

Findings in the Case Study:

The forensic audit concluded that:

- ✱ Business losses were genuine.
- ✱ Sales decline resulted from adverse market conditions.
- ✓ Working capital shortages caused liquidity stress.

Importance:

This enabled banks to distinguish genuine financial stress from misconduct and justified consideration of restructuring.

Verification of End Use of Bank Funds:

The auditors examined whether funds sanctioned by banks had been utilized for their intended purposes.

The audit reviewed:

- ✱ Bank statements.
- ✱ Purchase invoices.
- ✱ Machinery acquisition records.
- ✱ Working capital transactions.

Findings:

The audit established that:

- ✱ Term loans were utilized for acquiring plant and machinery.
- ✱ Working capital limits were used for business operations.
- ✱ No substantial diversion towards non-business activities was noticed.

Importance:

Banks became satisfied that public funds had been used appropriately.

Examination of Related Party Transactions:

The forensic auditors scrutinized:

- ✱ Transactions with group concerns.
- ✱ Loans and advances to directors.
- ✱ Inter-corporate deposits.
- ✱ Payments to related parties.

Findings:

The audit did not reveal any abnormal or suspicious related-party transactions.

Importance:

This enhanced the confidence of consortium lenders in the integrity of management.

Verification of Sales and Purchases:

The auditors compared:

- ✱ GST returns.
- ✱ Sales registers.
- ✱ Purchase records.
- ✱ E-way bills.
- ✱ Debtors and creditors.

Findings:

The transactions were found to be genuine.

No evidence of:

- ✱ Fictitious sales.
- ✱ Accommodation entries.
- ✱ Circular transactions.

was noticed.

Importance:

This confirmed that the historical financial statements represented actual business operations.

Detection of Siphoning and Diversion of Funds

Banks were particularly concerned about whether funds had been diverted to:

- ✱ Sister concerns.
- ✱ Real estate investments.
- ✱ Personal accounts.
- ✱ Speculative activities.

Findings:

The forensic audit reported:

No evidence of siphoning or diversion of funds.

Importance:

This positive finding substantially strengthened the restructuring proposal.

Supporting the Techno-Economic Viability (TEV) Study:

The TEV study relied upon:

- ✱ Historical sales data.
- ✱ Cash flow information.
- ✱ Profitability trends.

The forensic audit validated the authenticity of these figures.

Importance:

Reliable financial information enabled the TEV consultant to prepare realistic projections and determine sustainable debt.

Protection Against Wilful Defaulters:

Banks generally do not extend restructuring benefits to borrowers involved in:

- ✱ Fraud.
- ✱ Misappropriation.
- ✱ Deliberate diversion of funds.

The forensic audit helped banks determine that Sunrise Agro-Tech Industries Pvt. Ltd. was a genuine borrower deserving revival support.

Basis for Lenders' Confidence:

The clean forensic report enabled the consortium banks to conclude that:

- ✱ The stress was temporary.
- ✱ Management was transparent.
- ✱ The business was fundamentally viable.

Consequently, lenders approved:

- ✱ Extension of repayment period.
- ✱ Moratorium on principal repayment.
- ✱ Additional working capital support.
- ✱ Funding of overdue interest.

To Sum Up:

In the case of Sunrise Agro-Tech Industries Pvt. Ltd., the forensic audit played a vital role by:

- ✱ Establishing the genuineness of financial stress.
- ✱ Verifying end-use of funds.
- ✱ Detecting possible diversion and fraud.
- ✱ Examining related-party transactions.
- ✱ Validating sales and purchases.
- ✱ Supporting the TEV study.
- ✱ Protecting lenders from extending benefits to wilful defaulters.

Thus, the forensic audit acted as an important risk-management and decision-making tool and ultimately contributed to the approval of the restructuring package.

Question No. 13: How Can Moratorium and Extension of Repayment Period Improve Viability?

Answer:

One of the major issues faced by **Sunrise Agro-Tech Industries Pvt. Ltd.** was the mismatch between cash inflows and debt repayment obligations. Due to declining sales, delayed realization of receivables, and accumulation of inventories, the company was unable to service the existing repayment schedule. Although the business remained fundamentally viable, immediate debt obligations had become unsustainable.

Based on the TEV study and cash-flow projections, the consortium banks approved a restructuring package which included:

- ✱ Moratorium on principal repayment.
- ✱ Extension of repayment period.
- ✱ Re-phasing of instalments.

These measures significantly improved the viability of the company.

Reducing Immediate Cash Flow Pressure:

Before restructuring:

Annual debt obligations were:

Particulars	Amount
Interest	₹3 crore
Principal Repayment	₹6 crore
Total Debt Service	₹9 crore

Cash accrual available was only ₹6 crore.

Therefore:

$$\text{DSCR} = 0.67$$

which indicated inadequate repayment capacity.

Importance:

The company faced severe liquidity stress and was unable to meet repayment commitments.

Grant of Moratorium on Principal Repayment:

The consortium granted a moratorium of one year on principal repayments.

During this period:

- ✱ Only interest payments were required.
- ✱ Cash generated from operations could be used for:
 - ✓ Purchase of raw materials.
 - ✓ Payment of wages.
 - ✓ Clearing statutory dues.



- ✓ Building inventories.
- ✓ Reviving production.

Importance:

The moratorium gave breathing space to the company and facilitated operational recovery.

Extension of Repayment Period:

Originally, the remaining term loan was repayable over four years.

After restructuring, repayment was extended to eight years.

Effect:

Annual instalment burden reduced substantially.

Example:

Before restructuring:

Annual principal repayment = ₹6 crore.

After restructuring:

Annual principal repayment = ₹3 crore.

Importance:

Lower annual debt obligations improved liquidity and repayment capability.

Improvement in Debt Service Coverage Ratio:

After restructuring:

Particulars	Amount
Cash Accrual	₹11 crore
Interest	₹3 crore
Principal Repayment	₹5 crore
Total Debt Service	₹8 crore

DSCR = 1.38

Importance:

The improved DSCR indicated comfortable debt servicing capability and enhanced viability.

Supporting Capacity Utilization:

Because immediate repayment pressure was reduced, the company could:

- ✱ Procure adequate raw materials.
- ✱ Increase production.
- ✱ Improve capacity utilization.

Capacity utilization increased from:

58% before restructuring to
68%, 78%, and 85% over subsequent years.

Importance:

Higher capacity utilization resulted in improved sales and profitability.

Facilitating Recovery of Sales:

The additional liquidity enabled the company to:

- ✱ Rebuild inventories.
- ✱ Fulfil pending orders.
- ✱ Strengthen customer relationships.

Projected sales improved from:

₹74 crore before restructuring

to

₹85 crore, ₹95 crore, and ₹105 crore over the next three years.

Importance:

Gradual sales recovery strengthened cash flows and long-term viability.

Improvement in Working Capital Cycle:

Reduced repayment burden allowed the company to:

- ✱ Improve debtor collections.
- ✱ Reduce inventory levels.
- ✱ Normalize the operating cycle.

Importance:

Better working capital management enhanced liquidity and reduced dependence on borrowings.

Restoration of Profitability:

As production and sales increased, EBITDA margins improved:

Year	EBITDA Margin
FY 2024-25	8%
FY 2025-26	10%
FY 2026-27	11.5%
FY 2027-28	13%

Importance:

Profitability improvements strengthened internal cash generation and ensured sustainability.

Positive Impact on TEV Parameters:

The moratorium and extension of repayment period improved:

- ✱ Cash flows.
- ✱ DSCR.
- ✱ Current Ratio.
- ✱ Debt-equity ratio.
- ✱ Liquidity position.

These improvements confirmed the viability of the restructuring package.

Avoiding Asset Deterioration:

Without restructuring, the company could have:

- ✱ Become an NPA.
- ✱ Faced SARFAESI proceedings.
- ✱ Experienced operational closure.

By providing repayment relief, the banks preserved the value of:

- ✱ Plant and machinery.
- ✱ Market reputation.
- ✱ Customer base.
- ✱ Employment.

Importance:

The restructuring package protected both lender interests and the continuity of the enterprise.

To Sum Up:

In the case of Sunrise Agro-Tech Industries Pvt. Ltd., the grant of moratorium and extension of repayment period significantly improved viability by:

- ✱ Reducing immediate debt servicing pressure.
- ✱ Improving liquidity.
- ✱ Enhancing DSCR.
- ✱ Supporting working capital requirements.
- ✱ Facilitating production and sales recovery.
- ✱ Restoring profitability.
- ✱ Preserving asset values.

Thus, moratorium and repayment extension acted as powerful restructuring tools that transformed temporary financial stress into a sustainable revival, benefiting both the borrower and the consortium banks.

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Question No. 14: Why is Quarterly Monitoring Necessary After Restructuring?

Answer:

In the case of **Sunrise Agro-Tech Industries Pvt. Ltd.**, the consortium banks approved a restructuring package after being satisfied that the stress faced by the company was temporary and that the business possessed the capability to revive. However, restructuring does not end with the approval of the package. The actual success of restructuring depends upon whether the borrower achieves the projected sales, profitability, cash flows, and debt servicing capability.

Therefore, the consortium banks introduced a system of quarterly monitoring to ensure that the assumptions underlying the restructuring package were being translated into actual performance. Quarterly monitoring serves as an early warning mechanism and enables banks to take corrective action before the account deteriorates again.

Verification of Achievement of Projected Sales:

The restructuring package was based upon projected turnover:

Financial Year	Projected Sales
FY 2025-26	₹85 crore
FY 2026-27	₹95 crore
FY 2027-28	₹105 crore

Every quarter, the banks compared actual sales with projections.

Example:

For the first quarter:

Projected Sales = ₹21 crore.

Actual Sales = ₹19 crore.

Deviation = ₹2 crore.

Importance:

Quarterly review enabled the banks to identify shortfalls immediately and understand whether the deviations were temporary or indicative of deeper problems.

Monitoring of Cash Flows:

Restructuring is fundamentally based upon projected cash flows.

Banks reviewed quarterly:

- ✱ Cash inflows.
- ✱ Operating profits.
- ✱ Collection of receivables.
- ✱ Working capital position.

Importance:

If cash flows weakened, corrective measures could be initiated before repayment defaults occurred.

Tracking Debt Servicing Performance:

The consortium monitored:

- ✱ Timely payment of interest.
- ✱ Repayment of instalments.
- ✱ Compliance with revised repayment schedules.

Importance:

Regular servicing of debt demonstrated that the restructuring package was working effectively.

Monitoring Capacity Utilization:

Projected capacity utilization was:

Year	Capacity Utilization
FY 2025-26	68%
FY 2026-27	78%
FY 2027-28	85%

Banks conducted quarterly factory inspections and reviewed production reports.

Importance:

Improvement in capacity utilization reflected operational recovery and better absorption of fixed costs.

Monitoring Inventory and Receivables:

Banks reviewed:

- ✱ Stock statements.
- ✱ Debtors ageing schedules.
- ✱ Inventory turnover.

Importance:

Excessive inventory accumulation or delayed collections could once again create liquidity stress and jeopardize the restructuring package.

Verification of Promoters' Commitments:

As part of restructuring, promoters agreed to bring ₹3 crore as unsecured loans.

Quarterly monitoring ensured that:

- ✱ Funds had been infused.
- ✱ Additional collateral had been created.
- ✱ Personal guarantees remained valid.

Importance:

Promoters' contribution reflected their commitment to the revival process.

Compliance with Financial Covenants:

Banks periodically verified compliance with:

- ✱ Current ratio.
- ✱ Debt-equity ratio.
- ✱ DSCR.
- ✱ Submission of stock statements.
- ✱ Payment of statutory liabilities.

Importance:

Non-compliance acted as an early warning signal and enabled timely intervention.

Detection of Early Warning Signals:

Quarterly monitoring enabled banks to identify:

- ✱ Declining sales.
- ✱ Reduction in EBITDA.
- ✱ Increase in inventory.
- ✱ Delay in collections.
- ✱ Irregular account operations.

Importance:

Early detection prevented the account from slipping into NPA again.

Evaluation of Variance Between Projections and Actual Performance:

Banks compared:

Parameter	Projected	Actual
Sales	₹85 crore	₹82 crore
EBITDA Margin	10%	9.5%
DSCR	1.25	1.20
Capacity Utilization	68%	65%

Importance:

Variance analysis enabled banks to revise strategies and strengthen monitoring wherever necessary.

Compliance with RBI and Internal Bank Policies:

Restructured accounts are considered sensitive exposures.

Accordingly, banks are required to maintain:

- ✱ Enhanced supervision.
- ✱ Periodic reviews.

- ✱ Risk assessment mechanisms.

Importance:

Quarterly monitoring ensures regulatory compliance and preserves asset quality.

Preservation of Asset Quality:

The objective of restructuring is not merely to postpone repayments but to restore the borrower's financial health.

Continuous monitoring safeguards banks against:

- ✓ Recurrent defaults.
- ✓ Asset deterioration.
- ✓ Increase in provisioning requirements.

Importance:

Effective monitoring enhances the success rate of restructuring and minimizes credit losses.

To Sum Up:

In the case of Sunrise Agro-Tech Industries Pvt. Ltd., quarterly monitoring was essential because it enabled the consortium banks to:

- ✱ Compare actual performance with projections.
- ✱ Monitor cash flows and debt servicing.
- ✱ Verify operational recovery.
- ✱ Ensure compliance with covenants.
- ✱ Detect early warning signals.
- ✱ Take corrective actions promptly.
- ✱ Protect asset quality.

Thus, quarterly monitoring forms an indispensable part of the post-restructuring framework and significantly enhances the probability of successful revival.

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Question No. 15: Which Ratios and Operational Parameters Are Generally Monitored by Banks After Implementation of the Restructuring Package?

Answer

After implementing the restructuring package for **Sunrise Agro-Tech Industries Pvt. Ltd.**, the consortium banks established a structured monitoring mechanism to assess whether the company was progressing in accordance with the assumptions used in the restructuring proposal and TEV study.

Banks generally monitor both financial ratios and operational parameters because revival of a business depends upon improvements in profitability, liquidity, efficiency, and repayment capacity.

Financial Ratios Monitored by Banks:

Debt Service Coverage Ratio (DSCR):

DSCR measures the ability of the borrower to service debt from internal cash generation.

Formula

$$\text{DSCR} = \text{Cash Accrual} \div \text{Debt Service Obligations}$$

Projected DSCR

Year	DSCR
FY 2025-26	1.25
FY 2026-27	1.40
FY 2027-28	1.60

Importance:

Banks continuously monitor DSCR because it directly reflects repayment capability.

Current Ratio:

Formula:

$$\text{Current Assets} \div \text{Current Liabilities}$$

Importance:

- ✓ It measures short-term liquidity and working capital adequacy.
- ✓ A declining current ratio indicates liquidity stress.

Debt-Equity Ratio:

Formula:

$$\text{Total Outside Liabilities} \div \text{Tangible Net Worth}$$

Importance:

- ✓ It indicates the capital structure and leverage position of the borrower.
- ✓ Banks monitor whether leverage remains within acceptable levels.

Interest Coverage Ratio:

Formula:

$$\text{EBIT} \div \text{Interest Expense}$$

Importance:

- ✓ It measures the ability to meet interest obligations.
- ✓ Low interest coverage indicates increasing financial stress.

EBITDA Margin:**Formula:**

$$\text{EBITDA} \div \text{Sales} \times 100$$

Projected EBITDA

Year	EBITDA Margin
FY 2025-26	10%
FY 2026-27	11.5%
FY 2027-28	13%

Importance:

Banks monitor profitability trends and operational efficiency.

Fixed Asset Coverage Ratio:**Formula:**

$$\text{Net Fixed Assets} \div \text{Term Liabilities}$$

Importance:

It indicates adequacy of security coverage for long-term debt.

Operational Parameters Monitored by Banks**Sales Performance**

Projected turnover:

Year	Sales
FY 2025-26	₹85 crore
FY 2026-27	₹95 crore
FY 2027-28	₹105 crore

Importance:

Sales growth is essential for generating cash flows required for debt servicing.

Capacity Utilization:

Projected utilization:

Year	Capacity Utilization
FY 2025-26	68%
FY 2026-27	78%
FY 2027-28	85%

Importance:

Higher utilization improves economies of scale and profitability.

Inventory Levels:

Banks monitor:

- ✱ Raw material inventory.
- ✱ Work-in-process.
- ✱ Finished goods.

Importance:

Excessive inventory locks up working capital and reduces liquidity.

Debtors and Collection Efficiency:

Banks review:

- ✱ Debtors ageing.
- ✱ Collection period.
- ✱ Overdue receivables.

Importance:

Timely collections ensure smooth cash flows and reduce dependence on borrowings.

Cash Flow Position:

Banks compare:

- ✱ Projected cash flows.
- ✱ Actual cash flows.

Importance:

Cash flows determine repayment capability and sustainability of restructuring.

Working Capital Utilization:

Banks monitor:

- ✱ Drawing power.
- ✱ Stock statements.
- ✱ Utilization of limits.

Importance:

Efficient use of working capital indicates healthy operations.

Account Conduct:

Banks review:

- ✱ Timeliness of instalment payments.
- ✱ Interest servicing.
- ✱ Frequency of overdrawing.

- ✱ Cheque returns.

Importance:

Account conduct serves as an indicator of financial discipline.

Statutory Compliance:

Banks verify payment of:

- ✱ GST liabilities.
- ✱ Provident Fund dues.
- ✱ ESIC contributions.
- ✱ Income tax obligations.

Importance:

Default in statutory dues often indicates emerging stress.

Compliance with Covenants:

Banks monitor compliance with:

- ✱ DSCR requirements.
- ✱ Current ratio stipulations.
- ✱ Submission of stock statements.
- ✱ Insurance renewal.
- ✱ Periodic financial disclosures.

Importance:

Violation of covenants provides early warning signals.

Promoters' Contribution and Security Coverage:

Banks verify:

- ✱ Infusion of promoter funds.
- ✱ Additional collateral security.
- ✱ Continuity of guarantees.

Importance:

Promoters' support strengthens the restructuring framework.

To Sum Up:

After implementation of the restructuring package, banks generally monitor a combination of financial ratios and operational parameters to ensure successful revival. In the case of Sunrise Agro-Tech Industries Pvt. Ltd., the consortium banks closely monitored:

Financial Ratios:

- ✱ Debt Service Coverage Ratio (DSCR).
- ✱ Current Ratio.
- ✱ Debt-Equity Ratio.
- ✱ Interest Coverage Ratio.
- ✱ EBITDA Margin.
- ✱ Fixed Asset Coverage Ratio.

Operational Parameters:

- ✱ Sales performance.
- ✱ Capacity utilization.
- ✱ Inventory levels.
- ✱ Debtors and collection efficiency.
- ✱ Cash flows.
- ✱ Working capital utilization.
- ✱ Account conduct.
- ✱ Statutory compliance.
- ✱ Covenant compliance.
- ✱ Promoters' contribution and security coverage.

Through continuous monitoring of these parameters, banks were able to ensure that the restructuring package remained viable and that the borrower gradually returned to financial stability.

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Question No. 16: What Would Be the Consequences if Projected Cash Flows Fail to Materialize After Restructuring?

Answer:

In the case of **Sunrise Agro-Tech Industries Pvt. Ltd.**, the restructuring package approved by the consortium banks was based upon projected sales growth, improvement in capacity utilization, better collection efficiency, and enhanced profitability. These assumptions were expected to generate adequate cash flows for servicing the restructured debt obligations.

However, restructuring succeeds only when the projected cash flows actually materialize. If actual cash generation falls short of projections, both the borrower and the lenders may face serious consequences. Therefore, banks continuously monitor post-restructuring performance to identify deviations at an early stage.

Deterioration in Debt Servicing Capability:

The repayment schedule under the restructuring package was framed on the basis of projected cash flows.

Suppose:

Projected Cash Accrual = ₹12 crore.

Debt Service Obligations = ₹9 crore.

Projected DSCR = 1.33.

However, if actual cash accrual declines to ₹7 crore,

Actual DSCR becomes:

$$\text{DSCR} = 7 \div 9 = 0.78.$$

Consequence:

The borrower may be unable to pay:

- ✱ Interest instalments.
- ✱ Principal repayments.

This can result in payment defaults.

Account May Slip into Non-Performing Asset (NPA):

Failure of projected cash flows can lead to:

- ✱ Irregular account operations.
- ✱ Overdue instalments.
- ✱ Persistent servicing deficiencies.

Consequence:

The restructured account may again become an NPA, requiring:

- ✱ Higher provisioning by banks.
- ✱ Classification under stressed assets.
- ✱ Deterioration in asset quality.

Additional Working Capital Stress:

Lower cash generation affects:

- ✱ Purchase of raw materials.
- ✱ Payment to suppliers.
- ✱ Salary payments.
- ✱ Statutory dues.

Consequence:

Working capital requirements increase and liquidity shortages become more severe.

Increase in Inventory and Debtors:

Reduced sales and weak collections may lead to:

- ✱ Accumulation of stock.
- ✱ Increase in receivables.
- ✱ Slow movement of inventory.

Consequence:

Funds become blocked in working capital, aggravating liquidity stress.

Decline in Profitability and EBITDA:

Lower sales result in:

- ✱ Underutilization of capacity.
- ✱ Higher fixed cost burden.
- ✱ Reduced EBITDA margins.

Consequence:

Internal cash generation becomes inadequate to support operations.

Violation of Financial Covenants:

Banks generally prescribe covenants relating to:

- ✱ DSCR.
- ✱ Current Ratio.
- ✱ Debt-Equity Ratio.
- ✱ Timely submission of information.

Consequence:

Failure to meet projections may result in breach of these covenants, which may trigger corrective actions by banks.

Need for Corrective Action:

Banks may initiate:

- ✱ Special monitoring.
- ✱ Additional review meetings.
- ✱ Restriction on further borrowings.
- ✱ Tightening of drawing power.

Consequence:

The borrower comes under enhanced supervision.

Requirement of Additional Promoters' Contribution:

Banks may insist that promoters:

- ✱ Bring additional equity.
- ✱ Provide fresh collateral.
- ✱ Infuse unsecured loans.

Consequence:

Promoters may have to share a larger burden in the revival process.

Possibility of Failure of Restructuring:

If the gap between projected and actual cash flows becomes substantial, the restructuring package itself may become unviable.

Consequence:

The account may move towards:

- ✱ Recovery proceedings.
- ✱ SARFAESI action.
- ✱ Debt Recovery Tribunal proceedings.
- ✱ Insolvency proceedings under the Insolvency and Bankruptcy Code.

Impact on Banks:

Banks may suffer:

- ✱ Increase in NPAs.
- ✱ Higher provisioning requirements.
- ✱ Reduction in profitability.
- ✱ Erosion in recoverable value of security.

Consequence:

Credit risk increases significantly.

Example from the Case Study:

Suppose Sunrise Agro-Tech Industries projected:

Sales = ₹85 crore.

Cash Accrual = ₹11 crore.

DSCR = 1.25.

Actual performance:

Sales = ₹70 crore.

Cash Accrual = ₹7 crore.

DSCR = 0.80.

Consequently:

- ✱ Interest payments become irregular.
- ✱ Inventory accumulates.
- ✱ Debtors increase.
- ✱ Covenant breaches occur.

Without corrective action, the account may again become stressed and recovery measures may become inevitable.

To Sum Up:

Failure of projected cash flows after restructuring can have serious implications, including:

- ✱ Inability to service debt.
- ✱ Deterioration in DSCR.
- ✱ Re-slippage into NPA.
- ✱ Liquidity shortages.
- ✱ Covenant violations.
- ✱ Requirement of additional promoter support.
- ✱ Recovery actions and possible insolvency proceedings.

Therefore, realistic projections and continuous monitoring are essential for the success of any restructuring package.

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Question No. 17: How Do GST Returns and Stock Statements Help Banks Verify the Genuineness of Turnover and Inventory?

Answer:

In the case of **Sunrise Agro-Tech Industries Pvt. Ltd.**, the consortium banks were required to verify whether the sales turnover and inventory levels reflected in the financial statements were genuine. Since restructuring decisions are based upon projected sales, profitability, and working capital requirements, banks needed assurance that historical figures were authentic and free from manipulation.

Two important tools used by banks for this purpose are:

- ✱ GST Returns.
- ✱ Monthly Stock Statements.

These documents provide independent evidence regarding business activity and help lenders assess the reliability of financial information.

Role of GST Returns in Verifying Turnover

GST returns contain details of:

- ✱ Taxable sales.
- ✱ Purchases.
- ✱ Output tax liability.
- ✱ Input tax credits.

Banks compare:

- ✱ GST turnover.
- ✱ Audited financial statements.
- ✱ Bank account credits.
- ✱ Projected sales.

Importance:

Consistency among these records enhances confidence regarding the genuineness of turnover.

Detection of Inflated Sales:

Suppose the company reports:

Sales in financial statements = ₹85 crore.

But GST returns indicate turnover of only ₹70 crore.

Implication:

This mismatch may suggest:

- ✱ Inflated turnover.
- ✱ Accommodation entries.
- ✱ Window dressing.

Importance:

Banks investigate such discrepancies before approving restructuring.

Verification of Purchases and Input Tax Credits:

GST returns also provide information about:

- ✱ Purchases.
- ✱ Vendor transactions.
- ✱ Input tax credit claims.

Importance:

Banks can determine whether:

- ✱ Raw material procurement is genuine.
- ✱ Production activity is actually taking place.

Cross Verification with E-Way Bills:

Banks and forensic auditors compare:

- ✱ GST returns.
- ✱ E-way bills.
- ✱ Sales invoices.

Importance:

These records establish physical movement of goods and authenticity of transactions.

Role of Stock Statements:

Borrowers periodically submit stock statements to banks containing details of:

- ✱ Raw materials.
- ✱ Work-in-progress.
- ✱ Finished goods.
- ✱ Receivables.

Importance:

These statements enable banks to assess:

- ✱ Inventory levels.
- ✱ Drawing power.
- ✱ Working capital requirements.

Verification of Inventory Levels:

Suppose stock statements show:

Finished goods = ₹27 crore.

- ✱ Banks verify the same through:
- ✱ Factory inspections.
- ✱ Insurance records.
- ✱ GST purchases and sales.
- ✱ Production data.

Importance:

This prevents overstatement of inventory for obtaining higher drawing power.

Detection of Slow-Moving and Obsolete Inventory:

Stock statements help banks identify:

- ✱ Excess inventory.
- ✱ Non-moving stock.
- ✱ Obsolete goods.

Importance:

Such inventories may not generate cash and may adversely affect liquidity.

Correlation Between Sales and Inventory:

In the case study:

Sales declined from ₹102 crore to ₹74 crore.

Inventory increased from ₹18 crore to ₹27 crore.

Bank's Observation:

The increase in inventory despite lower sales indicated:

- ✱ Slow-moving stock.
- ✱ Weak demand.
- ✱ Blockage of working capital.

Importance:

This became one of the factors justifying restructuring.

Determination of Drawing Power:

Banks calculate drawing power on the basis of:

Eligible Stock + Eligible Receivables – Margin.

Importance:

Stock statements directly influence:

- ✱ Working capital limits.
- ✱ Availability of funds.
- ✱ Liquidity position.

Support for Forensic Audit:

Forensic auditors compare:

- ✱ Stock statements.
- ✱ GST returns.
- ✱ Sales invoices.
- ✱ Bank statements.

- ✱ Physical verification reports.

Importance:

This helps detect:

- ✱ Inflated inventories.
- ✱ Fictitious sales.
- ✱ Diversion of funds.
- ✱ Circular transactions.

Monitoring After Restructuring:

Even after implementation of the restructuring package, banks continue to examine:

- ✱ Monthly stock statements.
- ✱ Quarterly GST returns.
- ✱ Inventory turnover.
- ✱ Receivable levels.

Importance:

This provides early warning signals regarding deterioration in business performance.

Example from the Case Study:

Sunrise Agro-Tech Industries submitted:

Inventory as per stock statements = ₹27 crore.

GST returns showed lower turnover and slower movement of finished goods.

Site inspections confirmed accumulation of inventory.

Banks concluded that:

- ✱ Inventory build-up was genuine.
- ✱ Liquidity stress arose due to slower sales and delayed collections.
- ✱ The problem was operational and not fraudulent.

Hence, restructuring support was considered appropriate.

To Sum Up:

GST returns and stock statements are valuable tools for verifying the genuineness of turnover and inventory. They help banks:

- ✱ Validate sales and purchases.
- ✱ Detect inflated turnover.
- ✱ Verify inventory levels.

- ✱ Determine drawing power.
- ✱ Identify slow-moving stock.
- ✱ Support forensic audits.
- ✱ Monitor post-restructuring performance.

Thus, GST returns and stock statements have become indispensable instruments for credit appraisal, restructuring, and continuous monitoring of bank-financed units.

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Question No. 18: Why Should Projected DSCR Normally Remain Above 1.0 After Restructuring?

Answer:

In the case of **Sunrise Agro-Tech Industries Pvt. Ltd.**, the consortium banks approved the restructuring package after evaluating the projected cash flows and repayment capability of the company. One of the most important indicators considered by the lenders was the **Debt Service Coverage Ratio (DSCR)**. Since the objective of restructuring is to restore the borrower's ability to service debt from internal cash generation, banks generally expect the projected DSCR to remain above 1.0 throughout the repayment period.

A DSCR above 1.0 signifies that the borrower is generating sufficient cash to meet both interest and principal obligations. Therefore, maintaining DSCR above 1.0 is essential for ensuring the viability and sustainability of the restructuring package.

Understanding the Meaning of DSCR:

DSCR represents the relationship between cash available for debt servicing and total debt obligations.

Formula:

DSCR = Cash Available for Debt Service ÷ Total Debt Service Requirements.

Debt service includes:

- ✱ Interest payments.
- ✱ Principal repayments.

Significance of DSCR Equal to 1.0

When DSCR equals 1.0,

Cash Available = Debt Obligations.

Example:

Cash Accrual = ₹10 crore.

Debt Service = ₹10 crore.

DSCR = 1.0.

Interpretation:

The borrower can exactly meet debt obligations, but there is no margin of safety.

Any adverse event may result in repayment difficulties.

Why DSCR Above 1.0 Is Necessary:

When DSCR exceeds 1.0, the borrower generates surplus cash after meeting debt obligations.

Example:

Cash Accrual = ₹12 crore.

Debt Service = ₹9 crore.

DSCR = 1.33.

Interpretation:

The company generates ₹1.33 for every ₹1 of debt service.

This provides a cushion against:

- ✱ Reduction in sales.
- ✱ Increase in costs.
- ✱ Delay in collections.
- ✱ Market fluctuations.

Indicator of Sustainable Debt:

In the restructuring of Sunrise Agro-Tech Industries Pvt. Ltd., the projected DSCR was:

Financial Year	Projected DSCR
FY 2025-26	1.25
FY 2026-27	1.40
FY 2027-28	1.60

Importance:

These levels indicated that the restructured debt was sustainable and could be serviced through internal cash generation.

Protection Against Business Risks:

Future projections are based on assumptions.

Actual performance may differ due to:

- ✱ Market slowdown.
- ✱ Increase in raw material prices.
- ✱ Delayed receivables.
- ✱ Capacity underutilization.

Importance:

A DSCR above 1.0 provides a margin of safety and improves resilience against adverse developments.

Compliance with Techno-Economic Viability (TEV) Norms:

Independent TEV consultants evaluate:

- ✱ Annual DSCR.
- ✱ Average DSCR.
- ✱ Minimum DSCR.

Generally, an average DSCR above 1.20–1.25 is considered comfortable.

Importance:

This assures lenders that the enterprise possesses adequate repayment capacity.

Prevention of Recurrence of Financial Stress:

Before restructuring, Sunrise Agro-Tech Industries had:

Cash Accrual = ₹6 crore.

Debt Service = ₹9 crore.

DSCR = 0.67.

Consequently:

- ✱ Repayment defaults occurred.
- ✱ Liquidity problems intensified.
- ✱ The account became stressed.

After restructuring:

Cash Accrual = ₹11 crore.

Debt Service = ₹8 crore.

DSCR = 1.38.

Importance:

Improved DSCR reduced the possibility of future defaults.

Support for Additional Working Capital Requirements:

Businesses require cash not only for debt servicing but also for:

- ✱ Purchase of raw materials.
- ✱ Payment of wages.
- ✱ Statutory liabilities.
- ✱ Marketing expenses.

Importance:

A DSCR above 1.0 ensures that debt servicing does not adversely affect operational requirements.

Importance in Sensitivity Analysis:

Banks test various scenarios:

Base Case

DSCR = 1.40.

Sales decline by 10%

DSCR = 1.20.

Increase in costs

DSCR = 1.10.

Importance:

Even under stressed conditions, DSCR remains above 1.0, thereby preserving viability.

Enhancing Lenders' Confidence:

A healthy DSCR assures banks that:

- ✱ The borrower can service debt without depending on fresh borrowings.
- ✱ Future cash flows are adequate.
- ✱ Additional support is likely to be effective.

Importance:

This improves the probability of successful restructuring.

Consequences of DSCR Below 1.0

When DSCR falls below 1.0:

- ✱ Cash generation becomes inadequate.
- ✱ Repayment defaults occur.
- ✱ Liquidity deteriorates.
- ✱ Account may slip into NPA.
- ✱ Recovery proceedings may become necessary.

Therefore, banks avoid approving restructuring packages with projected DSCR below 1.0.

To Sum Up:

Projected DSCR should normally remain above 1.0 after restructuring because it:

- ✱ Indicates adequate repayment capability.
- ✱ Provides a cushion against business uncertainties.
- ✱ Supports sustainable debt levels.

- ✱ Reduces the risk of default.
- ✱ Enhances lender confidence.
- ✱ Preserves the viability of the restructuring package.

Thus, DSCR is regarded as one of the most important indicators in determining whether the restructured account can successfully revive and remain financially healthy.

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Question No. 19: What Factors Indicate That the Stress Faced by the Borrower Is Temporary and Reversible?

Answer:

While considering the restructuring proposal of **Sunrise Agro-Tech Industries Pvt. Ltd.**, the consortium banks had to determine whether the financial stress was temporary and capable of being reversed or whether the problems were structural and permanent. Restructuring is justified only when the underlying business remains viable and possesses the ability to recover with appropriate financial support.

Accordingly, the lenders analysed several financial, operational, and qualitative factors before concluding that the difficulties faced by the company were temporary and reversible.

Historical Track Record of Satisfactory Performance:

Historical data revealed:

Year	Sales
FY 2022-23	₹90 crore
FY 2023-24	₹102 crore
FY 2024-25	₹74 crore

Similarly, EBITDA margins and capacity utilization had been satisfactory in earlier years.

Importance:

Strong past performance indicated that the company possessed the capability to recover once adverse conditions improved.

Availability of Installed Capacity:

The TEV study established that:

- ✱ Plant and machinery were in good condition.
- ✱ No technological obsolescence existed.
- ✱ Existing capacity could support future growth.

Importance:

Operational capability remained intact, indicating that revival was possible.

Market Potential and Customer Base:

The company had:

- ✱ Established customers.
- ✱ Existing dealer network.
- ✱ Long-standing market presence.

The decline in demand was attributed mainly to:

- ✱ Temporary market slowdown.
- ✱ Adverse agricultural conditions.

Importance:

Since market prospects remained favourable, sales recovery was considered achievable.

Absence of Diversion of Funds:

The forensic audit revealed:

- ✱ No siphoning of funds.
- ✱ No fraudulent transactions.
- ✱ No abnormal related-party dealings.

Importance:

The financial stress was genuine and not caused by misconduct.

Improvement Potential in Capacity Utilization:

Capacity utilization had fallen from 85% to 58%.

The TEV report projected recovery to:

- ✱ 68%.
- ✱ 78%.
- ✱ 85%.

Importance:

The existence of idle capacity suggested that higher production and profitability could be achieved without major investments.

Delayed Receivables and Inventory Build-Up:

Banks observed:

- ✱ Increase in debtors.
- ✱ Higher stock levels.
- ✱ Longer operating cycle.

These issues arose because of:

- ✱ Slower demand.
- ✱ Collection delays.

Importance:

These were operational problems capable of being corrected through better working capital management.

Positive Cash Flow Projections:

Projected cash flows showed:

- ✱ Gradual improvement in operations.
- ✱ Adequate debt servicing capacity.
- ✱ Positive DSCR above 1.0.

Importance:

The business was expected to generate sufficient cash to support repayment obligations.

Promoters' Commitment:

Promoters agreed to:

- ✱ Bring ₹3 crore as unsecured loans.
- ✱ Offer additional collateral.
- ✱ Cooperate with lenders.

Importance:

Promoters' confidence strengthened the prospects of revival.

Favourable TEV Study:

The independent consultant concluded that:

- ✱ The business was technically viable.
- ✱ Market prospects were satisfactory.
- ✱ Financial restructuring could restore profitability.

Importance:

The TEV study supported the conclusion that stress was reversible.

Industry Conditions Were Temporary

The decline in performance was linked to:

- ✱ Increase in raw material prices.
- ✱ Lower market demand.
- ✱ Delayed collections.

These were cyclical factors and not permanent structural deficiencies.

Importance:

Temporary external factors generally justify restructuring support.

Management Integrity and Cooperation

The management:

- ✱ Shared information transparently.
- ✱ Cooperated with banks and consultants.
- ✱ Implemented corrective measures.

Importance:

Effective management increases the probability of successful turnaround.

Positive Sensitivity Analysis:

Even after assuming:

- ✱ 10% lower sales.
- ✱ Increase in costs.
- ✱ Delay in collections,

DSCR remained above 1.0.

Importance:

This indicated resilience and enhanced confidence in the viability of the restructuring package.

To Sum Up:

In the case of Sunrise Agro-Tech Industries Pvt. Ltd., the consortium banks concluded that the stress was temporary and reversible because of:

- ✱ Strong historical performance.
- ✱ Sound technical capability.
- ✱ Market potential and established customers.
- ✱ Absence of diversion of funds.
- ✱ Idle production capacity.
- ✱ Correctable working capital problems.
- ✱ Positive cash flow projections.
- ✱ Promoters' commitment.
- ✱ Favourable TEV findings.
- ✱ Temporary industry slowdown.

- ✱ Transparent management.

These factors collectively demonstrated that the business possessed the ability to recover and justified the restructuring package granted by the consortium banks.

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Question No. 20: What Are the Responsibilities of the Borrower After Obtaining Restructuring Relief from the Banks?

Answer:

In the case of **Sunrise Agro-Tech Industries Pvt. Ltd.**, the consortium banks approved a restructuring package consisting of extension of repayment period, moratorium on principal repayments, additional working capital support, and funding of overdue interest. However, restructuring relief does not absolve the borrower from obligations towards the lenders. On the contrary, the grant of restructuring places greater responsibility upon the borrower to ensure successful revival and timely repayment of the restructured facilities.

Restructuring is essentially a revival opportunity provided by banks based on trust, viability, and the commitment of the promoters. Therefore, the borrower is expected to fulfil several financial, operational, and compliance-related responsibilities after obtaining restructuring relief.

Responsibility to Adhere to the Revised Repayment Schedule:

One of the foremost responsibilities of the borrower is to comply with the revised repayment obligations.

The company should ensure timely payment of:

- ✱ Interest instalments.
- ✱ Principal repayments.
- ✱ Working capital obligations.
- ✱ Other charges payable to the banks.

Case Study Illustration:

Sunrise Agro-Tech Industries was granted an extended repayment period of eight years with a one-year moratorium. After the moratorium period, the company was expected to service the revised instalments without default.

Importance:

Regular debt servicing demonstrates financial discipline and strengthens lender confidence.

Responsibility to Utilize Funds for Intended Purposes

The borrower should ensure that:

- ✱ Working capital limits are utilized for business operations.
- ✱ Additional loans are used for approved purposes.
- ✱ Funds are not diverted to unrelated activities.

Importance:

Proper end-use of funds preserves liquidity and prevents recurrence of financial stress.

Responsibility to Achieve Projected Operational Parameters:

The restructuring package was based on assumptions regarding:

- ✱ Sales growth.
- ✱ Capacity utilization.
- ✱ EBITDA margins.
- ✱ Cash flow generation.

Case Study Projections:

Sales were expected to increase from ₹74 crore to ₹105 crore over three years.

Capacity utilization was projected to improve from 58% to 85%.

Importance:

Management should take necessary measures to achieve these targets to ensure the success of restructuring.

Responsibility to Maintain Financial Discipline:

The borrower should maintain:

- ✱ Proper cash flow management.
- ✱ Efficient working capital utilization.
- ✱ Budgetary control.
- ✱ Cost management systems.

Importance:

Financial discipline improves profitability and debt servicing capability.

Responsibility to Submit Information to Banks on Time:

The borrower should regularly furnish:

- ✱ Stock statements.
- ✱ Quarterly financial statements.
- ✱ GST returns.
- ✱ Debtors ageing reports.
- ✱ Cash flow statements.
- ✱ Insurance policies.
- ✱ Annual audited financial statements.

Importance:

Timely information enables banks to monitor the progress of the restructuring package.

Responsibility to Comply with Financial Covenants:

Banks may stipulate certain conditions relating to:

- ✱ DSCR levels.
- ✱ Current ratio.
- ✱ Debt-equity ratio.
- ✱ Additional borrowing restrictions.
- ✱ Dividend declaration.
- ✱ Capital expenditure limits.

Importance:

Compliance with covenants is essential for preserving the viability of the account.

Responsibility to Infuse Promoters' Contribution:

As part of restructuring, promoters may be required to bring:

- ✱ Additional equity.
- ✱ Unsecured loans.
- ✱ Margin money.

Case Study Illustration:

Promoters of Sunrise Agro-Tech Industries agreed to contribute ₹3 crore by way of unsecured loans.

Importance:

Promoters' contribution reflects commitment to the revival process and strengthens the capital structure.

Responsibility to Preserve and Maintain Security Assets:

The borrower should ensure that:

- ✱ Fixed assets are properly maintained.
- ✱ Insurance coverage remains valid.
- ✱ Charged assets are not sold without prior approval of banks.
- ✱ Additional collateral remains available.

Importance:

Preservation of security safeguards the interests of lenders.

Responsibility to Improve Working Capital Management:

The borrower should:

- ✱ Reduce inventory levels.

- ✱ Accelerate collection of receivables.
- ✱ Optimize operating cycles.
- ✱ Control unnecessary expenditure.

Importance:

Efficient working capital management improves liquidity and cash flows.

Responsibility to Ensure Statutory Compliance:

The borrower should promptly pay:

- ✱ GST liabilities.
- ✱ Provident Fund dues.
- ✱ ESIC contributions.
- ✱ Income tax liabilities.
- ✱ Other statutory obligations.

Importance:

Non-payment of statutory dues may result in legal complications and renewed financial stress.

Responsibility to Cooperate with Monitoring by Banks:

After restructuring, banks generally conduct:

- ✱ Quarterly reviews.
- ✱ Factory inspections.
- ✱ Stock audits.
- ✱ Periodic discussions with management.

Importance:

The borrower should cooperate fully and provide access to information and records whenever required.

Responsibility to Avoid Diversion or Siphoning of Funds:

The borrower must maintain transparency and avoid:

- ✱ Related-party fund diversion.
- ✱ Unauthorized investments.
- ✱ Personal use of business funds.
- ✱ Transactions detrimental to lenders.

Importance:

Diversion of funds may result in classification as fraud or wilful default and may lead to legal action.

Responsibility to Implement Corrective Measures:

Management should continuously take steps to improve:

- ✱ Sales.
- ✱ Productivity.
- ✱ Cost efficiency.
- ✱ Customer relationships.
- ✱ Collection mechanisms.

Importance:

Operational improvements are necessary for sustainable recovery.

Responsibility to Inform Banks About Material Developments

The borrower should promptly communicate:

- ✱ Major litigation.
- ✱ Loss of customers.
- ✱ Fire accidents.
- ✱ Labour disputes.
- ✱ Significant decline in sales.
- ✱ Changes in management.

Importance:

Early disclosure enables banks to take timely corrective action.

Responsibility to Maintain Transparency and Good Governance

The borrower should:

- ✱ Maintain proper books of accounts.
- ✱ Ensure accurate financial reporting.
- ✱ Cooperate with auditors and consultants.
- ✱ Adopt sound corporate governance practices.

Importance:

Transparency enhances credibility and strengthens long-term banking relationships.

Responsibility to Achieve Sustainable Revival:

The ultimate responsibility of the borrower is to restore the enterprise to normal operations and ensure sustainable profitability.

In the Case of Sunrise Agro-Tech Industries Pvt. Ltd.:

The company was expected to:

- ✱ Increase sales from ₹74 crore to ₹105 crore.
- ✱ Improve capacity utilization from 58% to 85%.
- ✱ Enhance EBITDA margins from 8% to 13%.
- ✱ Maintain DSCR above 1.25.
- ✱ Regularly service restructured debt obligations.

Importance:

Successful revival benefits:

- ✱ The borrower.
- ✱ The banks.
- ✱ Employees.
- ✱ Suppliers.
- ✱ Customers.
- ✱ The overall economy.

To Sum Up:

After obtaining restructuring relief from the banks, the borrower assumes significant responsibilities. In the case of **Sunrise Agro-Tech Industries Pvt. Ltd.**, these responsibilities included:

- ✱ Adhering to the revised repayment schedule.
- ✱ Achieving projected sales and cash flows.
- ✱ Maintaining financial discipline.
- ✱ Infusing promoters' contribution.
- ✱ Preserving security assets.
- ✱ Submitting periodic information.
- ✱ Complying with covenants and statutory requirements.
- ✱ Cooperating with banks' monitoring mechanisms.
- ✱ Avoiding diversion of funds.
- ✱ Implementing corrective measures and ensuring transparent governance.

Thus, restructuring should not be viewed merely as a concession by banks but as a collaborative revival process in which the borrower bears primary responsibility for restoring the enterprise to financial health and ensuring successful repayment of the restructured obligations.

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Additional Question No. 21: What Role Does the Techno-Economic Viability (TEV) Study Play in the Restructuring of Loans?

Answer:

The Techno-Economic Viability (TEV) Study is one of the most important tools used by banks during restructuring because it provides an independent and objective assessment of the borrower's ability to revive operations and service debt in the future. The TEV study examines the technical, commercial, operational, financial, and managerial aspects of the business and determines whether restructuring will result in sustainable recovery or merely postpone default.

For medium and large exposures, TEV studies are often mandatory under internal credit policies and RBI prudential frameworks.

Understanding the Concept of TEV Study:

A TEV Study is a comprehensive appraisal carried out by independent consultants or specialized agencies to assess whether the enterprise is technically feasible, commercially viable, and financially sustainable.

The study evaluates:

- ✱ Technical viability.
- ✱ Market potential.
- ✱ Production capability.
- ✱ Financial performance.
- ✱ Cash flow projections.
- ✱ Debt servicing capacity.

Its purpose is to determine whether the business can generate adequate returns and cash flows after restructuring.

Assessment of Technical Viability:

The TEV study examines:

- ✱ Plant and machinery.
- ✱ Installed capacity.
- ✱ Technology employed.
- ✱ Maintenance systems.
- ✱ Availability of raw materials.
- ✱ Availability of skilled manpower.

Why this is important:

A technically obsolete unit cannot be revived merely through financial restructuring.

Thus, TEV ensures that the physical assets are capable of supporting future operations.

Evaluation of Market and Commercial Viability:

The study analyses:

- ✱ Demand-supply conditions.
- ✱ Industry outlook.
- ✱ Competitors.
- ✱ Market share.
- ✱ Customer profile.

Importance:

Sales projections must be supported by actual market opportunities.

Without demand, restructuring cannot succeed.

Examination of Historical Performance:

TEV consultants review:

- ✱ Sales trends.
- ✱ Capacity utilization.
- ✱ EBITDA margins.
- ✱ Cash flows.
- ✱ Working capital management.

Historical performance helps establish whether the current stress is temporary or structural.

Validation of Future Projections:

Borrowers often submit optimistic projections.

TEV consultants independently verify:

- ✱ Sales assumptions.
- ✱ Capacity utilization.
- ✱ Cost structures.
- ✱ Profitability.

They ensure that projections are realistic and supported by market conditions.

Analysis of Cash Flows:

Cash flows form the foundation of debt servicing.

TEV studies estimate:

- ✱ Operating cash flows.
- ✱ Working capital requirements.
- ✱ Capital expenditure requirements.

These projections determine whether the business can repay the restructured loans.

Determination of Debt Service Coverage Ratio (DSCR):

The study computes projected DSCR for the restructuring period.

Generally, banks expect:

- ✱ Minimum DSCR above 1.
- ✱ Average DSCR above 1.25.

This ensures adequate repayment capability.

Determination of Sustainable Debt:

TEV studies identify:

✓ **Sustainable Debt**

Debt that can be serviced comfortably through future cash flows.

✓ **Unsustainable Debt**

Debt exceeding repayment capacity.

Banks use these findings to:

- ✱ Extend repayment periods.
- ✱ Convert overdue interest into FITL.
- ✱ Seek promoter contribution.
- ✱ Restructure instalments.

Assessment of Working Capital Requirements:

TEV studies estimate:

- ✱ Inventory requirements.
- ✱ Debtors' levels.
- ✱ Operating cycle.

This enables banks to provide adequate working capital support after restructuring.

Sensitivity Analysis:

Consultants evaluate the impact of:

- ✱ Lower sales.
- ✱ Increase in raw material costs.
- ✱ Delay in collections.
- ✱ Interest rate changes.

This determines whether the business can withstand adverse circumstances.

Evaluation of Management Capability:

TEV studies assess:

- ✱ Experience of promoters.
- ✱ Commitment to revival.
- ✱ Corporate governance practices.

Management quality is a key determinant of success.

Basis for Bank's Credit Decision:

Banks rely upon TEV findings while deciding:

- ✱ Whether restructuring should be approved.
- ✱ Amount of additional finance.
- ✱ Promoters' contribution.
- ✱ Moratorium period.
- ✱ Repayment schedule.

Thus, TEV becomes the foundation of the restructuring package.

Example from the Case Study:

For Sunrise Agro-Tech Industries Pvt. Ltd., the TEV consultant concluded:

✓ **Technical Position**

Plant and machinery remained operational.

✓ **Market Outlook**

Demand was expected to recover gradually.

✓ **Cash Flows**

Positive cash generation expected after restructuring.

✓ **DSCR**

Average projected DSCR = 1.42.

✓ **Promoters' Contribution**

₹3 crore recommended.

Based on these findings, banks approved the restructuring proposal.

To Sum Up:

The Techno-Economic Viability Study plays a pivotal role in restructuring because it provides an independent assessment of the borrower's revival potential. The TEV study assists banks in:

- ✱ Assessing technical feasibility.

- ✦ Evaluating market prospects.
- ✦ Validating projections.
- ✦ Estimating cash flows.
- ✦ Determining DSCR.
- ✦ Identifying sustainable debt.
- ✦ Assessing working capital requirements.
- ✦ Conducting sensitivity analysis.
- ✦ Structuring the restructuring package.

Therefore, the TEV Study acts as the backbone of the restructuring process and enables banks to distinguish viable enterprises deserving support from those that are fundamentally unviable.

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Additional Question No. 22: Why Do Banks Compare Historical Performance with Future Projections During Restructuring?

Answer:

One of the most important exercises undertaken by banks during restructuring is the comparison of historical performance with future projections submitted by the borrowing entity. Since restructuring is based upon assumptions relating to future sales, profitability, cash flows, and repayment capability, banks must ensure that such assumptions are realistic, achievable, and supported by past performance. Historical performance acts as the foundation upon which future projections are evaluated. Without such comparison, restructuring may be based on unrealistic expectations, leading to eventual failure and further deterioration of the account.

Therefore, the comparison between historical performance and future projections is essential for establishing the viability and sustainability of the restructuring package.

Historical Performance Provides the Benchmark for Future Estimates:

Past performance reflects the actual operating capability of the enterprise.

Banks analyse historical parameters such as:

- ✦ Sales turnover.
- ✦ Capacity utilization.
- ✦ EBITDA margins.
- ✦ Cash accruals.
- ✦ Debt servicing record.
- ✦ Working capital cycle.

These parameters provide a benchmark against which future assumptions are tested.

Example:

Particulars	FY 2022-23	FY 2023-24	FY 2024-25
Sales (₹ Crores)	90	102	74
EBITDA Margin	13.2%	13.5%	8.0%
Capacity Utilization	82%	85%	58%

Borrower's Projection:

FY 2025-26	FY 2026-27	FY 2027-28
₹85 Cr	₹95 Cr	₹105 Cr

These projections appear reasonable because they are broadly aligned with historical achievements.

However, projections showing sales of ₹180 crore without capacity expansion or new orders would be considered unrealistic.

Verification of the Credibility of Management Assumptions:

Banks evaluate whether management assumptions are based on:

- ✱ Existing customer orders.
- ✱ Market demand.
- ✱ Industry trends.
- ✱ Additional capacity.
- ✱ Expansion plans.

Historical performance helps determine whether management projections are conservative or excessively optimistic.

Why it is important:

Repeated overestimation in the past reduces management credibility.

For example:

Year	Projected Sales	Actual Sales
FY 2023-24	₹110 Cr	₹102 Cr
FY 2024-25	₹95 Cr	₹74 Cr

Persistent deviations may compel banks to adopt more conservative projections.

Identification of Temporary Versus Structural Problems:

Comparison with historical performance enables banks to identify whether the decline is temporary or permanent.

Temporary Stress:

- ✱ Market slowdown.
- ✱ Delayed collections.

- ✱ Increase in raw material prices.
- ✱ Working capital shortages.

Structural Problems:

- ✱ Obsolete products.
- ✱ Loss of market share.
- ✱ Technological redundancy.

If the company had performed satisfactorily in earlier years, banks may conclude that the present stress is reversible.

Assessment of Sales Recovery Potential:

Banks compare projected turnover with historical peak sales.

Example:

Highest historical turnover = ₹102 crore.

Projected turnover after restructuring:

- ✱ FY 2025-26 = ₹85 crore.
- ✱ FY 2026-27 = ₹95 crore.
- ✱ FY 2027-28 = ₹105 crore.

These projections indicate gradual restoration rather than aggressive growth, thereby enhancing credibility.

Evaluation of Profitability Trends:

Historical EBITDA margins provide guidance regarding achievable future profitability.

Example:

Year	EBITDA Margin
FY 2022-23	13.2%
FY 2023-24	13.5%
FY 2024-25	8.0%

Projected EBITDA margins:

FY 2025-26	FY 2026-27	FY 2027-28
10%	11.5%	13%

Banks consider such gradual improvements realistic because they are consistent with historical trends.

Validation of Capacity Utilization Assumptions:

Sales projections should correspond with production capabilities.

Historical capacity utilization:

Year	Capacity Utilization
FY 2022-23	82%

FY 2023-24	85%
FY 2024-25	58%

Projected utilization:

FY 2025-26	FY 2026-27	FY 2027-28
68%	78%	85%

Such projections appear achievable because they are supported by installed capacity.

Assessment of Cash Flow Generation:

Historical cash flow performance provides insight into future repayment capability.

Banks compare:

- ✱ Historical operating cash flows.
- ✱ Projected cash flows.
- ✱ Historical DSCR.
- ✱ Projected DSCR.

This comparison ensures that debt servicing assumptions are practical.

Detection of Window Dressing and Inflated Projections:

Banks are cautious about projections that exhibit:

- ✱ Unusually high sales growth.
- ✱ Excessive EBITDA margins.
- ✱ Unrealistic cash flows.

Historical trends help detect such exaggerations.

For example:

Historical EBITDA margin = 12%.

Projected EBITDA margin = 25%.

Banks would seek justification for such assumptions.

Input for Techno-Economic Viability Studies:

TEV consultants compare historical performance with future projections to determine:

- ✱ Commercial viability.
- ✱ Sustainable debt.
- ✱ Working capital requirements.
- ✱ Cash generation capacity.

Hence, historical performance forms the basis for TEV analysis.

Sensitivity Analysis:

Banks perform stress tests to assess whether projected performance remains achievable under adverse scenarios.

Example:

Base Case

Sales = ₹100 crore.

DSCR = 1.45.

Stress Scenario

Sales decline by 10%.

DSCR = 1.20.

The comparison with historical performance helps determine the resilience of the projections.

Example from the Case Study:

Sunrise Agro-Tech Industries Pvt. Ltd. had:

- ✱ Historical peak turnover of ₹102 crore.
- ✱ EBITDA margins around 13%.
- ✱ Capacity utilization of 85%.

The projected recovery to ₹105 crore turnover over three years and EBITDA margins of 13% was considered realistic and therefore acceptable.

To Sum Up:

Banks compare historical performance with future projections because historical results provide an objective benchmark for evaluating the realism of future assumptions. This comparison helps banks:

- ✱ Assess the credibility of management projections.
- ✱ Distinguish temporary stress from permanent decline.
- ✱ Evaluate sales recovery potential.
- ✱ Validate profitability assumptions.
- ✱ Estimate cash flows and DSCR.
- ✱ Detect inflated projections.
- ✱ Determine sustainable debt.
- ✱ Strengthen TEV studies and sensitivity analysis.

Therefore, historical performance serves as the cornerstone of restructuring appraisal and ensures that the revival package is based upon achievable and sustainable assumptions.

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Additional Question No. 23: Why Do Banks Conduct Sensitivity Analysis Before Approving a Restructuring Package?

Answer:

Sensitivity analysis is an essential component of restructuring because future projections are based on assumptions that may not materialize exactly as expected. Market conditions, raw material prices, customer demand, interest rates, and collection periods may vary during the implementation period. Banks therefore conduct sensitivity analysis to evaluate the resilience of the business under adverse scenarios and to determine whether the borrower will still be capable of servicing debt if actual performance deviates from projections.

Sensitivity analysis helps banks avoid restructuring packages that succeed only under ideal conditions and fail under realistic business risks.

Understanding Sensitivity Analysis:

Sensitivity analysis is the process of measuring the impact of changes in critical variables on:

- ✱ Sales.
- ✱ EBITDA.
- ✱ Cash flows.
- ✱ DSCR.
- ✱ Profitability.
- ✱ Debt servicing capability.

It answers the question:

“What will happen if things do not go exactly according to plan?”

Evaluation of Risks Associated with Sales Variations

Sales are the most important determinant of profitability and cash flows.

Banks examine the effect of:

- ✱ 5% reduction in sales.
- ✱ 10% reduction in sales.
- ✱ 15% reduction in sales.

Example:

Base Case:

Sales = ₹100 crore.

EBITDA = ₹12 crore.

DSCR = 1.50.

Under 10% sales reduction:

Sales = ₹90 crore.

EBITDA = ₹9.5 crore.

DSCR = 1.20.

Banks determine whether debt obligations can still be serviced under such conditions.

Analysis of Increase in Raw Material Costs:

Raw material prices may fluctuate significantly.

Banks assess the impact of:

- ✱ 5% increase.
- ✱ 10% increase.
- ✱ 15% increase.

Increase in input costs reduces:

- ✱ Gross margins.
- ✱ EBITDA.
- ✱ Cash generation.

If profitability becomes negative under moderate increases, restructuring assumptions may require revision.

Impact of Delay in Receivables:

Delayed collections affect liquidity.

Banks test scenarios where debtor realization periods increase from:

- ✱ 60 days to 90 days.
- ✱ 90 days to 120 days.

Such delays increase working capital requirements and may impair repayment capacity.

Assessment of Capacity Utilization Risk

Projected recovery often assumes improved production levels.

Banks evaluate whether the business remains viable if capacity utilization increases more slowly than expected.

Example:

Projected utilization = 85%.

Actual utilization = 70%.

Sensitivity analysis helps determine the effect on:

- ✱ Sales.
- ✱ EBITDA.
- ✱ Cash flows.

Interest Rate Risk Analysis

Increase in interest rates affects debt servicing obligations.

Banks examine the impact of higher interest rates on:

- ✱ Interest burden.
- ✱ DSCR.
- ✱ Profitability.

This ensures that the borrower can withstand moderate increases in borrowing costs.

Determination of Sustainable Debt:

Sensitivity analysis helps identify the amount of debt that can be serviced even under adverse circumstances.

This enables banks to determine:

- ✱ Sustainable debt.
- ✱ Need for additional moratorium.
- ✱ Promoters' contribution.
- ✱ Repayment structure.

Testing the Robustness of Cash Flows:

Future cash flows are the basis of restructuring.

Banks verify whether projected cash generation remains adequate under different assumptions.

This ensures that repayment schedules are not overly dependent on optimistic forecasts.

Compliance with TEV Requirements:

Independent TEV consultants invariably perform sensitivity analysis while assessing:

- ✱ Financial viability.
- ✱ DSCR.
- ✱ Break-even levels.
- ✱ Sustainable debt.

Banks rely on these results while approving restructuring packages.

Early Identification of Vulnerabilities:

Sensitivity analysis highlights weak areas such as:

- ✱ High dependence on one customer.
- ✱ High raw material cost sensitivity.
- ✱ Long collection periods.
- ✱ Low operating margins.

Banks can then impose corrective measures and monitoring mechanisms.

Example from the Case Study:**Base Case:**

Sales = ₹100 crore.

EBITDA Margin = 13%.

DSCR = 1.45.

Scenario 1: Sales decline by 10%

DSCR = 1.20.

Scenario 2: Raw material costs increase by 15%

DSCR = 1.12.

Scenario 3: Collection period increases by 30 days

DSCR = 1.05.

Since DSCR remained above 1 under all scenarios, the restructuring proposal was considered resilient and viable.

To Sum Up:

Banks conduct sensitivity analysis before approving restructuring packages because it enables them to assess the borrower's ability to withstand adverse business conditions. Sensitivity analysis helps banks:

- ✱ Evaluate risks associated with sales fluctuations.
- ✱ Assess impact of rising costs.
- ✱ Examine collection delays.
- ✱ Analyse capacity utilization risks.
- ✱ Measure interest rate sensitivity.
- ✱ Determine sustainable debt.
- ✱ Test cash flow resilience.
- ✱ Identify vulnerabilities.

Therefore, sensitivity analysis provides confidence that the restructuring package is capable of succeeding not only under ideal assumptions but also under reasonably adverse business environments, thereby improving the chances of successful revival and long-term debt servicing.

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Additional Question No. 24 Why Do Banks Place Significant Emphasis on Management Integrity and Promoters' Commitment While Considering Restructuring Proposals?**Answer:**

Banks consider management integrity and promoters' commitment as one of the most critical qualitative factors

during restructuring because financial assistance alone cannot revive a business unless the promoters and management possess the willingness, capability, and commitment to restore operations. A restructuring package generally involves sacrifices and concessions by lenders in the form of repayment deferment, extension of tenure, moratorium, additional finance, or reduction of immediate debt servicing obligations. Therefore, banks expect promoters to demonstrate their sincerity and confidence in the revival of the enterprise.

Even a technically and financially viable business may fail if the management lacks integrity, transparency, and commitment. Consequently, banks attach considerable importance to the quality of management before approving restructuring proposals.

Management is the Driving Force Behind Business Revival:

A business is ultimately managed by people and not merely by financial resources.

Successful revival depends upon:

- ✱ Leadership capability.
- ✱ Operational efficiency.
- ✱ Strategic decisions.
- ✱ Market relationships.
- ✱ Financial discipline.

A committed management team can often revive businesses facing temporary stress, whereas weak management may fail even with substantial financial support.

Therefore, banks evaluate the quality of promoters and key managerial personnel while considering restructuring.

Assessment of Promoters' Track Record:

Banks examine the historical conduct of promoters in areas such as:

- ✱ Repayment discipline.
- ✱ Compliance with sanction terms.
- ✱ Submission of financial information.
- ✱ Relationship with lenders.
- ✱ Corporate governance practices.

Why it is important:

Promoters with a history of transparent dealings and responsible conduct are generally considered more reliable candidates for restructuring support.

Repeated defaults, concealment of information, and poor governance raise serious concerns regarding future performance.

Importance of Transparency and Cooperation:

Banks assess whether the borrower has:

- ✱ Promptly informed lenders about financial difficulties.

- ✦ Shared accurate information.
- ✦ Cooperated during inspections and audits.
- ✦ Disclosed all liabilities honestly.

Transparent conduct enhances the confidence of banks.

Conversely, suppression of facts or misleading information weakens the credibility of management.

Evaluation of Promoters' Financial Commitment:

Promoters' willingness to infuse additional funds indicates their confidence in the business.

Contribution may be in the form of:

- ✦ Equity capital.
- ✦ Unsecured loans.
- ✦ Additional collateral.
- ✦ Personal guarantees.

Why it is important:

When promoters are willing to risk their own funds, banks gain assurance that the promoters genuinely believe in the revival of the enterprise.

Absence of financial commitment may suggest lack of confidence in future prospects.

Identification of Diversion of Funds:

Banks undertake forensic examination to ascertain whether stress has arisen due to:

- ✦ Diversion of funds.
- ✦ Related-party transactions.
- ✦ Personal withdrawals.
- ✦ Non-business investments.

If promoters have misused funds, banks may reject restructuring and initiate recovery proceedings.

Integrity of management therefore becomes a decisive factor.

Assessment of Strategic Vision:

Banks evaluate whether management has formulated:

- ✦ Marketing strategies.
- ✦ Cost reduction measures.
- ✦ New product initiatives.
- ✦ Capacity utilization plans.
- ✦ Customer retention strategies.

A well-defined revival plan reflects managerial competence and commitment.

Example from the Case Study:

In Sunrise Agro-Tech Industries Pvt. Ltd., the promoters:

- ✱ Maintained transparency with the consortium.
- ✱ Cooperated with TEV consultants.
- ✱ Accepted operational weaknesses.
- ✱ Agreed to infuse ₹3 crore.
- ✱ Continued factory operations despite adverse conditions.

Forensic audit revealed no diversion of funds.

These factors strengthened lender confidence and contributed significantly to approval of restructuring.

Impact on Post-Restructuring Monitoring:

Banks prefer borrowers who:

- ✱ Submit regular MIS reports.
- ✱ Maintain covenant compliance.
- ✱ Communicate proactively.
- ✱ Implement corrective actions promptly.

Management quality influences the effectiveness of post-restructuring monitoring and long-term success.

Influence on Risk Assessment:

Weak management increases the probability of:

- ✱ Cost overruns.
- ✱ Operational inefficiencies.
- ✱ Further defaults.
- ✱ Misutilization of funds.

Strong management reduces these risks and improves credit quality.

Regulatory and Governance Considerations:

Banks are expected to evaluate:

- ✱ Promoter conduct.
- ✱ Corporate governance standards.
- ✱ Related-party transactions.
- ✱ Fraud risks.

Management integrity forms an integral part of due diligence under prudential norms and internal credit policies.

Importance in Consortium Lending:

In consortium arrangements, multiple banks rely heavily upon management quality because revival efforts require continuous cooperation and timely implementation of corrective measures.

Promoters who maintain good relationships with lenders facilitate successful restructuring.

To Sum Up:

Banks place significant emphasis on management integrity and promoters' commitment because these factors determine whether the restructuring package will translate into actual business revival. Banks assess:

- ✱ Transparency and honesty.
- ✱ Past conduct.
- ✱ Financial commitment.
- ✱ Strategic capability.
- ✱ Corporate governance.
- ✱ Cooperation with lenders.
- ✱ Absence of fund diversion.

Ultimately, restructuring succeeds not merely because of financial concessions but because committed and capable management converts those concessions into sustainable business recovery.

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Additional Question No. 25: Why Do Banks Monitor the Performance of Borrowers Even After Implementation of Restructuring?**Answer:**

Restructuring does not end with the approval of the restructuring package. In fact, the post-restructuring period is the most critical phase because the success of restructuring depends upon whether the borrower achieves the projected operational and financial improvements. Banks therefore continue to monitor the borrower's performance to ensure that the assumptions underlying the restructuring package are being translated into actual results.

Continuous monitoring enables banks to identify deviations at an early stage and initiate corrective measures before the account deteriorates again.

Need for Continuous Monitoring:

Restructuring is based upon projections relating to:

- ✱ Sales.
- ✱ Capacity utilization.
- ✱ EBITDA.
- ✱ Cash flows.
- ✱ DSCR.

- ✱ Working capital cycle.

Actual performance may differ from projections due to:

- ✱ Market changes.
- ✱ Increase in costs.
- ✱ Delays in collections.
- ✱ Operational issues.

Regular monitoring helps banks assess whether the borrower remains on the projected revival path.

Verification of Achievement of Projections:

Banks compare:

- ✓ Projected Sales versus Actual Sales.
- ✓ Projected EBITDA versus Actual EBITDA.
- ✓ Projected Cash Flows versus Actual Cash Flows.
- ✓ Projected DSCR versus Actual DSCR.
- ✓ Why it is important

Significant deviations may indicate emerging stress requiring immediate intervention.

Monitoring of Capacity Utilization:

Banks verify whether the expected increase in production levels is taking place.

For example:

Year	Projected Utilization	Actual Utilization
FY 2025-26	68%	65%
FY 2026-27	78%	74%

Such comparisons enable banks to identify operational challenges and recommend corrective measures.

Monitoring of Working Capital and Inventory:

Banks continuously review:

- ✱ Stock statements.
- ✱ Inventory levels.
- ✱ Debtors ageing.
- ✱ Creditors position.

This helps detect:

- ✱ Excess inventory accumulation.
- ✱ Slow collections.
- ✱ Liquidity stress.

Timely corrective actions prevent recurrence of repayment problems.

Monitoring of Cash Flows and DSCR:

Banks compare actual cash generation with projected cash flows.

Weak cash generation may lead to:

- ✱ Delays in instalments.
- ✱ Increase in working capital borrowings.
- ✱ Stress on liquidity.

DSCR is monitored periodically to ensure continued repayment capability.

Verification of Promoters' Contribution:

Banks ensure that:

- ✱ Promoters have infused agreed funds.
- ✱ Additional security has been provided.
- ✱ Personal guarantees remain valid.

Failure to comply with these conditions may affect the restructuring arrangement.

Monitoring Compliance with Covenants:

Banks review compliance with:

- ✱ Current ratio.
- ✱ Debt-equity ratio.
- ✱ DSCR.
- ✱ Submission of stock statements.
- ✱ Insurance renewals.
- ✱ Payment of statutory dues.

Non-compliance acts as an early warning signal.

Early Warning Signal Detection:

Post-restructuring monitoring helps identify:

- ✱ Decline in sales.
- ✱ Increase in inventory.
- ✱ Delay in collections.
- ✱ Reduction in profitability.
- ✱ Covenant violations.

Timely identification enables preventive action before the account slips into NPA again.

Site Visits and Operational Reviews:

Banks conduct:

- ✱ Factory inspections.
- ✱ Discussions with management.
- ✱ Customer interactions.
- ✱ Market intelligence exercises.

These activities help verify the actual status of operations and the effectiveness of the revival plan.

Monitoring Through MIS and Periodic Reporting:

Borrowers are generally required to submit:

- ✱ Monthly stock statements.
- ✱ Quarterly financial statements.
- ✱ Cash flow statements.
- ✱ Sales reports.
- ✱ Debtors ageing schedules.

Such information enables banks to continuously track performance.

Regulatory Requirements:

RBI prudential norms and internal credit policies require banks to maintain close supervision over restructured accounts.

Monitoring helps banks:

- ✱ Assess asset quality.
- ✱ Ensure compliance with restructuring terms.
- ✱ Prevent slippages into NPAs.

Example from the Case Study:

After restructuring Sunrise Agro-Tech Industries Pvt. Ltd., the consortium monitored:

✓ Sales Performance

Projected sales for FY 2025-26 = ₹85 crore.

Actual sales achieved = ₹82 crore.

✓ Capacity Utilization

Projected = 68%.

Actual = 65%.

✓ Promoters' Contribution

₹3 crore infused as agreed.

✓ **DSCR**

Projected = 1.30.

Actual = 1.22.

Since deviations were within acceptable limits, the account remained stable and continued to perform satisfactorily.

Importance in Preserving Asset Quality:

Post-restructuring monitoring protects banks from:

- ✱ Recurrent defaults.
- ✱ Deterioration of security.
- ✱ Misutilization of funds.
- ✱ Diversion of working capital.

It also enhances the probability of successful recovery and preservation of asset quality.

To Sum Up:

Banks monitor borrowers even after implementation of restructuring because restructuring is a dynamic process and its success depends upon actual performance. Continuous monitoring enables banks to:

- ✱ Compare actual results with projections.
- ✱ Detect early warning signals.
- ✱ Ensure covenant compliance.
- ✱ Verify promoters' commitments.
- ✱ Assess liquidity and repayment capability.
- ✱ Prevent recurrence of financial stress.
- ✱ Preserve asset quality.

Therefore, post-restructuring monitoring is an indispensable component of the restructuring framework and ensures that the revival package achieves its intended objective of restoring the long-term financial health of the borrowing entity.

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Additional Question No. 26: Why Do Banks Insist Upon Additional Security or Collateral During Restructuring of Loans?

Answer:

Banks often insist upon additional security or collateral while restructuring loans because restructuring involves increased credit risk and additional exposure to the borrower. By granting concessions such as extension of repayment periods, moratoriums, funding of interest, reduction of instalment burden, or additional working capital facilities, banks are effectively providing further support to the borrower. To safeguard their interests and improve recoverability, banks may require additional collateral security or enhancement of existing security coverage.

The requirement for additional security is intended not merely to provide comfort to lenders but also to ensure that promoters demonstrate commitment towards the revival of the business and share the risks associated with restructuring.

Increase in Credit Risk Due to Restructuring:

Restructuring generally indicates that the borrower is experiencing financial stress.

This increases the risk of:

- ✱ Delayed repayments.
- ✱ Further deterioration in business performance.
- ✱ Slippage into NPA.
- ✱ Potential losses to banks.

Therefore, banks seek additional security to mitigate the enhanced credit risk associated with the restructuring package.

Protection Against Future Uncertainties:

Future projections are based on assumptions relating to:

- ✱ Sales growth.
- ✱ Capacity utilization.
- ✱ Cash flows.
- ✱ Market conditions.

However, these assumptions may not materialize as expected.

Additional collateral acts as a safety cushion against:

- ✱ Market downturns.
- ✱ Cost escalations.
- ✱ Delay in recovery of receivables.
- ✱ Operational disruptions.

Thus, security provides protection against unforeseen risks.

Compensation for Sacrifices Made by Banks

During restructuring, banks may provide:

- ✱ Moratorium on repayment.
- ✱ Extension of loan tenure.
- ✱ Funding of overdue interest.
- ✱ Additional working capital facilities.
- ✱ Re-phasing of instalments.

Since these concessions involve sacrifices by lenders, banks expect borrowers to strengthen the security structure.

The principle followed is:

“Additional concessions should be supported by additional comfort.”

Decline in Value of Existing Security:

Over time, the value of existing securities may decline due to:

- ✱ Depreciation of plant and machinery.
- ✱ Fall in market value of inventory.
- ✱ Reduction in receivable quality.
- ✱ Obsolescence of assets.

Consequently, the existing security coverage may become inadequate.

Banks therefore seek:

- ✱ Additional collateral.
- ✱ Extension of charge over new assets.
- ✱ Equitable mortgage of immovable properties.

to restore adequate security coverage.

Example from the Case Study:

Sunrise Agro-Tech Industries Pvt. Ltd. had:

Outstanding exposure = ₹58 crore.

Current realizable value of primary security = ₹42 crore.

Collateral coverage ratio had weakened because:

- ✱ Inventory levels had become slow-moving.
- ✱ Machinery values had depreciated.

The consortium therefore insisted upon:

- ✱ Equitable mortgage of additional land owned by promoters.
- ✱ Personal guarantees of directors.
- ✱ Extension of charge on future fixed assets.

These measures improved the overall security position.

Indicator of Promoters' Confidence:

Promoters willing to offer additional collateral demonstrate:

- ✱ Confidence in business revival.
- ✱ Willingness to share risks.

- ✦ Commitment to lenders.

Such actions strengthen lender confidence and improve the probability of approval of restructuring proposals.

Mitigation of Loss Given Default (LGD):

Banks assess:

- ✦ Probability of Default (PD).
- ✦ Loss Given Default (LGD).

Additional security reduces LGD because, in the event of failure of restructuring, banks have access to additional assets for recovery.

Thus, collateral improves the risk profile of the account.

Compliance with Internal Credit Policies:

Banks are governed by:

- ✦ RBI prudential norms.
- ✦ Board-approved credit policies.
- ✦ Risk management guidelines.

These policies often prescribe minimum security coverage norms.

If security cover falls below stipulated levels, banks may insist on additional collateral as a precondition for restructuring.

Requirement in Consortium Arrangements:

In consortium or multiple banking arrangements, lenders generally seek equitable sharing of securities.

Additional collateral ensures:

- ✦ Better asset coverage.
- ✦ Equal protection to all lenders.
- ✦ Smooth implementation of the restructuring package.

Alternative Forms of Additional Security:

Banks may accept:

✓ **Immovable Property**

Residential or commercial properties.

✓ **Financial Assets**

Fixed deposits, mutual funds, insurance policies.

✓ **Corporate Guarantees**

Guarantees from group companies.

✓ **Personal Guarantees**

Guarantees from promoters and directors.

✓ **Pledge of Shares**

Promoters' shareholding in the company.

✓ **Assignment of Receivables**

Future cash inflows and receivables.

When Additional Security May Not Be Insisted Upon:

Banks may not insist on additional collateral where:

- ✱ Existing security coverage is adequate.
- ✱ Stress is temporary.
- ✱ Cash flows are robust.
- ✱ Promoters have already infused substantial funds.
- ✱ Government-guaranteed exposures exist.

Thus, the requirement depends upon the overall risk profile of the account.

Importance in Post-Restructuring Recovery:

Additional security enhances recovery prospects in the event of:

- ✱ Failure of restructuring.
- ✱ Initiation of insolvency proceedings.
- ✱ SARFAESI action.
- ✱ Sale of assets.

Therefore, collateral strengthens the exit options available to banks.

To Sum Up:

Banks insist upon additional security or collateral during restructuring because it:

- ✱ Compensates for increased credit risk.
- ✱ Protects against future uncertainties.
- ✱ Restores security coverage.
- ✱ Demonstrates promoters' commitment.
- ✱ Reduces potential losses.
- ✱ Complies with internal risk policies.
- ✱ Improves recovery prospects.

Thus, additional security acts as an important safeguard for lenders and contributes to the successful implementation of restructuring packages.

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Additional Question No. 27: Why Do Banks Conduct Forensic Audits and Verify Digital Footprints Before Approving Restructuring?

Answer:

Banks conduct forensic audits and verify digital footprints before approving restructuring proposals to ascertain whether the financial stress experienced by the borrower is genuine and whether funds have been utilized for the intended purposes. Since restructuring involves further support and concessions by lenders, banks must ensure that the difficulties faced by the borrower arise from business circumstances and not from fraud, diversion of funds, siphoning of money, or wilful default.

Forensic examination and digital footprint analysis therefore help banks distinguish genuine business failures from cases involving misconduct and misrepresentation.

Objective of Forensic Audit:

A forensic audit is a specialized examination conducted to determine:

- ✱ End-use of funds.
- ✱ Diversion or siphoning of funds.
- ✱ Related-party transactions.
- ✱ Fictitious sales and purchases.
- ✱ Fraudulent practices.
- ✱ Misrepresentation in financial statements.

Its objective is to establish whether restructuring support is justified.

Verification of End Use of Funds:

Banks examine whether borrowed funds were utilized for:

- ✱ Purchase of machinery.
- ✱ Working capital requirements.
- ✱ Business operations.

or diverted towards:

- ✱ Group concerns.
- ✱ Real estate investments.
- ✱ Personal expenses.
- ✱ Speculative activities.

If funds have been misused, restructuring may be rejected.

Identification of Related Party Transactions:

Forensic auditors analyse:

- ✱ Advances to sister concerns.

- ✱ Loans to directors.
- ✱ Inter-company transfers.
- ✱ Abnormal transactions.

Excessive related-party dealings may indicate diversion of funds and increase credit risk.

Detection of Fictitious Sales and Purchases:

Banks compare:

- ✱ GST returns.
- ✱ Sales invoices.
- ✱ E-way bills.
- ✱ Bank statements.
- ✱ Debtors and creditors.

The objective is to identify:

- ✱ Circular transactions.
- ✱ Accommodation entries.
- ✱ Artificial inflation of turnover.

Such practices distort financial statements and undermine restructuring assumptions.

Verification Through Digital Footprints:

Modern banking increasingly relies upon digital evidence.

Banks verify:

✓ **GST Portal**

Consistency of sales and purchases.

✓ **Income Tax Portal**

Turnover and profitability declarations.

✓ **MCA Filings**

Financial statements and corporate disclosures.

✓ **E-Way Bill Records**

Movement of goods.

✓ **EPFO and ESIC Data**

Employment and operational status.

✓ **Utility Bills**

Electricity consumption indicating production activity.

✓ **Geotagged Site Inspections**

Physical existence and operational status of assets.

✓ **Website and Social Media Presence**

Customer engagement and market activity.

✓ **E-commerce Platforms**

Sales activity and customer reviews.

These digital footprints provide independent confirmation regarding business operations.

Prevention of Wilful Default:

Banks distinguish between:

Genuine Financial Stress:

Caused by:

- ✱ Market slowdown.
- ✱ Delayed collections.
- ✱ Increase in costs.

And

Wilful Default:

Involving:

- ✱ Diversion of funds.
- ✱ Disposal of securities.
- ✱ Non-cooperation with lenders.

Wilful defaulters are generally not eligible for restructuring benefits.

Example from the Case Study:

During the restructuring of Sunrise Agro-Tech Industries Pvt. Ltd., forensic examination revealed:

Positive Findings:

- ✱ No diversion of funds.
- ✱ Genuine sales transactions.
- ✱ Business operations continuing.
- ✱ No suspicious related-party transactions.

Digital footprint analysis confirmed:

- ✱ GST filings were regular.
- ✱ Electricity consumption matched production levels.

- ✦ Customer orders were genuine.
- ✦ E-way bills supported sales.

Consequently, lenders concluded that the stress was genuine and approved restructuring.

Compliance with Regulatory Expectations:

Banks are expected to comply with:

- ✦ RBI guidelines.
- ✦ Fraud monitoring frameworks.
- ✦ Internal credit policies.

Forensic audits help ensure that public funds are not used to support fraudulent entities.

Preservation of Asset Quality:

Early detection of fraud enables banks to:

- ✦ Avoid additional exposure to risky accounts.
- ✦ Protect asset quality.
- ✦ Minimize future losses.

Therefore, forensic audits serve as an important risk management tool.

Support for Techno-Economic Viability Studies:

TEV studies assume that:

- ✦ Historical data is reliable.
- ✦ Financial statements are accurate.
- ✦ Sales and cash flows are genuine.

Forensic verification enhances the reliability of these assumptions and strengthens the restructuring proposal.

Importance in Consortium Lending:

Where multiple lenders are involved, forensic reports provide a common basis for:

- ✦ Credit decisions.
- ✦ Risk assessment.
- ✦ Monitoring mechanisms.

This promotes transparency and consistency among consortium members.

Post-Restructuring Monitoring:

Digital footprints continue to be used after restructuring to monitor:

- ✦ GST turnover.
- ✦ E-way bill generation.

- ✱ Utility consumption.
- ✱ Employee strength.
- ✱ Online customer activity.

These indicators provide early warning signals regarding deterioration in business performance.

To Sum Up:

Banks conduct forensic audits and verify digital footprints before approving restructuring because these tools help determine whether financial stress is genuine and whether the borrower deserves revival support. They enable banks to:

- ✱ Verify end use of funds.
- ✱ Detect diversion and fraud.
- ✱ Validate business operations.
- ✱ Confirm sales and cash flows.
- ✱ Distinguish genuine borrowers from wilful defaulters.
- ✱ Strengthen TEV studies.
- ✱ Protect public funds and asset quality.

Therefore, forensic audits and digital footprint analysis have become indispensable components of modern restructuring and credit risk management frameworks.

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Additional Question No. 28: Why Do Banks Compare Stock Levels and Debtors with Sales While Evaluating a Restructuring Proposal?

Answer:

During the restructuring of stressed loan accounts, banks place considerable emphasis on analysing stock levels and debtors in relation to sales because inventories and receivables constitute the major components of working capital. The relationship between sales, stock, and debtors provides valuable insights into the operational efficiency, liquidity position, quality of assets, and cash generation capability of the borrowing entity. Since repayment of loans ultimately depends upon the conversion of inventory into sales and sales into cash, banks carefully examine these parameters to determine whether the restructuring proposal is viable and sustainable.

A mismatch between stock levels, debtors, and sales often serves as an early warning signal of financial stress, inefficient working capital management, or even possible diversion of funds.

Importance of Inventory and Debtors in Working Capital Cycle:

The operating cycle of a manufacturing or trading concern consists of:

- ✱ Procurement of raw materials.
- ✱ Conversion into finished goods.
- ✱ Sale of finished goods.

- ✱ Collection of receivables.

Cash generated from this cycle is utilized for:

- ✱ Payment to suppliers.
- ✱ Employee expenses.
- ✱ Statutory dues.
- ✱ Servicing of bank loans.

Therefore, efficient management of stock and debtors is essential for maintaining liquidity and debt servicing capability.

Correlation Between Sales and Inventory Levels:

Normally, inventory levels should be proportionate to sales.

Example:

Historical Position

Particulars	FY 2023-24
Sales	₹100 Crore
Inventory	₹18 Crore

Inventory-to-Sales Ratio = 18%

Suppose during FY 2024-25:

Particulars	FY 2024-25
Sales	₹75 Crore
Inventory	₹25 Crore

Inventory-to-Sales Ratio = 33%

Interpretation:

This increase indicates:

- ✱ Slow-moving inventory.
- ✱ Weak demand.
- ✱ Production imbalance.
- ✱ Accumulation of unsold stock.

Such conditions adversely affect cash flows and may necessitate restructuring.

Evaluation of Receivables in Relation to Sales:

Debtors should also remain proportionate to turnover.

Example:

Historical Position:

Sales = ₹100 crore.

Average debtors = ₹15 crore.

Debtor collection period = 55 days.

Current Position

Sales = ₹75 crore.

Debtors = ₹24 crore.

Collection period = 117 days.

Interpretation:

Increase in debtor days indicates:

- ✱ Delay in collections.
- ✱ Weak customer quality.
- ✱ Liquidity constraints.
- ✱ Potential bad debts.

These factors directly affect repayment capacity.

Assessment of Working Capital Efficiency:

Banks calculate:

Inventory Holding Period

$\text{Inventory} \div \text{Cost of Goods Sold} \times 365$

Debtors Collection Period

$\text{Receivables} \div \text{Sales} \times 365$

Operating Cycle

$\text{Inventory Days} + \text{Debtor Days} - \text{Creditor Days}$

Long operating cycles increase dependence on working capital borrowings and create liquidity stress.

Detection of Financial Stress:

Abnormal stock accumulation and increasing receivables often indicate:

- ✱ Declining market demand.
- ✱ Excess production.
- ✱ Weak sales realization.
- ✱ Customer defaults.
- ✱ Operational inefficiencies.

These trends help banks identify the root causes of stress and formulate appropriate restructuring measures.

Identification of Window Dressing and Inflated Sales:

Banks compare:

- ✱ Stock statements.
- ✱ GST returns.
- ✱ Debtors' ledgers.
- ✱ Sales registers.
- ✱ E-way bills.

To detect:

- ✱ Artificial sales.
- ✱ Accommodation entries.
- ✱ Fictitious debtors.
- ✱ Inflated inventory.

For example:

High debtors accompanied by stagnant collections may indicate fictitious sales designed to overstate turnover.

Impact on Cash Flow Generation:

Inventory and receivables lock up funds.

Excessive levels result in:

- ✱ Reduced liquidity.
- ✱ Higher working capital requirements.
- ✱ Delays in debt servicing.

Therefore, banks analyse whether future projections provide adequate improvement in stock turnover and debtor realization.

Assessment of Additional Working Capital Requirements:

Suppose:

Inventory = ₹25 crore.

Debtors = ₹20 crore.

Creditors = ₹10 crore.

Working Capital Gap = ₹35 crore.

Banks determine whether:

- ✱ Existing working capital limits are adequate.
- ✱ Additional working capital support is necessary.
- ✱ Promoters should contribute additional funds.

Thus, stock and debtor analysis helps determine funding requirements under restructuring.

Role in TEV Study:

Techno-Economic Viability studies evaluate:

- ✱ Inventory norms.
- ✱ Debtor levels.
- ✱ Operating cycle requirements.
- ✱ Working capital needs.

These estimates form the basis for projecting future cash flows and DSCR.

Example from the Case Study:

Sunrise Agro-Tech Industries Pvt. Ltd. experienced:

Decline in Sales

From ₹102 crore to ₹74 crore.

Increase in Inventory

From ₹18 crore to ₹27 crore.

Increase in Debtors

From ₹14 crore to ₹23 crore.

The banks concluded that:

- ✱ Slow-moving inventory and delayed collections had caused liquidity stress.
- ✱ The problem was operational rather than structural.
- ✱ Additional working capital and better inventory management would restore normalcy.

Hence restructuring was considered feasible.

Importance in Post-Restructuring Monitoring:

Banks continue to monitor:

- ✱ Stock turnover.
- ✱ Debtor ageing.
- ✱ Collection efficiency.

Improvement in these parameters indicates successful implementation of the restructuring package.

To Sum Up:

Banks compare stock levels and debtors with sales because these parameters reflect the efficiency of working capital management and the ability of the business to generate cash. Such analysis enables banks to:

- ✱ Identify liquidity problems.

- ✦ Detect operational inefficiencies.
- ✦ Estimate working capital requirements.
- ✦ Detect fictitious sales and inventory.
- ✦ Evaluate cash flow generation.
- ✦ Structure appropriate restructuring packages.

Therefore, stock and debtor analysis forms an integral part of viability assessment and loan restructuring.

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Additional Question No. 29: Why Is Debt Service Coverage Ratio (DSCR) Considered One of the Most Important Indicators During Loan Restructuring?

Answer:

Debt Service Coverage Ratio (DSCR) is regarded as one of the most important indicators during restructuring because it measures the ability of a borrowing entity to generate sufficient cash flows to service its debt obligations. The ultimate objective of restructuring is to restore the borrower's repayment capacity. Since debt servicing depends upon cash generation rather than accounting profits, banks rely heavily upon DSCR to assess whether the proposed restructuring package is viable and sustainable.

A restructuring proposal with inadequate DSCR is unlikely to succeed, irrespective of projected sales or profitability.

Meaning of DSCR:

Debt Service Coverage Ratio represents the relationship between cash available for servicing debt and the amount required for debt servicing.

Formula:

DSCR = Cash Accrual Available for Debt Service ÷ Total Debt Service Obligations

Where:

Debt service obligations include:

- ✦ Interest payments.
- ✦ Principal repayments.

Indicator of Repayment Capacity:

DSCR indicates whether the borrower can comfortably meet repayment obligations from internal cash generation.

Example:

Cash Accrual = ₹12 crore.

Interest = ₹3 crore.

Principal Repayment = ₹6 crore.

Debt Service = ₹9 crore.

$$\text{DSCR} = 12 \div 9 = 1.33.$$

This means that the borrower generates ₹1.33 for every ₹1 of debt obligation.

Thus, the repayment capacity is considered satisfactory.

Foundation of Restructuring Viability:

Future cash flows are the basis of restructuring.

Banks evaluate:

- ✱ Historical DSCR.
- ✱ Projected DSCR.
- ✱ Average DSCR.
- ✱ Minimum DSCR.

Only when DSCR remains above acceptable levels do banks consider restructuring proposals viable.

Indicator of Cash Flow Adequacy:

Profitability alone does not guarantee debt repayment.

A company may show accounting profits but suffer from:

- ✱ Delayed collections.
- ✱ High inventory.
- ✱ Liquidity shortages.

DSCR reflects actual cash generation and therefore provides a more reliable indicator of repayment capability.

Determination of Sustainable Debt:

Banks classify debt into:

Sustainable Debt

Debt supported by future cash flows.

Unsustainable Debt

Debt exceeding repayment capacity.

DSCR plays a key role in determining sustainable debt levels and repayment schedules.

Structuring Moratorium and Repayment Tenure:

Where DSCR is weak, banks may provide:

- ✱ Moratorium on principal.
- ✱ Extension of repayment period.
- ✱ Funding of interest.

These measures improve DSCR and enhance the probability of successful revival.

Sensitivity Analysis Based on DSCR:

Banks perform stress tests under different scenarios.

Base Case

DSCR = 1.45.

Sales decline by 10%

DSCR = 1.20.

Raw material cost increase by 15%

DSCR = 1.10.

Increase in collection period

DSCR = 1.05.

If DSCR remains above one under adverse conditions, the restructuring proposal is considered resilient.

Benchmarks Used by Banks:

Generally:

DSCR Level	Interpretation
Below 1.0	Inadequate debt servicing
1.0 – 1.20	Marginally acceptable
1.20 – 1.50	Comfortable
Above 1.50	Strong repayment capability

Average DSCR above 1.25 is generally considered desirable.

Role in TEV Studies:

TEV consultants compute:

- ✱ Annual DSCR.
- ✱ Average DSCR.
- ✱ Minimum DSCR.

These ratios help determine:

- ✱ Viability.
- ✱ Sustainable debt.
- ✱ Moratorium requirements.
- ✱ Additional financing needs.

Example from the Case Study:**Before Restructuring:**

Cash Accrual = ₹6 crore.

Debt Service = ₹9 crore.

DSCR = 0.67.

This indicated inability to service existing debt.

After Restructuring:

Cash Accrual = ₹11 crore.

Debt Service = ₹8 crore.

DSCR = 1.38.

The improved DSCR established the viability of the restructuring proposal.

Post-Restructuring Monitoring Tool:

Banks continuously compare:

Projected DSCR versus Actual DSCR.

Declining DSCR serves as an early warning signal of:

- ✱ Falling sales.
- ✱ Rising costs.
- ✱ Liquidity stress.

This enables banks to initiate corrective actions promptly.

Regulatory and Credit Risk Importance:

DSCR is an essential parameter in:

- ✱ Credit appraisal.
- ✱ TEV studies.
- ✱ Project finance.
- ✱ Restructuring proposals.
- ✱ Risk rating models.

It assists banks in preserving asset quality and reducing future NPAs.

To Sum Up:

Debt Service Coverage Ratio is considered one of the most important indicators during restructuring because it directly measures the ability of the borrower to generate sufficient cash to meet debt obligations. DSCR enables banks to:

- ✱ Assess repayment capacity.
- ✱ Determine sustainable debt.
- ✱ Structure repayment schedules.
- ✱ Conduct sensitivity analysis.

- ✦ Evaluate viability.
- ✦ Monitor post-restructuring performance.

Therefore, DSCR serves as the cornerstone of loan restructuring and is often regarded as the most critical ratio in determining whether a stressed borrower can successfully revive operations and honour restructured debt obligations.

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Additional Question No. 30: Why Do Banks Analyse Compliance with Financial Covenants Before Restructuring Loans?

Answer:

Banks analyse compliance with financial covenants before approving restructuring proposals because financial covenants constitute important contractual safeguards incorporated in loan agreements to protect the interests of lenders. These covenants impose financial discipline on borrowers and provide early warning signals regarding deterioration in financial health. Persistent violation of covenants may indicate deeper operational, financial, or governance problems, thereby affecting the viability of the restructuring proposal.

Therefore, covenant compliance forms an important part of credit appraisal and restructuring decisions.

Understanding Financial Covenants:

Financial covenants are conditions stipulated in sanction letters and loan agreements requiring borrowers to maintain specified financial parameters and submit information periodically.

Common financial covenants include:

- ✦ Current Ratio.
- ✦ Debt-Equity Ratio.
- ✦ TOL/TNW Ratio.
- ✦ DSCR.
- ✦ Interest Coverage Ratio.
- ✦ Minimum Net Worth.

Operational and information covenants may include:

- ✦ Submission of stock statements.
- ✦ Quarterly financial statements.
- ✦ Insurance coverage.
- ✦ Statutory compliance.
- ✦ Restrictions on additional borrowings.

These covenants help banks monitor the financial health of borrowers.

Indicator of Financial Discipline:

Compliance with covenants reflects:

- ✱ Quality of management.
- ✱ Financial prudence.
- ✱ Corporate governance standards.
- ✱ Transparency.

Borrowers who consistently comply with covenant requirements generally exhibit responsible financial behaviour.

Persistent violations may indicate:

- ✱ Weak internal controls.
- ✱ Financial indiscipline.
- ✱ Lack of transparency.

Banks consider management quality an important factor during restructuring.

Early Warning Signals of Financial Stress:

Violation of financial covenants often precedes:

- ✱ Liquidity problems.
- ✱ Cash flow shortages.
- ✱ Declining profitability.
- ✱ Repayment defaults.

For example:

Current Ratio stipulated = 1.33: 1.

Actual Current Ratio = 1.05: 1.

This deterioration indicates working capital stress and serves as an early warning signal.

Banks therefore analyse covenant compliance to understand the timing and extent of financial deterioration.

Assessment of Historical Account Conduct:

Banks review:

- ✱ Submission of stock statements.
- ✱ Quarterly Information System (QIS) reports.
- ✱ Audited financial statements.
- ✱ Insurance renewals.

Repeated delays suggest:

- ✱ Weak financial controls.
- ✱ Lack of seriousness.

- ✱ Governance deficiencies.

A borrower with a history of good compliance is generally viewed more favorably for restructuring.

Example from the Case Study:

The following covenant deviations were observed:

✓ **Delay in Submission of Stock Statements**

Monthly stock statements were frequently delayed.

✓ **Failure to Maintain Current Ratio**

The stipulated current ratio of 1.33:1 was not maintained.

✓ **Delay in Submission of Audited Financial Statements**

Financial statements were submitted late.

✓ **Delay in Payment of Statutory Dues**

GST and PF dues were not paid on time.

These observations indicated financial stress but did not necessarily imply fraud or diversion of funds.

Hence, banks treated the stress as genuine and potentially reversible.

Assessment of Promoter Integrity and Transparency.

Banks evaluate whether covenant breaches arose because of:

Genuine Business Difficulties.

or

Concealment and Mismanagement.

Voluntary disclosure and timely communication strengthen the credibility of management.

Conversely, deliberate non-disclosure raises concerns regarding integrity.

Impact on Risk Assessment:

Frequent covenant violations increase the perceived risk of the borrower.

Such violations may indicate:

- ✱ Weak liquidity.
- ✱ Excessive leverage.
- ✱ Poor profitability.
- ✱ Inadequate internal controls.

Banks may therefore seek:

- ✱ Additional collateral.
- ✱ Promoters' contribution.

- ✴ Enhanced monitoring.
- ✴ More stringent conditions.

Identification of Fund Diversion:

Banks investigate whether covenant breaches are linked to:

- ✴ Diversion of funds to group companies.
- ✴ Related-party transactions.
- ✴ Unauthorized investments.
- ✴ Capital expenditure without approval.

Thus, covenant analysis also assists in detecting misuse of funds.

Importance in Structuring the Restructuring Package

Covenant analysis helps banks determine:

- ✴ Need for promoter contribution.
- ✴ Requirement of additional security.
- ✴ Monitoring frequency.
- ✴ Reporting requirements.
- ✴ Corrective actions.

For example, borrowers with repeated delays in submission of stock statements may be required to furnish monthly MIS reports after restructuring.

Role in Regulatory Compliance:

Banks are required to demonstrate that:

- ✴ Due diligence has been carried out.
- ✴ Viability has been established.
- ✴ Governance issues have been examined.

Review of covenant compliance helps banks satisfy regulatory expectations and internal credit policies.

Importance in Post-Restructuring Monitoring:

After restructuring, banks continue to monitor:

- ✴ Current ratio.
- ✴ DSCR.
- ✴ Debt-equity ratio.
- ✴ Stock statements.
- ✴ Statutory payments.

Compliance with revised covenants serves as an indicator of the success of the restructuring package.

Relationship with Techno-Economic Viability:

Covenant compliance influences:

- ✱ Liquidity assessment.
- ✱ Working capital management.
- ✱ Cash flow projections.
- ✱ Debt servicing capability.
- ✱ Sustainable debt.

Therefore, covenant analysis forms an essential component of TEV studies.

To Sum Up:

Banks analyse compliance with financial covenants before restructuring because covenants serve as early warning indicators of financial stress and reflect the quality of management and financial discipline. Covenant analysis enables banks to:

- ✱ Assess management integrity and governance.
- ✱ Identify financial deterioration at an early stage.
- ✱ Evaluate account conduct.
- ✱ Detect diversion of funds.
- ✱ Determine additional safeguards.
- ✱ Structure appropriate restructuring packages.
- ✱ Strengthen post-restructuring monitoring.

Accordingly, satisfactory covenant compliance enhances lender confidence and improves the likelihood of successful restructuring and revival of the borrowing entity.

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A. Detailed Checklist for Bankers for Processing Restructuring of Existing Loans:

Restructuring of loans is a corrective mechanism adopted by banks to revive potentially viable businesses facing temporary financial stress due to liquidity shortages, declining sales, losses, elongated receivable cycles, increased costs, or external economic factors. Before extending restructuring relief, banks are required to conduct a comprehensive appraisal to ensure that the stress is temporary, the business remains viable, and the restructuring package will restore the borrower's repayment capacity.

The following detailed checklist serves as a practical guide for bankers while processing restructuring proposals.

I. Preliminary Eligibility Assessment:

Identification of the Cause of Stress:

Bankers should first determine whether the financial difficulties are temporary or structural. The reasons for stress may include:

- ✱ Decline in demand.
- ✱ Increase in raw material costs.
- ✱ Delay in receivables.
- ✱ Market competition.
- ✱ Economic slowdown.
- ✱ Covid-like disruptions.
- ✱ Loss of export orders.
- ✱ Working capital shortages.

The stress should be business-related and not attributable to fraud, diversion of funds, or wilful default.

Verification:

- ✱ Management discussions.
- ✱ Market reports.
- ✱ Industry analysis.
- ✱ Account conduct review.

Status of the Loan Account:

Banks should ascertain:

- ✱ Standard Asset status.
- ✱ SMA-0, SMA-1, or SMA-2 classification.
- ✱ Whether the account has already become NPA.
- ✱ Existing overdue position.

Documents Required:

- ✱ Account statements.
- ✱ IRAC classification reports.
- ✱ CIBIL reports.
- ✱ CRILC data.

II. Verification of Historical Financial Performance:

Sales and Turnover Analysis

Historical sales should be verified to understand trends and assess future sustainability.

Verification Sources:

- ✱ Audited financial statements.
- ✱ GST returns.
- ✱ GSTR-1 and GSTR-3B.
- ✱ Income-tax returns.
- ✱ Bank account credits.
- ✱ E-way bills.
- ✱ Debtors' ledger.

Areas to Examine:

- ✱ Sales growth pattern.
- ✱ Seasonal fluctuations.
- ✱ Product-wise turnover.
- ✱ Major customers.
- ✱ Export sales.

Red Flags:

- ✱ Sharp decline in sales.
- ✱ Inflated turnover.
- ✱ Mismatch between GST returns and financial statements.

- ✱ Abnormal spikes in year-end sales.

Capacity Utilization Verification:

Installed capacity and actual production should be examined.

Documents:

- ✱ Production records.
- ✱ Excise records (where applicable).
- ✱ Electricity consumption data.
- ✱ Factory inspection reports.
- ✱ Machinery details.

Analysis:

Bankers should evaluate:

- ✱ Actual utilization levels.
- ✱ Idle capacity.
- ✱ Technical obsolescence.
- ✱ Scope for production improvement.

Red Flags:

- ✱ Machinery lying idle.
- ✱ Obsolete equipment.
- ✱ Closure of factory operations.

Profitability and EBITDA Analysis:

Operating profitability determines the borrower's ability to generate cash.

Parameters:

- ✱ EBITDA margin.
- ✱ Gross profit ratio.
- ✱ Net profit ratio.
- ✱ Cost structure.

Verification:

- ✱ Audited financial statements.
- ✱ Cost records.
- ✱ Management accounts.

Red Flags:

- ✱ Continuous operating losses.
- ✱ Negative EBITDA.
- ✱ Abnormal increase in expenses.

III. Cash Flow and Debt Servicing Analysis:**Operating Cash Flow Assessment:**

Cash generation is more important than accounting profits.

Bankers Should Examine:

- ✱ Cash from operations.
- ✱ Working capital cycle.
- ✱ Interest obligations.
- ✱ Capital expenditure requirements.

Documents:

- ✱ Cash flow statements.
- ✱ CMA data.
- ✱ Projected financial statements.

Red Flags:

- ✱ Negative cash flows.
- ✱ Persistent cash deficits.
- ✱ Dependency on fresh borrowings.

DSCR Analysis:

Debt Service Coverage Ratio indicates repayment capability.

Normal Benchmarks:

- ✱ Above 1.25: Comfortable.
- ✱ 1.00 to 1.25: Marginal.
- ✱ Below 1.00: Unsatisfactory.

Verification:

DSCR should be calculated for all projected years.

Red Flags:

- ✱ DSCR below one.

- ✱ Highly optimistic assumptions.
- ✱ Ballooning repayments.

IV. Working Capital Assessment

Inventory Verification:

Stock forms the primary security under working capital facilities.

Documents:

- ✱ Monthly stock statements.
- ✱ Insurance policies.
- ✱ Physical inspection reports.
- ✱ GST returns.
- ✱ Inventory registers.

Parameters:

- ✱ **Raw Materials**
Adequacy of inventory levels.
- ✱ **Work-in-Progress**
Production cycle efficiency.
- ✱ **Finished Goods**
Marketability and ageing.

Red Flags:

- ✱ Obsolete inventory.
- ✱ Excessive stock accumulation.
- ✱ Slow-moving goods.
- ✱ Under-insurance.

Debtors Verification:

Receivables significantly influence liquidity.

Documents:

- ✱ Debtors ageing statements.
- ✱ Major customer confirmations.
- ✱ GST records.
- ✱ Sales ledgers.

Areas to Review:

- ✱ Ageing pattern.
- ✱ Top ten debtors.
- ✱ Related-party receivables.
- ✱ Bad debts.

Red Flags:

- ✱ Receivables exceeding 90-180 days.
- ✱ Concentration in few customers.
- ✱ Related-party debtors.

Creditor Position:

Bankers should assess trade creditor liabilities.

Verification

- ✱ Ageing statements.
- ✱ Supplier confirmations.
- ✱ Outstanding dues.

Red Flags:

- ✱ Excessive creditor overdues.
- ✱ Supplier disputes.
- ✱ Discontinuance of supplies.

V. Assessment of Projections:

Sales Projections:

Projected turnover should be realistic.

Bankers Should Verify:

- ✱ Order book position.
- ✱ Purchase orders.
- ✱ Industry demand.
- ✱ Competitor analysis.
- ✱ Export opportunities.

Red Flags:

- ✱ Unrealistic growth assumptions.
- ✱ Lack of supporting orders.

Projected Profitability:

Projected margins should be supported by:

- ✱ Cost reduction measures.
- ✱ Improved efficiency.
- ✱ Better capacity utilization.

Red Flags:

- ✱ Sudden increase in margins.
- ✱ Unsupported assumptions.

Cash Flow Projections:

Cash flows should adequately cover:

- ✱ Operating expenses.
- ✱ Interest.
- ✱ Principal repayments.

Sensitivity Analysis:

Banks should test:

- ✱ 10% lower sales.
- ✱ Increase in raw material prices.
- ✱ Delay in receivables.

Red Flags:

- ✱ Tight liquidity.
- ✱ Inability to withstand stress scenarios.

VI. Security and Collateral Verification:**Primary Security:**

Verification of:

- ✱ Stocks.
- ✱ Receivables.
- ✱ Plant and machinery.

Physical Inspection:

Site visits should confirm:

- ✱ Existence of assets.
- ✱ Operational status.

- ✱ Adequacy of insurance.

Collateral Security:

Bankers should verify:

Legal Ownership:

- ✱ Title deeds.
- ✱ Encumbrance certificates.

Valuation:

Fresh valuation reports.

SARFAESI Suitability:

Whether security can be enforced in case of default.

Red Flags:

- ✱ Defective title.
- ✱ Declining market value.

VII. Promoter Assessment:**Promoters' Commitment:**

Management commitment is crucial for revival.

Areas to Verify:

- ✱ Experience.
- ✱ Integrity.
- ✱ Track record.
- ✱ Financial strength.

Promoters' Contribution:

Banks may insist upon:

- ✱ Equity infusion.
- ✱ Unsecured loans.
- ✱ Subordination agreements.

Red Flags:

- ✱ Lack of promoter support.
- ✱ Frequent management changes.

VIII. Account Conduct Review:

Repayment History:

Bankers should examine:

- ✱ Interest servicing pattern.
- ✱ EMI payments.
- ✱ Previous restructuring history.

Documents:

- ✱ Loan account statements.
- ✱ SMA reports.

Red Flags:

- ✱ Persistent irregularity.
- ✱ Multiple restructurings.
- ✱ Frequent overdrawings.

IX. Statutory Compliance Verification:

GST Compliance:

Verification of:

- ✱ GSTR-1.
- ✱ GSTR-3B.
- ✱ GST payments.

Red Flags:

- ✱ Return mismatches.
- ✱ Tax arrears.

Income Tax Compliance:

Review of:

- ✱ Income-tax returns.
- ✱ Tax audit reports.
- ✱ Outstanding tax liabilities.

Labour Law Compliance:

Verification of:

- ✱ PF dues.
- ✱ ESI dues.
- ✱ Professional tax.

Red Flags:

- ✱ Statutory defaults.
- ✱ Litigation with employees.

X. Covenant Compliance Review:

Banks should review compliance with sanction conditions.

Financial Covenants:

- ✱ Current ratio.
- ✱ TOL/TNW ratio.
- ✱ DSCR.
- ✱ Debt-equity ratio.

Information Covenants:

Timely submission of:

- ✱ Stock statements.
- ✱ QIS statements.
- ✱ Audited accounts.
- ✱ Insurance policies.

Red Flags:

- ✱ Repeated covenant breaches.
- ✱ Delayed submissions.

XI. Related Party Transactions Examination:

Banks should verify:

- ✱ Advances to sister concerns.
- ✱ Loans to directors.
- ✱ Inter-corporate deposits.
- ✱ Excessive related-party sales.

Documents:

- ✱ Auditor's report.
- ✱ Notes to accounts.
- ✱ Related-party schedules.

Red Flags:

- ✱ Fund diversion.
- ✱ Preferential treatment.

XII. Digital Footprint Verification:**GST Analytics:**

Comparison of turnover with projections.

MCA Portal:

Review of:

- ✱ Charges.
- ✱ Directors.
- ✱ Financial statements.
- ✱ Income Tax Portal:

Cross-check of income declarations.

Credit Information Reports:

Examination of:

- ✱ CIBIL.
- ✱ CRIF High Mark.
- ✱ Equifax.

Market Intelligence:

Review through:

- ✱ Website activity.
- ✱ Customer feedback.
- ✱ Social media presence.

Red Flags:

- ✱ Dormant operations.
- ✱ Negative market reports.

XIII. Legal and Regulatory Review:

Verification of:

- ✱ Pending litigation.
- ✱ SARFAESI proceedings.
- ✱ DRT cases.

- ✱ NCLT matters.

Documents:

- ✱ Legal audit report.
- ✱ Advocate's opinion.

Red Flags:

- ✱ Serious legal disputes.
- ✱ Attachment of assets.

XIV. Forensic and Fraud Risk Assessment

Bankers should investigate:

- ✱ **Diversion of Funds**

Tracing end-use of borrowings.

- ✱ **Round-Tripping Transactions**

Review of suspicious transactions.

- ✱ **Evergreening of Accounts**

Identification of accommodation entries.

- ✱ **Related Party Payments**

Scrutiny of unusual transfers.

Red Flags:

- ✱ Large cash withdrawals.
- ✱ Circular transactions.
- ✱ Bogus debtors.

XV. Techno-Economic Viability (TEV) Analysis:

Banks should evaluate:

Technical Viability:

- ✱ Condition of machinery.
- ✱ Availability of raw materials.
- ✱ Skilled manpower.

Economic Viability:

- ✱ Market demand.
- ✱ Industry outlook.

Financial Viability:

- ✱ Profitability.
- ✱ Cash generation.
- ✱ Debt servicing capacity.

Commercial Viability:

- ✱ Customer base.
- ✱ Competitive position.

XVI. Preparation of Restructuring Package:

The package may include:

- ✱ **Rescheduling of Principal**
Extension of repayment period.
- ✱ **Moratorium**
Temporary deferment of principal.
- ✱ **Funding of Interest**
Conversion into FITL.
- ✱ **Additional Working Capital**
To restore operations.
- ✱ **Reduction in Interest Rate**
Where permissible.
- ✱ **Conversion into Equity or Preference Shares**
In deserving cases.
- ✱ **Promoters' Contribution**
Fresh infusion to demonstrate commitment.

XVII. Monitoring Framework After Restructuring

Banks should establish quarterly monitoring of:

- ✱ **Sales Performance**
Comparison of actual versus projected turnover.
- ✱ **Capacity Utilization**
Plant utilization trends.
- ✱ **EBITDA**
Operating profitability.

✱ Cash Flows

Generation and deployment of funds.

✱ DSCR

Repayment capability.

✱ Inventory Levels

Ageing and turnover.

✱ Debtors Collection

Reduction in receivable cycle.

✱ Covenant Compliance

Adherence to sanction conditions.

✱ Statutory Dues

Regular payment of taxes and employee dues.

✱ Security Coverage

Adequacy of collateral and insurance.

Comprehensive Decision Matrix for Bankers

Before approving restructuring, bankers should satisfy themselves that:

- ☐ The stress is temporary and reversible.
- ☐ Operations are continuing and assets are productive.
- ☐ No fraud or wilful default exists.
- ☐ Historical performance supports projected recovery.
- ☐ Cash flows are sufficient to service debt after restructuring.
- ☐ Promoters are committed and willing to bring additional funds.
- ☐ Security coverage remains adequate.
- ☐ Statutory and regulatory compliances are substantially in order.
- ☐ TEV study establishes viability.
- ☐ Continuous monitoring mechanisms are built into the restructuring package.

Only after these conditions are satisfactorily fulfilled should restructuring relief be extended, ensuring that the restructuring exercise leads to revival of the borrower



rather than postponement of inevitable default.

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B. Information and Documents to be Submitted by the Borrowing Entity for Processing Restructuring of Existing Loans by Banks

Restructuring of existing loans is not merely a rescheduling exercise but a comprehensive viability assessment undertaken by banks to determine whether the borrowing unit can be revived and regain its debt-servicing capability. Since restructuring involves modification of the original terms and conditions of the loan, banks require extensive financial, operational, legal, and managerial information from the borrower. Such information enables bankers to distinguish temporary financial stress from permanent business failure and to formulate a suitable restructuring package.

The following information and documents are generally required from the borrowing entity, along with the purpose they serve in the restructuring appraisal process.

Request Letter Seeking Restructuring Assistance:

The borrower is required to submit a formal request to the bank seeking restructuring of the existing facilities. The letter should clearly explain the reasons for financial stress, circumstances leading to default, and the relief sought from the bank.

Why this information is useful:

The request letter forms the basis of the restructuring proposal. It enables the bank to understand whether the stress is due to temporary liquidity issues, market conditions, external factors, or management inefficiencies. It also provides a starting point for further examination.

Detailed Note on Reasons for Financial Stress:

The borrower should provide a comprehensive note explaining:

- ✱ Decline in sales.
- ✱ Increase in input costs.
- ✱ Loss of major customers.
- ✱ Delay in receivables.

- ✱ Industry slowdown.
- ✱ Pandemic or natural calamities.
- ✱ Working capital shortages.

Why this information is useful:

Banks need to determine whether the problems are temporary and reversible or structural and irreversible. A proper understanding of the causes helps the bank assess the viability of revival.

Audited Financial Statements of Previous Years:

The borrower should submit audited financial statements, generally for the last three to five years, comprising:

- ✱ Balance Sheets.
- ✱ Profit and Loss Accounts.
- ✱ Cash Flow Statements.
- ✱ Schedules and Notes to Accounts.
- ✱ Auditor's Reports.

Why this information is useful:

Historical financial statements enable banks to examine:

- ✱ Sales trends.
- ✱ Profitability.
- ✱ Net worth position.
- ✱ Debt levels.
- ✱ Capital structure.
- ✱ Operating efficiency.

Banks compare past performance with projected performance to assess whether the assumptions underlying the restructuring proposal are realistic.

Provisional Financial Statements of the Current Year:

Where audited statements are not yet available, provisional accounts up to the latest month or quarter should be submitted.

Why this information is useful:

Current financial data reflects the latest operational and

liquidity position of the unit and enables bankers to assess the extent of stress and deterioration in business performance.

Cash Flow Statements:

The borrower should submit historical and projected cash flow statements showing:

- ✱ Cash inflows.
- ✱ Cash outflows.
- ✱ Operating cash generation.
- ✱ Interest obligations.
- ✱ Repayment commitments.

Why this information is useful:

Banks are primarily concerned with cash generation rather than accounting profits. Cash flow statements help determine the ability of the borrower to service debt after restructuring.

Projected Financial Statements and CMA Data:

The borrower should furnish projected financial statements for the next five to ten years, including:

- ✱ Projected Balance Sheets.
- ✱ Profit and Loss Accounts.
- ✱ Cash Flow Statements.
- ✱ CMA Data.
- ✱ Fund Flow Statements.

Why this information is useful:

These projections form the foundation of restructuring decisions. Banks evaluate future sales, profitability, working capital requirements, and debt-servicing capacity based on these statements.

Sales and Turnover Information:

Details of:

- ✱ Product-wise sales.
- ✱ Customer-wise sales.
- ✱ Domestic and export sales.
- ✱ Region-wise turnover.

- ✱ Order book position.

Should be furnished.

Why this information is useful:

Banks verify whether future sales projections are supported by actual demand and market potential. Sales information also helps assess capacity utilization and operating leverage.

GST Returns and E-Way Bills:

Copies of:

- ✱ GSTR-1.
- ✱ GSTR-3B.
- ✱ Annual GST Returns.
- ✱ E-way bills.

Should be submitted.

Why this information is useful:

Banks use GST records to verify the authenticity of turnover reported in the financial statements. These documents help identify discrepancies or inflation of sales figures.

Income Tax Returns and Tax Audit Reports:

Borrowers should provide:

- ✱ Income Tax Returns.
- ✱ Computation of Income.
- ✱ Tax Audit Reports.
- ✱ Assessment Orders, if any.

Why this information is useful:

Income tax documents provide an independent source for verifying profitability and income declarations. They also reveal pending tax liabilities and contingent obligations.

Stock Statements and Inventory Records:

The borrower should submit:

- ✱ Monthly stock statements.
- ✱ Inventory registers.
- ✱ Product-wise stock details.

- ★ Ageing analysis of inventory.

Why this information is useful:

Inventory constitutes primary security for working capital facilities. Banks verify stock levels to ensure that drawing power calculations are supported by actual inventory.

Excessive or obsolete stocks indicate inefficient working capital management.

Debtors and Creditors Ageing Statements:

Detailed ageing schedules of receivables and payables should be submitted.

Why this information is useful:

Banks analyse:

- ★ Collection efficiency.
- ★ Liquidity position.
- ★ Slow-moving receivables.
- ★ Dependency on a few customers.

Long outstanding debtors often indicate future cash flow problems.

Details of Existing Banking Facilities:

Information regarding:

- ★ Term loans.
- ★ Cash credit limits.
- ★ Non-fund-based limits.
- ★ Facilities availed from other banks.
- ★ Security charged to lenders.

Should be furnished.

Why this information is useful:

Banks require complete information about total indebtedness and charge structure before considering restructuring. This helps in determining debt sustainability.

Loan Account Statements:

Copies of loan account statements and repayment schedules should be submitted.

Why this information is useful:

Banks analyse the repayment track record, account conduct, frequency of irregularities, and previous restructuring history.

Details of Statutory Liabilities:

Information relating to:

- ★ GST dues.
- ★ Income tax liabilities.
- ★ PF dues.
- ★ ESI dues.
- ★ Professional tax.
- ★ Municipal taxes.

Should be submitted.

Why this information is useful:

Statutory liabilities are priority obligations. Persistent defaults may expose the business to legal risks and affect viability.

Details of Contingent Liabilities and Litigation:

Borrowers should disclose:

- ★ Court cases.
- ★ Arbitration proceedings.
- ★ Tax disputes.
- ★ Labour disputes.
- ★ Guarantees issued.

Why this information is useful:

Pending litigation may adversely affect future cash flows and business continuity. Banks consider these liabilities while assessing risk.

Details of Capacity Utilization and Production:

The borrower should furnish:

- ★ Installed capacity.
- ★ Actual production levels.
- ★ Capacity utilization.

- ✱ Production schedules.

Why this information is useful:

Banks determine whether the plant is underutilized because of temporary constraints or whether the business suffers from structural inefficiencies.

List of Major Customers and Suppliers:

Information regarding:

- ✱ Top customers.
- ✱ Major suppliers.
- ✱ Credit terms.
- ✱ Purchase commitments.

Should be provided.

Why this information is useful:

Banks assess concentration risks and dependency on a few customers or suppliers. Excessive dependence increases business vulnerability.

Order Book Position and Confirmed Purchase Orders:

Copies of:

- ✱ Purchase orders.
- ✱ Supply contracts.
- ✱ Export orders.
- ✱ Agreements with customers.

Should be submitted.

Why this information is useful:

These documents provide support for projected sales and future cash flows and strengthen the viability of the restructuring proposal.

Details of Security and Collateral Assets:

Borrowers should provide:

- ✱ Title deeds.
- ✱ Property documents.
- ✱ Plant and machinery details.
- ✱ Fixed asset register.

- ✱ Insurance policies.

Why this information is useful:

Banks verify the adequacy and enforceability of security available against existing exposure.

Latest Valuation Reports:

Borrowers may be required to provide recent valuation reports of secured assets.

Why this information is useful:

Valuation reports help determine security coverage and assess whether additional collateral is necessary.

Insurance Policies:

Copies of current insurance policies covering stocks and fixed assets should be submitted.

Why this information is useful:

Insurance protects the bank's security against unforeseen risks and ensures continuity of business operations.

Details of Related Party Transactions:

Borrowers should disclose:

- ✱ Transactions with sister concerns.
- ✱ Advances to directors.
- ✱ Inter-corporate deposits.
- ✱ Investments in associate companies.

Why this information is useful:

Banks examine related-party transactions to identify diversion of funds and potential conflicts of interest.

Details of Promoters' Assets and Net Worth:

Statements relating to:

- ✱ Personal assets.
- ✱ Investments.
- ✱ Liabilities.
- ✱ Net worth.

Should be furnished.

Why this information is useful:

Promoters' financial strength indicates their ability to bring additional funds and support revival efforts.

Promoters' Contribution Proposal:

The borrower should specify:

- ✱ Amount proposed to be infused.
- ✱ Source of funds.
- ✱ Time schedule.

Why this information is useful:

Fresh promoter contribution demonstrates commitment and improves lender confidence.

Details of Group Companies and Associate Concerns:

Information relating to:

- ✱ Shareholding pattern.
- ✱ Financial statements of group entities.
- ✱ Inter-company transactions.

Should be furnished.

Why this information is useful:

Banks evaluate whether group entities are financially strong or whether they are causing strain on the borrowing unit through diversion of resources.

Management Discussion and Revival Strategy:

Borrowers should submit a detailed revival plan explaining:

- ✱ Cost reduction measures.
- ✱ Marketing initiatives.
- ✱ New products.
- ✱ Working capital management.
- ✱ Operational improvements.

Why this information is useful:

Banks assess whether management possesses a realistic strategy for restoring profitability and cash flows.

Techno-Economic Viability Study (TEV Study):

Large exposures may require an independent TEV

study.

Why this information is useful:

The TEV report evaluates:

- ✱ Technical feasibility.
- ✱ Market prospects.
- ✱ Financial viability.
- ✱ Debt servicing capability.

It provides independent validation of the restructuring proposal.

Forensic Audit Reports, if Available:

Where conducted earlier, copies of forensic audit reports should be submitted.

Why this information is useful:

Banks ascertain whether stress has arisen from genuine business reasons or from diversion and misuse of funds.

Compliance Reports and Financial Covenant Statements:

Borrowers should furnish information regarding:

- ✱ Current ratio.
- ✱ Debt-equity ratio.
- ✱ TOL/TNW ratio.
- ✱ DSCR.
- ✱ Submission of stock statements.

Why this information is useful:

Banks evaluate compliance with existing sanction conditions and determine whether covenant breaches are temporary or serious.

Board Resolution and Promoters' Undertakings:

Certified board resolutions authorizing restructuring and undertakings from promoters should be submitted.

Why this information is useful:

These documents provide legal authority and ensure commitment of management to comply with the revised terms.

Personal Guarantees and Net Worth Statements of Guarantors:

Details of guarantors and their financial position should be provided.

Why this information is useful:

Banks assess the continuing support available from guarantors and evaluate the need for additional security.

To Sum Up:

The restructuring process is fundamentally based on information-driven viability assessment. Every document submitted by the borrower serves a distinct purpose in enabling bankers to answer four critical questions:

- ✓ Whether the stress is temporary and genuine?
- ✓ Whether the business remains technically, commercially, and financially viable?
- ✓ Whether future cash flows are adequate to service restructured debt?
- ✓ Whether promoters are committed and capable of reviving the enterprise?

Accordingly, the quality, completeness, and reliability of information and documents submitted by the borrower largely determine the success of restructuring and the willingness of banks to extend relief measures to financially stressed but potentially viable units.

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C. Questions Generally Raised by Bankers During Interaction with the Borrowing Entity Seeking Restructuring of Loans and the Rationale Behind Each Question

Restructuring of loans is a viability-driven exercise rather than merely postponing repayments. Therefore, bankers interact extensively with the promoters, directors, key management personnel, and finance teams of the borrowing entity to understand the reasons for stress, evaluate the future prospects of the business, and determine whether the proposed restructuring package will lead to revival of the unit.

The questions raised by bankers are intended to ascertain the genuineness of financial difficulties, identify

underlying risks, assess management capability, and evaluate repayment capacity under revised terms. The following are some of the important questions generally asked by bankers, along with the rationale behind each question.

Questions Relating to Causes of Financial Stress

“What are the primary reasons for the present financial difficulties?”

Rationale:

Banks seek to understand whether the stress has arisen due to external factors such as market slowdown, increase in raw material costs, delayed receivables, loss of customers, economic recession, or internal factors such as poor management, diversion of funds, or inefficient operations.

The answer helps determine whether the stress is temporary and reversible.

“When did the signs of stress first emerge?”

Rationale:

Banks want to know the timeline of deterioration and whether early corrective measures were taken by management. Prolonged deterioration without remedial action may indicate deeper structural issues.

“Why was the bank not informed earlier about the problems?”

Rationale:

Banks assess the transparency and credibility of management. Timely communication generally indicates responsible conduct and cooperative behaviour.

Questions on Sales and Market Position

“Why has turnover declined compared to previous years?”

Rationale:

Since sales are the primary source of cash generation, banks examine whether the decline is temporary or indicative of permanent loss of market share.

“Who are your major customers and have any customers been lost recently?”

Rationale:

Banks assess customer concentration risk and dependency on a few buyers. Loss of major customers may adversely affect future projections.

“What is the current order book position?”**Rationale:**

Confirmed orders provide support for projected sales and future cash flows. Banks seek evidence that future revenues are achievable.

“What measures are being taken to improve sales?”**Rationale:**

Banks evaluate management’s revival strategy and its ability to restore business volumes.

Questions Relating to Capacity Utilization**“What is the installed capacity and present utilization level?”****Rationale:**

Low-capacity utilization affects profitability and cash generation. Banks want to know whether idle capacity can be utilized after restructuring.

“Are the plant and machinery operational and technologically relevant?”**Rationale:**

Banks need to ensure that production assets remain functional and are not obsolete.

“Are there any constraints affecting production?”**Rationale:**

Production bottlenecks such as power shortages, labour issues, inadequate working capital, or supply disruptions need to be identified.

Questions Regarding Profitability**“Why has EBITDA declined?”****Rationale:**

Banks seek to understand whether profitability has been affected by temporary factors or whether the business model itself has become unviable.

“What cost reduction measures are proposed?”**Rationale:**

Future profitability depends not only on increased sales but also on improved operational efficiency.

“How realistic are the projected profit margins?”**Rationale:**

Banks examine whether projected improvements are supported by historical performance and industry conditions.

Questions on Cash Flows**“How do you propose to generate sufficient cash flows after restructuring?”****Rationale:**

Cash flow generation is fundamental to debt servicing capability. Banks focus more on cash generation than accounting profits.

“How much working capital is required to restore operations?”**Rationale:**

Banks assess whether additional funding is necessary and whether existing limits are adequate.

“How will delayed debtors be recovered?”**Rationale:**

Recovery of receivables directly impacts liquidity and working capital availability.

Questions Relating to Debt Servicing**“Why were loan instalments and interest payments delayed?”****Rationale:**

Banks need to determine whether defaults resulted from genuine business stress or deliberate non-payment.

“How will the restructured debt be serviced?”**Rationale:**

Banks evaluate projected DSCR and repayment capacity.

“What will happen if projected sales are lower than

estimated?”

Rationale:

Sensitivity analysis helps assess the resilience of the restructuring proposal under adverse scenarios.

Questions on Inventory and Working Capital

“Why have inventory levels increased?”

Rationale:

Excess stock blocks working capital and may indicate slow-moving or obsolete inventory.

“Are any inventories obsolete or unsaleable?”

Rationale:

Banks evaluate the quality and realizable value of stock.

“How long does inventory remain in the warehouse?”

Rationale:

Inventory turnover affects cash flow efficiency and working capital requirements.

Questions Regarding Debtors

“Why have receivables increased substantially?”

Rationale:

Banks investigate collection inefficiencies and customer payment delays.

“Who are the top ten debtors and what is their ageing profile?”

Rationale:

Banks evaluate concentration risk and quality of receivables.

“Are there any disputed or doubtful debts?”

Rationale:

Banks determine whether receivables are genuinely recoverable.

Questions Concerning Promoters and Management

“How much additional contribution are promoters willing to bring into the company?”

Rationale:

Promoter commitment is considered a crucial factor in restructuring.

“What is the source of funds for promoter contribution?”

Rationale:

Banks ensure that fresh funds are genuine and not borrowed from undisclosed sources.

“Have promoters infused funds earlier?”

Rationale:

Past support demonstrates commitment and confidence in the business.

“Has any management change taken place recently?”

Rationale:

Frequent changes in management may indicate instability.

Questions Relating to Diversion of Funds

“Have any funds been advanced to sister concerns or related parties?”

Rationale:

Banks investigate potential diversion of borrowed funds.

“Are there any investments outside the main business?”

Rationale:

Non-core investments may weaken liquidity.

“Were any major capital expenditures undertaken without bank approval?”

Rationale:

Unauthorized deployment of funds increases credit risk.

Questions on Statutory Compliance

“Are GST, PF, ESI and income tax dues fully paid?”

Rationale:

Persistent statutory defaults may expose the company to legal actions and indicate liquidity problems.

“Have any notices been received from tax

authorities?”

Rationale:

Pending disputes and contingent liabilities may affect future cash flows.

Questions on Security and Collateral

“Are all charged assets available and adequately insured?”

Rationale:

Banks seek to protect their security interests.

“Has any property been sold or encumbered without bank approval?”

Rationale:

Unauthorized disposal of assets affects security coverage.

“Is any additional collateral available?”

Rationale:

Banks may seek enhanced security for mitigating risk.

Questions on Litigation and Legal Issues

“Are there any pending court cases against the company?”

Rationale:

Legal disputes may affect business continuity and cash flows.

“Have any proceedings been initiated under SARFAESI, DRT, or NCLT?”

Rationale:

Banks assess legal risks and exposure to insolvency proceedings.

Questions on Future Business Strategy

“What corrective measures are proposed for revival?”

Rationale:

Banks evaluate the management’s ability to implement turnaround strategies.

“Are there any new products or markets being

explored?”

Rationale:

Future growth prospects enhance the viability of the restructuring package.

“What assumptions have been made while preparing projections?”

Rationale:

Banks verify whether projections are realistic and based on reasonable assumptions.

“How sensitive are projections to changes in sales and costs?”

Rationale:

Sensitivity analysis reveals the robustness of future cash flows.

Questions Regarding Group Companies

“What transactions are undertaken with associate concerns?”

Rationale:

Banks examine related-party exposure and risk of diversion of funds.

“Are any group companies under stress?”

Rationale:

Financial weakness in group entities may affect the borrower through cross-dependencies.

Questions on Account Conduct

“Have you availed restructuring earlier?”

Rationale:

Repeated restructuring may indicate chronic financial weakness.

“Why were stock statements and financial information submitted with delays?”

Rationale:

Banks assess the borrower’s discipline and governance standards.

“Has there been any instance of cheque returns or LC devolvement?”

Rationale:

Frequent irregularities signal cash flow stress.

Questions on Promoters' Commitment After Restructuring

“Will promoters provide personal guarantees and additional security?”

Rationale:

Additional commitment strengthens lender confidence.

“Are promoters willing to subordinate unsecured loans?”

Rationale:

Subordinated funds improve the capital structure and debt servicing capability.

“Will promoters refrain from withdrawing funds during the restructuring period?”

Rationale:

Banks ensure that internal resources remain available for business revival.

Questions on Monitoring and Reporting

“Can the company provide monthly MIS reports and quarterly financial information?”

Rationale:

Regular reporting facilitates monitoring of post-restructuring performance.

“Will management agree to periodic stock audits and site inspections?”

Rationale:

Banks seek transparency and early detection of stress signals.

Questions on Worst-Case Scenarios

“What contingency plans are available if recovery is slower than expected?”

Rationale:

Banks evaluate the ability of the borrower to withstand adverse conditions.

“If the restructuring package fails, what alternate

options are available?”

Rationale:

Banks assess downside risks and potential recovery avenues.

To Sum Up:

The interaction between bankers and the borrowing entity during restructuring is essentially an exercise in **testing viability, transparency, integrity, and commitment**. Each question raised by bankers serves one or more of the following purposes:

- To understand the reasons for stress.
- To validate historical performance.
- To verify the realism of future projections.
- To detect diversion of funds or governance issues.
- To assess management capability and promoter commitment.
- To evaluate cash flows and repayment capacity.
- To safeguard the bank's security and regulatory interests.
- To ensure that restructuring results in genuine revival rather than postponement of default.

Accordingly, the quality and consistency of answers provided by the borrowing entity significantly influence the bank's decision to approve, modify, or reject the restructuring proposal.

References:

1. Reserve Bank of India. (2019). *Prudential Framework for Resolution of Stressed Assets*. RBI Circular No. RBI/2018-19/203, dated 7 June 2019.
2. Indian Banks' Association. (2023). *Model Policy on Resolution and Restructuring of Stressed Assets*. Mumbai.
3. Insolvency and Bankruptcy Board of India. (2016). *The Insolvency and Bankruptcy Code, 2016* (as amended).
4. Reserve Bank of India. (2024). *Master Circular – Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances*.



Chapter 13

Annexures

(Standard Formats and Documentation for Loan Restructuring)

Synopsis:

This chapter serves as a comprehensive repository of standard formats, templates, and documentation used by banks and financial institutions throughout the loan restructuring process. It covers structured formats for Techno-Economic Viability (TEV) studies, Security and Legal Due Diligence, Consortium and Inter-Creditor Arrangements, Resolution Plans with Sustainable Debt Assessment, Post-Restructuring Monitoring and Compliance, and Digital Footprint and Forensic Verification. The chapter emphasizes systematic collection and analysis of financial, technical, legal, operational, and regulatory information to facilitate objective decision-making, ensure compliance with the regulatory framework, safeguard lenders' interests, and enhance the long-term viability of stressed borrowers. By providing standardized documentation and monitoring mechanisms, these annexures promote consistency, transparency, accountability, and effective risk management in restructuring and rehabilitation of bank loans.

1. Borrower Information Format

(Comprehensive Information Format for Restructuring of Bank Loans and Advances)

This format is generally obtained by banks from borrowers while considering restructuring, rehabilitation, or resolution of stressed accounts. It provides a comprehensive picture of the borrower, management, business operations, financial position, banking arrangements, assets, liabilities, and future plans.

BORROWER INFORMATION FORMAT

PART-I: BASIC DETAILS OF THE BORROWER:

Particulars	Details
Name of the Borrowing Entity	
Constitution (Proprietorship/Partnership/LLP/Pvt Ltd/Public Ltd)	
CIN/LLPIN/Firm Registration No.	
PAN No.	
GSTIN No.	
Date of Incorporation	
Registered Office Address	
Corporate Office Address	
Factory Address(es)	
Telephone No.	
E-mail ID	
Website	

Particulars	Details
Industry Sector	
Main Products/Services	
Date of Commencement of Commercial Operations	
MSME Registration No. (Udyam)	
IEC Code (Import Export Code), if any	

PART-II: PROMOTERS / DIRECTORS / PARTNERS DETAILS:

Name	Designation	DIN/PAN	Educational Qualification	Experience (Years)	Shareholding (%)

Additional Information:

- ✱ Background of promoters.
- ✱ Previous business experience.
- ✱ Group entities promoted.
- ✱ Any disqualification under Companies Act.
- ✱ Wilful defaulter status.
- ✱ Details of criminal proceedings, if any.

PART-III: SHAREHOLDING PATTERN:

Category	Number of Shares	Percentage
Promoters		
Directors		
Institutions		
Foreign Investors		
Public Shareholding		
Others		
Total		100%

PART-IV: GROUP COMPANIES / ASSOCIATE CONCERNS:

Name of Group Entity	Activity	Relationship	Turnover	Banking Arrangement

Whether any group concern is:

- ✱ NPA Account.
- ✱ Under IBC proceedings.
- ✱ Wilful Defaulter.
- ✱ In liquidation.

- ✱ Under SARFAESI action.

PART-V: BUSINESS PROFILE:

Nature of Business:

- ✱ Manufacturing
- ✱ Trading
- ✱ Services
- ✱ Infrastructure
- ✱ Export-Oriented Unit

Others

Main Products / Services:

Product	Installed Capacity	Actual Production	Capacity Utilization (%)

Major Customers:

Customer Name	Percentage of Sales

Major Suppliers:

Supplier Name	Percentage of Purchases

PART-VI: REASONS FOR FINANCIAL STRESS:

Internal Factors:

- ✱ Delay in project implementation.
- ✱ Working capital shortages.
- ✱ High operating costs.
- ✱ Low-capacity utilization.
- ✱ Management inefficiencies.
- ✱ Diversion of funds.

External Factors:

- ✱ Economic slowdown.
- ✱ Increase in raw material prices.
- ✱ Competition.
- ✱ Pandemic effects.
- ✱ Regulatory changes.
- ✱ Foreign exchange fluctuations.



Details of events leading to stress:

PART-VII: EXISTING BANKING ARRANGEMENTS:

Name of Bank/ FI	Facility	Sanctioned Limit	Outstanding Amount	Security Of- fered	Asset Classification
	CC				
	Term Loan				
	BG				
	LC				
Total					

Whether account is:

- ✱ Standard Asset
- ✱ SMA-0
- ✱ SMA-1
- ✱ SMA-2
- ✱ NPA

Date of Default: _____

PART-VIII: SECURITY DETAILS:

Primary Security

Description	Value
Stock	
Book Debts	
Plant & Machinery	
Current Assets	

Collateral Security:

Particulars	Market Value	Distress Value
Land		
Building		
Residential Property		
Commercial Property		
Fixed Deposits		
Others		

Personal Guarantees:

Name	Relationship	Net Worth

PART-IX: FINANCIAL PERFORMANCE:

Turnover and Profitability:

Particulars	FY-1	FY-2	FY-3
Revenue from Operations			
EBITDA			
Profit Before Tax			
Profit After Tax			
Net Worth			
Total Borrowings			

PART-X: WORKING CAPITAL DETAILS:

Particulars	Amount
Inventory	
Receivables	
Creditors	
Working Capital Gap	
Current Ratio	
Operating Cycle (Days)	

PART-XI: STATUTORY COMPLIANCES:

Particulars	Status
GST Returns Filed	Yes / No
Income Tax Returns Filed	Yes / No
TDS Returns Filed	Yes / No
PF Contributions Paid	Yes / No
ESI Contributions Paid	Yes / No
MCA Annual Returns Filed	Yes / No
ROC Charges Registered	Yes / No

PART-XII: LITIGATION DETAILS:

Nature of Case	Authority/Court	Amount Involved	Present Status
Income Tax			
GST			
Labour Cases			
Civil Cases			
NCLT Cases			
Others			

PART-XIII: DETAILS OF FIXED ASSETS:



Asset Description	Original Cost	WDV	Market Value
Land			
Building			
Plant & Machinery			
Vehicles			
Furniture & Fixtures			

PART-XIV: DETAILS OF CONTINGENT LIABILITIES:

Particulars	Amount
Bank Guarantees	
Letters of Credit	
Corporate Guarantees	
Pending Claims	
Tax Liabilities	
Others	

PART-XV: INSURANCE DETAILS:

Asset	Insurance Company	Policy Number	Sum Insured	Expiry Date

PART-XVI: DETAILS OF RESTRUCTURING SOUGHT:**Relief Requested:**

- ✓ Moratorium on Principal
- ✓ Reduction in Interest Rate
- ✓ Extension of Repayment Period
- ✓ Conversion of Interest into FITL
- ✓ Additional Working Capital
- ✓ Additional Term Loan
- ✓ Funding of Interest
- ✓ Conversion into WCTL
- ✓ Other Reliefs

Amount of Additional Finance Required

₹ _____

Proposed Promoter's Contribution

₹ _____

PART-XVII: FUTURE BUSINESS PLAN:

Projected Turnover:

Year	Sales	EBITDA	PAT
Year 1			
Year 2			
Year 3			
Year 4			
Year 5			

PART-XVIII: DIGITAL FOOTPRINT INFORMATION:

GST Information:

- ✳ GSTIN:
- ✳ Monthly GST Turnover:
- ✳ E-Way Bill Activity:

Income Tax Information:

- ✳ PAN:
- ✳ ITR Filed up to AY:
- ✳ Form 26AS Reconciliation:

MCA Information:

- ✳ Annual Return Filed:
- ✳ Financial Statements Filed:
- ✳ Directors' DIN Status:

Employee Data:

- ✳ EPFO Registration:
- ✳ Number of Employees:
- ✳ ESIC Registration:

Online Presence:

- ✳ Website:
- ✳ E-Commerce Platforms:
- ✳ Social Media Presence:

PART-XIX: DECLARATION:

We hereby certify that the information furnished above is true and correct to the best of our knowledge and belief. We undertake to provide any additional information or documents required by the Bank and understand that any misrepresentation or suppression of material facts may render the restructuring proposal liable for rejection.



Signature of Authorized Signatory

Name: _____

Designation: _____

DIN/PAN: _____

Date: _____

Place: _____

Company Seal

ist of Annexures to be Attached:

1. Audited Financial Statements for the last three years.
2. Provisional Financial Statements.
3. GST Returns (GSTR-1 and GSTR-3B).
4. Income Tax Returns.
5. Form 26AS and AIS/TIS.
6. Bank Statements (last 12 months).
7. Stock Statements.
8. Debtors and Creditors Ageing.
9. List of Fixed Assets.
10. Valuation Reports.
11. Title Deeds and Search Reports.
12. Insurance Policies.
13. Details of Existing Loans.
14. Litigation Statements.
15. Promoters' Net Worth Statements.
16. Cash Flow Projections.
17. Business Revival Plan.

This **Borrower Information Format** serves as the foundational document for banks while undertaking **restructuring of loans and advances under RBI Prudential Framework, MSME Rehabilitation Framework, consortium arrangements, and resolution plans for stressed assets.**

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1. FINANCIAL AND CMA FORMAT

(Comprehensive Financial Information and Credit Monitoring Arrangement Data Format for Restructuring of Loans and Advances)

While restructuring loans and advances, banks undertake detailed financial analysis to assess the viability and repayment capability of the borrowing entity. The Financial and Credit Monitoring Arrangement (CMA) Data Format is one of the most important analytical tools used by banks for appraisal and restructuring of credit facilities. It enables bankers to evaluate historical performance, projected profitability, working capital requirements, cash flows, debt servicing capability, and sustainability of debt.

The following format is generally obtained from borrowers and forms part of the restructuring proposal.

PART-I: GENERAL FINANCIAL INFORMATION:

A. Particulars of the Borrower:

Particulars	Details
Name of Borrower	
Constitution	
Industry	
Existing Banking Arrangement	
Existing Exposure	
Date of Commencement of Operations	
Accounting Year	
Statutory Auditor	
Cost Auditor	
Internal Auditor	

PART-II: HISTORICAL FINANCIAL PERFORMANCE:

(Last Three/Five Years Audited Financial Data)

Balance Sheet

(₹ in Lakhs)

Particulars	FY-1	FY-2	FY-3	FY-4	FY-5
Share Capital					
Reserves & Surplus					
Net Worth					
Secured Loans					
Unsecured Loans					
Current Liabilities					



Particulars	FY-1	FY-2	FY-3	FY-4	FY-5
Total Liabilities					
Fixed Assets					
Investments					
Inventory					
Receivables					
Cash and Bank Balances					
Loans and Advances					
Other Current Assets					
Total Assets					

Profit and Loss Account

(₹ in Lakhs)

Particulars	FY-1	FY-2	FY-3	FY-4	FY-5
Revenue from Operations					
Other Income					
Total Income					
Raw Material Cost					
Employee Cost					
Manufacturing Expenses					
Administrative Expenses					
Selling Expenses					
EBITDA					
Interest Cost					
Depreciation					
Profit Before Tax					
Tax Provision					
Profit After Tax					
Interest Cost					

PART-III: CMA DATA:

CMA FORM-I

Existing and Proposed Bank Finance

(₹ in Lakhs)

Particulars	Existing	Proposed
Cash Credit		
Working Capital Demand Loan		
Packing Credit		
Bills Purchased/Discounted		
Letter of Credit		
Bank Guarantee		
Term Loan		
FITL		
WCTL		
Total Exposure		

CMA FORM-II:

Operating Statement

(₹ in Lakhs)

Particulars	Previous Year	Current Year	Year-1	Year-2	Year-3
Installed Capacity					
Capacity Utilization (%)					
Production Quantity					
Sales Quantity					
Sales Revenue					
Other Income					
Total Income					
Raw Material Cost					
Employee Cost					
Manufacturing Expenses					
Selling Expenses					
Administrative Expenses					
EBITDA					
Interest Cost					



Particulars	Previous Year	Current Year	Year-1	Year-2	Year-3
Depreciation					
Profit Before Tax					
Tax					
Profit After Tax					

CMA FORM-III:

Analysis of Balance Sheet

(₹ in Lakhs)

Particulars	Previous Year	Current Year	Year-1	Year-2
Share Capital				
Reserves & Surplus				
Net Worth				
Long-term Borrowings				
Current Liabilities				
Total Liabilities				
Gross Block				
Net Fixed Assets				
Investments				
Current Assets				
Cash and Bank Balance				
Total Assets				

CMA FORM-IV:

Comparative Statement of Current Assets and Current Liabilities

(₹ in Lakhs)

Current Assets:

Particulars	Current Year	Year-1	Year-2	Year-3
Raw Materials				
Work-in-Progress				
Finished Goods				
Receivables				
Other Current Assets				
Total Current Assets				

Current Liabilities:

Particulars	Current Year	Year-1	Year-2	Year-3
Sundry Creditors				
Statutory Liabilities				
Other Current Liabilities				
Total Current Liabilities				

Working Capital Gap:

Particulars	Amount
Current Assets	
Less: Current Liabilities	
Working Capital Gap	
Margin Contribution	
Bank Finance Required	

CMA FORM-V:

Maximum Permissible Bank Finance (MPBF)

(₹ in Lakhs)

Particulars	Amount
Current Assets	
Current Liabilities other than Bank Borrowings	
Working Capital Gap	
Minimum Net Working Capital Requirement	
Maximum Permissible Bank Finance	
Existing Working Capital Limits	
Additional Requirement	

CMA FORM-VI:

Fund Flow Statement

(₹ in Lakhs)

Sources of Funds:

Particulars	Amount
Profit after Tax	
Depreciation	
Increase in Long-term Borrowings	
Equity Infusion	



Particulars	Amount
Sale of Assets	
Other Sources	
Total Sources	

Application of Funds:

Particulars	Amount
Capital Expenditure	
Increase in Working Capital	
Loan Repayments	
Investments	
Dividend Payments	
Other Uses	
Total Application	

CMA FORM-VII:

Ratio Analysis

Financial Ratios	Current Year	Year-1	Year-2	Year-3
Current Ratio				
Quick Ratio				
Debt Equity Ratio				
TOL/TNW Ratio				
Inventory Holding Period (Days)				
Receivable Period (Days)				
Creditor Period (Days)				
Gross Profit Ratio				
EBITDA Margin				
Net Profit Margin				
Return on Capital Employed				
Interest Coverage Ratio				
Debt Service Coverage Ratio (DSCR)				

PART-IV: CASH FLOW STATEMENT:

(₹ in Lakhs)

Particulars	Year-1	Year-2	Year-3	Year-4
Cash from Operations				
Cash from Investing Activities				

Particulars	Year-1	Year-2	Year-3	Year-4
Cash from Financing Activities				
Net Increase/(Decrease) in Cash				
Opening Cash Balance				
Closing Cash Balance				

PART-V: DEBT SERVICING ANALYSIS:

Existing Debt Position

Particulars	Amount
Term Loans	
Working Capital Borrowings	
FITL	
WCTL	
Total Debt	

Debt Repayment Schedule

Year	Principal Repayment	Interest	Total Debt Service
Year-1			
Year-2			
Year-3			
Year-4			
Year-5			

Debt Service Coverage Ratio

Particulars	Year-1	Year-2	Year-3
PAT			
Depreciation			
Interest on Term Loan			
Cash Accruals			
Debt Service			
DSCR			

PART-VI: WORKING CAPITAL ASSESSMENT:

Inventory Holding

Particulars	Holding Period (Days)
Raw Materials	
Work-in-Progress	



Particulars	Holding Period (Days)
Finished Goods	

Receivables

Category	Days
Domestic Debtors	
Export Debtors	

Creditors

Particulars	Days
Trade Creditors	

Operating Cycle

Particulars	Days
Inventory Period	
Receivable Period	
Less: Creditor Period	
Operating Cycle	

PART-VII: BREAK-EVEN ANALYSIS:

Particulars	Amount
Fixed Cost	
Contribution Margin	
Break-even Sales	
Break-even Capacity Utilization (%)	
Margin of Safety (%)	

PART-VIII: SENSITIVITY ANALYSIS:

Impact on Profitability and DSCR Due To:

Parameters	Base Case	10% Adverse Scenario	20% Adverse Scenario
Sales Reduction			
Increase in Raw Material Cost			
Increase in Interest Cost			
Delay in Receivables			
EBITDA Margin			
DSCR			

PART-IX: CERTIFICATION:

We certify that the financial information and projections furnished herein are true and fair and are based upon reasonable assumptions. We undertake to furnish any further information required by the Bank for appraisal and restructuring of the credit facilities.

Signature of Authorized Signatory

Name: _____

Designation: _____

Date: _____

Place: _____

Company Seal

ANNEXURES TO BE ENCLOSED:

Annexure-I

Audited Balance Sheets and Profit & Loss Accounts for the last three to five years.

Annexure-II

Provisional Financial Statements.

Annexure-III

Detailed Schedule of Current Assets and Current Liabilities.

Annexure-IV

Stock Statements and Age-wise Debtors List.

Annexure-V

Bank Statements for the Last Twelve Months.

Annexure-VI

Income Tax Returns and GST Returns.

Annexure-VII

Projected Financial Statements for 5–10 Years.

Annexure-VIII

Debt Repayment Schedule.

Annexure-IX

Details of Existing Credit Facilities.

Annexure-X

Assumptions Underlying Financial Projections.

Purpose of Financial and CMA Format in Restructuring

Banks use the Financial and CMA Format to evaluate:

1. Historical financial performance and trends.
2. Working capital requirements and MPBF.
3. Cash flow generation capability.
4. Debt servicing capacity and sustainability.
5. Profitability under projected scenarios.
6. Viability of the restructuring proposal.
7. Need for additional finance or moratorium.
8. Compliance with RBI Prudential Framework and internal credit policies.

This Financial and CMA Data Format forms the backbone of **Techno-Economic Viability (TEV) studies, Resolution Plans, and Loan Restructuring Packages** undertaken by banks and financial institutions.

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2. CASH FLOW AND PROJECTION FORMAT

(Comprehensive Format Used by Banks While Restructuring Loans and Advances)

Cash flow projections are among the most critical tools used by banks while evaluating restructuring proposals. Unlike profitability, which is based on accounting principles, cash flow analysis focuses on the actual ability of the borrower to generate sufficient cash to meet operating expenses, capital expenditure requirements, working capital needs, and debt servicing obligations. During restructuring, banks generally require detailed monthly, quarterly, and annual cash flow projections for five to ten years to assess the viability and sustainability of the proposed resolution package.

The following format may be used by banks while restructuring loans and advances.

PART-I: BASIC INFORMATION:

Particulars	Details
Name of Borrower	
Constitution	
Industry	
Main Products/Services	
Existing Banking Arrangement	
Existing Exposure	
Proposed Restructuring	

Particulars	Details
Projection Period	5 Years / 10 Years
Date of Commencement of Projections	

PART-II: ASSUMPTIONS FOR PROJECTIONS:

Sales Assumptions

Particulars	Details
Expected Capacity Utilization	
Sales Growth Rate (%)	
Product Mix	
Selling Price Increase (%)	
Market Conditions	

Cost Assumptions

Particulars	Details
Raw Material Cost as % of Sales	
Employee Cost Increase (%)	
Power & Fuel Cost	
Administrative Expenses Growth (%)	
Interest Rate Assumption	
Inflation Rate	

PART-III: PROJECTED PROFIT AND LOSS ACCOUNT:(₹ in Lakhs)

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Revenue from Operations					
Other Income					
Total Income					
Raw Material Consumption					
Employee Costs					
Manufacturing Expenses					
Selling Expenses					
Administrative Expenses					
EBITDA					
Interest Cost					
Depreciation					
Profit Before Tax					
Tax Provision					



Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Profit After Tax					

PART-IV: PROJECTED BALANCE SHEET:

(₹ in Lakhs)

Liabilities

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Equity Share Capital					
Reserves and Surplus					
Net Worth					
Long-term Borrowings					
Working Capital Borrowings					
Current Liabilities					
Total Liabilities					

Assets

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Net Fixed Assets					
Investments					
Inventory					
Receivables					
Cash and Bank Balance					
Other Current Assets					
Total Assets					

PART-V: PROJECTED CASH FLOW STATEMENT:

(₹ in Lakhs)

A. Cash Flow from Operating Activities:

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Profit After Tax					
Add: Depreciation					
Add: Interest Expense					
Increase/(Decrease) in Inventory					
Increase/(Decrease) in Receivables					
Increase/(Decrease) in Current Liabilities					
Net Cash from Operations					

B. Cash Flow from Investing Activities:

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Capital Expenditure					
Purchase of Fixed Assets					
Investments Made					
Sale of Assets					
Net Cash Used in Investing Activities					
Capital Expenditure					

C. Cash Flow from Financing Activities:

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Equity Infusion					
Additional Term Loans					
Working Capital Borrowings					
Principal Repayment					
Interest Payment					
Dividend Payment					
Net Cash from Financing Activities					

D. Net Cash Flow:

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Cash Flow from Operations					
Cash Flow from Investing Activities					
Cash Flow from Financing Activities					
Net Increase/(Decrease) in Cash					
Opening Cash Balance					
Closing Cash Balance					

PART-VI: MONTHLY CASH FLOW PROJECTION:

(For the Next 12 Months)

Particulars	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Opening Balance												
Cash Sales												
Collection from Debtors												
Other Receipts												
Total Cash Inflows												
Raw Material Payments												



Particulars	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Salary and Wages												
Manufacturing Expenses												
Administrative Expenses												
Interest Payment												
Loan Repayment												
Capital Expenditure												
Total Outflows												
Net Cash Flow												
Closing Balance												

PART-VII: WORKING CAPITAL PROJECTIONS:

(₹ in Lakhs)

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Raw Materials					
Work-in-Progress					
Finished Goods					
Receivables					
Total Current Assets					
Creditors					
Other Current Liabilities					
Working Capital Gap					
Margin Contribution					
Bank Finance Required					

PART-VIII: CAPITAL EXPENDITURE PROJECTIONS:

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Plant and Machinery					
Building					
Vehicles					
Furniture and Fixtures					
Technology Upgradation					
Total Capex					

PART-IX: DEBT SERVICING PROJECTIONS:

(₹ in Lakhs)

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
EBITDA					
Less: Taxes					
Cash Accruals					
Interest Payment					
Principal Repayment					
Total Debt Service					
DSCR					
Interest Coverage Ratio					

PART-X: BREAK-EVEN ANALYSIS:

Particulars	Amount
Fixed Costs	
Variable Costs	
Contribution Margin	
Break-even Sales	
Break-even Capacity Utilization (%)	
Margin of Safety (%)	

PART-XI: SENSITIVITY ANALYSIS:

Scenario-I: Reduction in Sales by 10%

Particulars	Base Case	Stress Case
Revenue		
EBITDA		
PAT		
Cash Accruals		
DSCR		

Scenario-II: Increase in Raw Material Cost by 10%

Particulars	Base Case	Stress Case
EBITDA Margin		
PAT		
Cash Flow		
DSCR		



Scenario-III: Delay in Receivables by 30 Days

Particulars	Base Case	Stress Case
Working Capital Requirement		
Additional Finance Requirement		
Cash Position		

PART-XII: PROMOTERS' CONTRIBUTION:

Particulars	Amount
Equity Infusion	
Unsecured Loans	
Sale of Assets	
Internal Accruals	
Total Contribution	

PART-XIII: SOURCE AND APPLICATION OF FUNDS:

Sources

Particulars	Amount
Equity Contribution	
Additional Term Loan	
Internal Accruals	
Sale of Assets	
Other Sources	
Total Sources	

Application

Particulars	Amount
Working Capital Requirement	
Capital Expenditure	
Repayment of Existing Debt	
Interest Servicing	
Miscellaneous Expenses	
Total Application	

PART-XIV: MANAGEMENT CERTIFICATION:

We certify that the projections furnished above are prepared on realistic assumptions and represent the expected performance of the Company. We undertake that the assumptions and estimates are based on reasonable business expectations and all material facts have been disclosed to the Bank for consideration of the restructuring proposal.

Signature of Authorized Signatory

Name: _____

Designation: _____

Date: _____

Place: _____

Company Seal

ANNEXURES:

Annexure-I

Historical Audited Financial Statements (3–5 Years)

Annexure-II

Detailed Assumptions Underlying Sales and Cost Projections

Annexure-III

Production and Capacity Utilization Data

Annexure-IV

Working Capital Assessment

Annexure-V

Existing Debt Repayment Schedule

Annexure-VI

Details of Proposed Additional Finance

Annexure-VII

Capital Expenditure Plan

Annexure-VIII

Promoters' Net Worth and Contribution Details

Purpose of Cash Flow and Projection Format in Restructuring:

Banks use this format to evaluate:

1. Future cash-generating capability of the borrower.
2. Ability to service restructured debt obligations.
3. Requirement of moratorium, FITL, WCTL, or additional finance.
4. Sustainability of the proposed restructuring package.
5. Viability under adverse scenarios through sensitivity analysis.
6. Debt Service Coverage Ratio (DSCR) and Interest Coverage Ratio (ICR).

7. Adequacy of working capital and long-term funding requirements.
8. Compliance with RBI Prudential Framework and internal credit appraisal guidelines.

Accordingly, the Cash Flow and Projection Format forms the foundation for Techno-Economic Viability (TEV) Studies, Resolution Plans, and Post-Restructuring Monitoring Mechanisms adopted by banks and financial institutions while restructuring loans and advances.

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3. VIABILITY AND TECHNO-ECONOMIC VIABILITY (TEV) FORMAT

(Comprehensive Format Used by Banks While Restructuring Loans and Advances)

A **Techno-Economic Viability (TEV) Study** is one of the most important appraisal tools used by banks and financial institutions while restructuring stressed accounts. The objective of the TEV study is to determine whether the business is capable of generating sufficient cash flows to sustain operations and service the restructured debt over the medium and long term.

Banks generally obtain TEV studies from independent agencies, empanelled consultants, chartered accountants, cost accountants, engineers, or specialized institutions. The study covers technical, operational, financial, managerial, commercial, and market aspects of the business and forms the basis for formulation of a restructuring package.

TECHNO-ECONOMIC VIABILITY (TEV) FORMAT

PART-I: BASIC INFORMATION OF THE BORROWER:

Particulars	Details
Name of Borrower	
Constitution	
Industry Sector	
Main Products/Services	
Date of Incorporation	
Commencement of Operations	
Registered Office Address	
Factory Location(s)	
Existing Banking Arrangement	
Total Exposure	
Existing Asset Classification	
Date of Stress/Default	
Proposed Restructuring	

PART-II: EXECUTIVE SUMMARY:

Brief Description of the Borrower:

- ✦ Nature of business.
- ✦ History and background.
- ✦ Existing operations.
- ✦ Existing borrowings.
- ✦ Causes of stress.
- ✦ Need for restructuring.
- ✦ Major recommendations of TEV study.

PART-III: PROMOTERS AND MANAGEMENT ANALYSIS:

Promoter Profile:

Particulars	Details
Name of Promoters	
Experience (Years)	
Educational Qualification	
Net Worth	
Shareholding (%)	
Group Companies	

Assessment of Management:

- ✦ Technical expertise.
- ✦ Managerial competence.
- ✦ Industry experience.
- ✦ Corporate governance standards.
- ✦ Succession planning.
- ✦ Integrity and reputation.

PART-IV: INDUSTRY AND MARKET ANALYSIS:

Industry Overview

Particulars	Details
Industry Growth Rate	
Demand Outlook	
Competition	
Market Share	
Entry Barriers	
Regulatory Environment	



SWOT Analysis

Strengths

Weaknesses

Opportunities

Threats

PART-V: TECHNICAL FEASIBILITY:

Installed Capacity and Production

Product	Installed Capacity	Actual Production	Capacity Utilization (%)

Plant and Machinery

Description	Year of Installation	Present Condition	Remaining Useful Life

Technology Assessment:

- ✱ Obsolescence risk.
- ✱ Requirement of modernization.
- ✱ Energy efficiency.
- ✱ Production bottlenecks.
- ✱ Automation level.

Raw Material Availability:

Raw Material	Source	Availability Risk

Utilities:

- ✱ Power Supply.
- ✱ Water Availability.
- ✱ Fuel Requirement.
- ✱ Transportation Facilities.

PART-VI: COMMERCIAL FEASIBILITY:

Major Customers

Customer	Percentage of Sales

Major Suppliers

Supplier	Percentage of Purchases

Sales Trend

Year	Revenue (₹ Lakhs)

Export and Domestic Sales Mix

Particulars	Percentage
Domestic Sales	
Export Sales	

PART-VII: ANALYSIS OF CAUSES OF STRESS:

Internal Factors:

- ☐ Cost Overruns
- ☐ Working Capital Constraints
- ☐ Under-utilization of Capacity
- ☐ Diversion of Funds
- ☐ Inefficient Operations
- ☐ Delayed Receivables
- ☐ Excessive Borrowings

External Factors:

- ☐ Economic Slowdown
- ☐ Market Competition
- ☐ Pandemic Effects
- ☐ Regulatory Changes
- ☐ Foreign Exchange Losses
- ☐ Increase in Input Costs



PART-VIII: HISTORICAL FINANCIAL PERFORMANCE:

(₹ in Lakhs)

Particulars	FY-1	FY-2	FY-3	FY-4
Revenue				
EBITDA				
PAT				
Net Worth				
Total Debt				
Current Ratio				
DSCR				

PART-IX: PROJECTED FINANCIAL PERFORMANCE:

(₹ in Lakhs)

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Sales					
EBITDA					
PAT					
Cash Accruals					
Total Debt					
Net Worth					
Current Ratio					
DSCR					

PART-X: CASH FLOW ANALYSIS:

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Cash from Operations					
Cash from Investments					
Cash from Financing Activities					
Net Cash Flow					
Closing Cash Balance					

PART-XI: WORKING CAPITAL ASSESSMENT:

Particulars	Year-1	Year-2	Year-3
Inventory			
Receivables			
Current Assets			

Particulars	Year-1	Year-2	Year-3
Current Liabilities			
Working Capital Gap			
Bank Finance Required			

PART-XII: BREAK-EVEN ANALYSIS:

Particulars	Amount
Fixed Cost	
Variable Cost	
Contribution Margin	
Break-even Sales	
Break-even Capacity Utilization (%)	
Margin of Safety (%)	

PART-XIII: DEBT SERVICING CAPABILITY:

Existing Debt

Particulars	Amount
Term Loans	
Working Capital Limits	
FITL	
WCTL	
Total Debt	

Proposed Debt Structure

Particulars	Amount
Restructured Term Loan	
Working Capital Facilities	
FITL	
Additional Finance	
Total Debt	

Debt Service Schedule

Year	Principal	Interest	Total Debt Service
Year-1			
Year-2			
Year-3			
Year-4			



Year	Principal	Interest	Total Debt Service
Year-5			

Debt Service Coverage Ratio

Year	DSCR
Year-1	
Year-2	
Year-3	
Year-4	
Year-5	

Average DSCR: _____

PART-XIV: SUSTAINABLE DEBT ANALYSIS:

Particulars	Amount
EBITDA	
Free Cash Flow	
Debt Service Capacity	
Sustainable Debt	
Unsustainable Debt	
Debt to be Converted	

PART-XV: SENSITIVITY ANALYSIS:

Scenario-I: Sales Decline by 10%

Particulars	Base Case	Stress Case
EBITDA		
PAT		
Cash Accruals		
DSCR		

Scenario-II: Increase in Cost by 10%

Particulars	Base Case	Stress Case
EBITDA Margin		
PAT		
DSCR		

Scenario-III: Delay in Receivables

Particulars	Base Case	Stress Case
Working Capital Requirement		
Cash Flow Position		

PART-XVI: SECURITY COVERAGE ANALYSIS:

Primary Security

Asset	Realizable Value
Stocks	
Receivables	
Plant & Machinery	

Collateral Security

Asset	Market Value	Distress Value
Land		
Building		
Other Assets		

Security Coverage Ratio:

Total Realizable Security Value ÷ Total Debt = _____

PART-XVII: SWOT ANALYSIS:

Strengths

Weaknesses

Opportunities

Threats

PART-XVIII: RISK ANALYSIS:

Risk Area	Level of Risk	Mitigation Measures
Market Risk		
Operational Risk		
Financial Risk		
Technological Risk		
Regulatory Risk		
Management Risk		

PART-XIX: PROMOTERS' CONTRIBUTION:

Particulars	Amount
Equity Infusion	
Unsecured Loans	
Sale of Assets	
Internal Accruals	
Total Contribution	

PART-XX: MONITORING MECHANISM:**Post-Restructuring Monitoring:**

- ✱ Monthly Stock Statements.
- ✱ Quarterly Financial Statements.
- ✱ QIS Reports.
- ✱ Cash Flow Monitoring.
- ✱ GST Return Verification.
- ✱ Bank Statement Monitoring.
- ✱ Receivables Ageing Analysis.
- ✱ Periodic Plant Visits.
- ✱ Independent Auditor Review.

PART-XXI: OVERALL VIABILITY ASSESSMENT:

Parameter	Benchmark	Status
Current Ratio	>1.25	
Average DSCR	>1.20	
EBITDA Margin	Positive	
Interest Coverage Ratio	>1.50	
Debt Equity Ratio	Acceptable	
Security Coverage Ratio	Adequate	
Promoters' Contribution	Adequate	

PART-XXII: CONCLUSION AND RECOMMENDATIONS:**Whether the Unit is:**

- ☐ Technically Viable
- ☐ Economically Viable
- ☐ Commercially Viable

- ☐ Financially Viable
- ☐ Capable of Servicing Restructured Debt
- ☐ Requires Additional Funding
- ☐ Requires Moratorium
- ☐ Not Viable

Recommendations:

Reliefs Proposed:

- ✱ Moratorium on Principal.
- ✱ Extension of Repayment Period.
- ✱ Reduction in Interest Rate.
- ✱ Conversion of Interest into FITL.
- ✱ Working Capital Term Loan (WCTL).
- ✱ Additional Finance.
- ✱ Promoters' Equity Infusion.
- ✱ Sale of Non-Core Assets.

CERTIFICATE OF TEV CONSULTANT

Based on our examination of technical, operational, commercial and financial aspects, and subject to assumptions contained in this report, we are of the opinion that the borrower is capable/not capable of generating adequate cash flows to service the restructured debt and continue operations on a sustainable basis.

Signature of TEV Consultant

Name: _____

Firm Name: _____

Registration Number: _____

Date: _____

Place: _____

ANNEXURES:

1. Audited Financial Statements (3–5 Years).
2. Projected Financial Statements (5–10 Years).
3. Cash Flow Statements.
4. Debt Repayment Schedule.
5. Working Capital Assessment.

6. Asset Valuation Reports.
7. Stock and Receivables Statements.
8. Industry Analysis Report.
9. Market Survey Report.
10. Sensitivity Analysis Working Sheets.
11. Promoters' Net Worth Statements.
12. Details of Existing Banking Arrangements.
13. List of Major Customers and Suppliers.
14. Details of Capital Expenditure and Modernization Requirements.

Purpose of the Viability and TEV Format:

The TEV Format enables banks to determine:

1. Technical viability of operations.
2. Commercial and market feasibility.
3. Financial sustainability and debt servicing capability.
4. Need for restructuring and additional funding.
5. Sustainable and unsustainable portions of debt.
6. Long-term survival prospects of the borrower.
7. Appropriate restructuring package and monitoring mechanism.
8. Compliance with RBI Prudential Framework and internal credit policies.

Accordingly, the **Viability and TEV Format forms the foundation of loan restructuring, resolution plans, consortium restructuring, and rehabilitation of stressed assets** undertaken by banks and financial institutions.

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4. SECURITY AND LEGAL DUE DILIGENCE FORMAT

(Comprehensive Format Used by Banks While Restructuring Loans and Advances)

While restructuring loans and advances, banks not only assess the financial viability of the borrower but also evaluate the adequacy, enforceability, and realizable value of the securities charged to the lenders. Security and Legal Due Diligence (LDD) are essential components of the restructuring exercise, as they determine the extent of protection available to the banks in case the restructuring fails.

The Security and Legal Due Diligence Format helps banks ascertain:

- ✦ Ownership and title of assets.

- ✱ Validity and enforceability of security interests.
- ✱ Perfection of charges.
- ✱ Adequacy of security coverage.
- ✱ Pending litigations and encumbrances.
- ✱ Insurance coverage.
- ✱ Compliance with statutory requirements.
- ✱ Availability of collateral and guarantees.

The following format is generally used by banks and financial institutions.

PART-I: BASIC INFORMATION:

Particulars	Details
Name of Borrower	
Constitution	
Registered Office Address	
Factory Address(es)	
Existing Asset Classification	
Date of Default	
Existing Exposure	
Consortium / Multiple Banking Arrangement	
Lead Bank	

PART-II: DETAILS OF CREDIT FACILITIES:

Nature of Facility	Sanctioned Limit (₹ Lakhs)	Outstanding (₹ Lakhs)	Security Available
Cash Credit			
Term Loan-I			
Term Loan-II			
Working Capital Demand Loan			
FITL			
Bank Guarantee			
Letter of Credit			
Total Exposure			

**PART-III: PRIMARY SECURITY DETAILS:****Current Assets Charged to Bank:****Stock Details**

Particulars	Book Value	Realizable Value
Raw Materials		
Work-in-Progress		
Finished Goods		
Stores and Spares		
Total Stocks		

Book Debts / Receivables

Ageing	Amount	Eligible Amount
Below 90 Days		
90–180 Days		
Above 180 Days		
Total Receivables		

Plant and Machinery

Description	Year of Installation	WDV	Market Value	Realizable Value

PART-IV: COLLATERAL SECURITY DETAILS:**Immovable Properties**

Description	Owner	Address	Area	Market Value	Distress Value
Land					
Factory Building					
Residential Property					
Commercial Property					

Movable Assets

Particulars	Market Value	Realizable Value
Vehicles		
Equipment		
Investments		
Fixed Deposits		

PART-V: SECURITY COVERAGE ANALYSIS:

Particulars	Amount (₹ Lakhs)
Total Outstanding Debt	
Primary Security Value	
Collateral Security Value	
Aggregate Realizable Value	
Security Coverage Ratio	

Security Coverage Ratio = Aggregate Realizable Value ÷ Total Debt

PART-VI: VALUATION DETAILS:

Valuation Report Particulars

Particulars	Details
Name of Valuer	
Registration Number	
Date of Valuation	
Market Value	
Distress Value	
Realizable Value	
Validity Period	

PART-VII: OWNERSHIP DETAILS OF SECURITIES:

Asset	Name of Owner	Ownership Type	Supporting Documents Available
Land			
Building			
Machinery			
Vehicles			

PART-VIII: TITLE DOCUMENT VERIFICATION:

Particulars	Available (Yes/No)	Remarks
Sale Deed		
Gift Deed		
Partition Deed		
Conveyance Deed		
Lease Deed		
Mutation Certificate		
Property Tax Receipts		



Particulars	Available (Yes/No)	Remarks
Encumbrance Certificate		
Approved Building Plan		
Occupancy Certificate		

PART-IX: SEARCH REPORT AND TITLE CLEARANCE:**Advocate's Search Report**

Particulars	Remarks
Title is Clear	
Encumbrances Found	
Litigation Pending	
Easement Rights	
Restrictive Covenants	
Government Acquisition Notices	
Adverse Possession Issues	

Period Covered by Search Report

From _____ To _____

PART-X: CERSAI REGISTRATION DETAILS:

Particulars	Details
Date of Charge Creation	
CERSAI Registration Number	
Date of Registration	
Modification Details	
Satisfaction Details	

PART-XI: ROC CHARGE DETAILS:

Particulars	Details
CIN Number	
Charge ID	
Date of Creation	
Date of Modification	
Present Status	
Pari-passu Charge Details	

PART-XII: INSURANCE DETAILS:

Asset	Insurance Company	Policy Number	Sum Insured	Expiry Date
Building				
Plant and Machinery				
Stocks				
Vehicles				

Whether Policies are Assigned to Bank

Yes / No

PART-XIII: PERSONAL GUARANTEES:

Name of Guarantor	Relationship	Net Worth	Guarantee Documents Executed

PART-XIV: CORPORATE GUARANTEES:

Name of Corporate Guarantor	Net Worth	Amount Guaranteed

PART-XV: LEGAL DOCUMENTATION:

Loan Documents

Documents	Executed
Demand Promissory Note	
Hypothecation Agreement	
Loan Agreement	
Mortgage Documents	
Guarantee Agreements	
Deeds of Assignment	
Memorandum of Deposit of Title Deeds	

PART-XVI: STATUTORY APPROVALS:

Particulars	Available
Factory License	
Pollution Control Approval	
Fire Safety Certificate	
GST Registration	
Import Export Code	
Trade License	



Particulars	Available
Electricity Connection Approval	

PART-XVII: LITIGATION DETAILS:

Cases Against Borrower

Nature of Litigation	Authority	Amount Involved	Status
Income Tax			
GST			
Labour Court			
Civil Cases			
NCLT Cases			
Arbitration Cases			

Cases Affecting Security Properties

Nature of Dispute	Court/Authority	Present Status
Title Dispute		
Family Dispute		
Encroachment		
Acquisition Proceedings		

PART-XVIII: SARFAESI STATUS:

Particulars	Details
NPA Date	
Demand Notice u/s 13(2) Issued	
Date of Notice	
Possession Notice u/s 13(4) Issued	
Physical Possession Taken	
Auction Proceedings Initiated	
Status of Recovery Proceedings	

PART-XIX: INSOLVENCY AND OTHER PROCEEDINGS:

Particulars	Status
CIRP Proceedings	
Liquidation Proceedings	
DRT Cases	
Arbitration Cases	
Wilful Defaulter Proceedings	

Particulars	Status
Fraud Classification	

PART-XX: LEGAL DUE DILIGENCE REPORT:

Advocate's Opinion:

Title of Property

- ☐ Clear
- ☐ Marketable
- ☐ Defective

Enforceability of Security

- ☐ Enforceable
- ☐ Subject to Rectification
- ☐ Not Enforceable

Charge Perfection

- ☐ Complete
- ☐ Partial
- ☐ Pending

Major Observations:

PART-XXI: RISK ASSESSMENT:

Risk Area	Risk Level
Title Risk	
Valuation Risk	
Documentation Risk	
Litigation Risk	
Insurance Risk	
Regulatory Risk	

PART-XXII: DEFICIENCIES OBSERVED:

Deficiency	Impact
Non-registration of Charge	
Inadequate Insurance	
Expired Valuation Report	
Missing Documents	
Pending Litigation	

PART-XXIII: OVERALL SECURITY ASSESSMENT:

Parameter	Status
Adequacy of Security	
Title Verification	
Charge Registration	
Insurance Coverage	
Legal Documentation	
Litigation Risk	
Security Coverage Ratio	

PART-XXIV: RECOMMENDATIONS:**Whether:**

- ☐ Security Coverage is Adequate.
- ☐ Title is Clear and Marketable.
- ☐ Documentation is Complete.
- ☐ Additional Collateral is Required.
- ☐ Fresh Valuation is Required.
- ☐ Additional Guarantees are Required.
- ☐ Rectification of Documents is Required.
- ☐ Legal Risk is Acceptable.

CERTIFICATE OF LEGAL COUNSEL

Based on the title deeds, search reports, and other documents produced before us, we certify that the securities offered to the Bank are legally enforceable and marketable, subject to the observations and qualifications contained in this report.

Signature of Advocate

Name: _____

Enrolment Number: _____

Date: _____

Place: _____

CERTIFICATE OF APPROVED VALUER

I hereby certify that the valuation of the assets has been carried out in accordance with applicable standards and the values indicated in this report represent fair market value and realizable value as on the date of valuation.

Signature of Valuer

Name: _____

Registration Number: _____

Date: _____

ANNEXURES:

Annexure-I

Schedule of Existing Credit Facilities.

Annexure-II

Copies of Title Deeds.

Annexure-III

Search Report and Title Certificate.

Annexure-IV

Valuation Reports.

Annexure-V

CERSAI Registration Details.

Annexure-VI

ROC Charge Documents.

Annexure-VII

Insurance Policies.

Annexure-VIII

Guarantee Documents.

Annexure-IX

List of Pending Litigations.

Annexure-X

Photographs and Site Inspection Reports.

Purpose of Security and Legal Due Diligence Format:

Banks use this format to evaluate:

1. Availability and adequacy of primary and collateral security.
2. Marketability and enforceability of title.
3. Perfection of security interest through CERSAI and ROC registrations.
4. Existence of legal disputes or encumbrances.
5. Insurance coverage and asset protection.

6. Recovery prospects in case of default.
7. Need for additional collateral or guarantees.
8. Compliance with RBI Prudential Framework, SARFAESI Act, Companies Act, Transfer of Property Act, Registration Act, and other applicable laws.

Accordingly, the Security and Legal Due Diligence Format form a critical pillar in the restructuring and resolution of stressed assets, ensuring that the bank's exposure remains adequately secured and legally enforceable.

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5. CONSORTIUM AND INTER-CREDITOR FORMAT

(Comprehensive Format Used by Banks While Restructuring Loans and Advances)

In cases involving multiple lenders, restructuring of loans and advances requires coordination among banks and financial institutions through a **Consortium Arrangement**, **Multiple Banking Arrangement**, or under the **Inter-Creditor Agreement (ICA)** in accordance with the Reserve Bank of India's Prudential Framework for Resolution of Stressed Assets. The objective is to ensure a coordinated resolution process, sharing of information, proportional sacrifice, voting rights, security sharing, and implementation of the Resolution Plan.

The Consortium and Inter-Creditor Format enables lenders to assess their collective exposure, define voting shares, identify common and exclusive securities, determine additional funding requirements, and monitor implementation of the restructuring package.

PART-I: BASIC INFORMATION OF THE BORROWER:

Particulars	Details
Name of Borrower	
Constitution	
Industry	
Lead Bank	
Date of Formation of Consortium	
Number of Lenders	
Asset Classification	
Date of Default	
Review Period Commencement Date	
Resolution Framework Applicable	
Exposure of All Lenders (₹ Lakhs)	

PART-II: DETAILS OF MEMBER LENDERS:

Lender-wise Exposure

(₹ in Lakhs)

Sl. No.	Name of Lender	Fund-Based Exposure	Non-Fund-Based Exposure	Total Exposure	Share (%)
1					
2					
3					
Total					100%

PART-III: FACILITY-WISE EXPOSURE:

(₹ in Lakhs)

Nature of Facility	Bank-I	Bank-II	Bank-III	Total
Cash Credit				
Working Capital Demand Loan				
Term Loan				
FITL				
WCTL				
Letter of Credit				
Bank Guarantee				
Buyers Credit				
Total Exposure				

PART-IV: SECURITY SHARING ARRANGEMENT:

Common Securities

Particulars	Market Value	Realizable Value	Pari-passu Charge
Stocks			
Receivables			
Plant and Machinery			
Land and Building			
Other Assets			

Exclusive Securities

Lender	Nature of Security	Market Value



Security Coverage Ratio

Particulars	Amount
Total Realizable Security Value	
Aggregate Debt	
Security Coverage Ratio	

PART-V: DETAILS OF CHARGE REGISTRATION:

CERSAI Registration

Security	Registration Number	Date

ROC Charges

Charge ID	Date of Creation	Charge Holder

PART-VI: ASSET CLASSIFICATION OF MEMBER BANKS:

Lender	Standard	SMA-0	SMA-1	SMA-2	NPA

PART-VII: DETAILS OF INTER-CREDITOR AGREEMENT (ICA):

Particulars	Details
Date of ICA Execution	
Percentage of Creditors Signing ICA	
Lead Bank / Monitoring Institution	
Voting Threshold Applicable	
Whether ICA is Binding on Dissenting Lenders	
Additional Funding Arrangements	
Exit Option for Dissenting Lenders	

PART-VIII: VOTING SHARE OF LENDERS:

(₹ in Lakhs)

Lender	Exposure	Voting Share (%)
Bank-I		
Bank-II		

Bank-III		
Total		100%

Voting Threshold:

- ☐ 60% by Number and 75% by Value
- ☐ Other Threshold (Specify)

PART-IX: ADDITIONAL FUNDING REQUIREMENT:

(₹ in Lakhs)

Particulars	Amount
Additional Working Capital	
Additional Term Loan	
FITL	
WCTL	
Total Additional Funding	

Lender-wise Contribution

Lender	Existing Share (%)	Additional Contribution

PART-X: SACRIFICE ANALYSIS:

(₹ in Lakhs)

Particulars	Bank-I	Bank-II	Bank-III	Total
Reduction in Interest Rate				
Moratorium Impact				
Extension of Repayment				
FITL Conversion				
Total Sacrifice				

PART-XI: RESTRUCTURED DEBT PACKAGE:

(₹ in Lakhs)

Particulars	Existing	Proposed
Working Capital Limits		
Term Loans		
WCTL		



FITL		
Additional Finance		
Total Exposure		

PART-XII: REVISED REPAYMENT SCHEDULE:

(₹ in Lakhs)

Year	Principal	Interest	Total Debt Service
Year-1			
Year-2			
Year-3			
Year-4			
Year-5			

PART-XIII: PROMOTERS' CONTRIBUTION:

Particulars	Amount
Equity Infusion	
Unsecured Loans	
Sale of Non-Core Assets	
Internal Accruals	
Total Contribution	

PART-XIV: SHARING OF RECOVERIES:

Waterfall Mechanism

Particulars	Basis of Sharing
Recovery from Primary Security	
Recovery from Collateral Security	
Recovery from Guarantees	
Insurance Claims	
Sale of Assets	

PART-XV: DISSENTING LENDER TREATMENT:

Particulars	Details
Name of Dissenting Lender	
Exposure	

Exit Price	
Timeline for Payment	
Methodology for Valuation	

PART-XVI: MONITORING MECHANISM:

Monitoring Institution

Particulars	Details
Lead Bank	
Monitoring Committee Members	
Frequency of Meetings	
Reporting Frequency	

Information to be Submitted by Borrower:

Monthly

- ✱ Stock Statements.
- ✱ Receivables Ageing.
- ✱ Cash Flow Statements.
- ✱ GST Returns.

Quarterly

- ✱ Financial Statements.
- ✱ QIS Reports.
- ✱ Compliance Certificates.

Annually

- ✱ Audited Financial Statements.
- ✱ Insurance Renewals.
- ✱ Asset Valuation Reports.

PART-XVII: ESCROW MECHANISM:

Particulars	Details
Escrow Bank	
Collection Account Number	
Cash Flow Waterfall Arrangement	
Permitted Withdrawals	

PART-XVIII: EVENT OF DEFAULT CLAUSES:

Events Constituting Default:

- ☐ Non-payment of Instalments.
- ☐ Diversion of Funds.
- ☐ Failure to Infuse Promoters' Contribution.
- ☐ Breach of Financial Covenants.
- ☐ Insolvency Proceedings.
- ☐ Fraud or Wilful Default.

PART-XIX: COVENANTS:

Financial Covenants:

Parameter	Benchmark
Current Ratio	Minimum 1.25
DSCR	Minimum 1.20
Debt Equity Ratio	As Approved
TOL/TNW	Within Limits

Operational Covenants:

- ✱ No diversion of funds.
- ✱ Restriction on dividend declaration.
- ✱ Restriction on additional borrowings.
- ✱ Periodic stock audits.
- ✱ Quarterly monitoring by lenders.

PART-XX: EXIT STRATEGY:

Particulars	Details
Normalization of Account	
Timeline for Exit	
Re-rating of Exposure	
Release of Additional Provisions	

PART-XXI: COMPLIANCE WITH RBI PRUDENTIAL FRAMEWORK:

Particulars	Status
Review Period Completed	
ICA Executed	
Resolution Plan Approved	

Independent Credit Evaluation Obtained	
Additional Provisioning Made	
Implementation within Timeline	

PART-XXII: RECOMMENDATIONS:

Whether:

- ☐ Consortium Arrangement is Adequate.
- ☐ ICA has been Executed.
- ☐ Security Sharing Arrangement is Acceptable.
- ☐ Additional Funding Requirement is Reasonable.
- ☐ Promoters' Contribution is Adequate.
- ☐ Monitoring Mechanism is Satisfactory.
- ☐ Resolution Plan is Viable.

CERTIFICATE OF LEAD BANK

It is certified that the restructuring proposal has been discussed with all participating lenders and the Inter-Creditor Agreement has been executed in accordance with applicable RBI guidelines. The exposure, security sharing arrangement, voting rights, and monitoring mechanism have been agreed upon by the member lenders.

Signature of Authorized Official

Lead Bank: _____

Name: _____

Designation: _____

Date: _____

Place: _____

ANNEXURES:

Annexure-I

Lender-wise Exposure Statement.

Annexure-II

Copy of Inter-Creditor Agreement.

Annexure-III

Security Sharing and Pari-passu Charge Details.

Annexure-IV

CERSAI and ROC Charge Documents.

Annexure-V

Additional Funding Arrangement.

Annexure-VI

Promoters' Contribution Plan.

Annexure-VII

Cash Flow Waterfall Mechanism.

Annexure-VIII

Monitoring Committee Terms of Reference.

Annexure-IX

Resolution Plan Approved by Lenders.

Annexure-X

Independent Credit Evaluation Report.

Purpose of Consortium and Inter-Creditor Format:

Banks and financial institutions use this format to:

1. Identify lender-wise exposure and voting rights.
2. Facilitate coordinated restructuring among multiple lenders.
3. Determine security sharing and recovery mechanisms.
4. Allocate additional funding obligations among lenders.
5. Provide treatment to dissenting creditors.
6. Monitor implementation of the Resolution Plan.
7. Ensure compliance with RBI Prudential Framework and Inter-Creditor Agreement requirements.
8. Protect the interests of all participating lenders while maximizing value preservation and recovery.

Accordingly, the Consortium and Inter-Creditor Format constitute the backbone of multi-lender restructuring and resolution frameworks, ensuring orderly decision-making and equitable treatment among banks and financial institutions.

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6. RESOLUTION PLAN AND SUSTAINABLE DEBT FORMAT

(Comprehensive Format Used by Banks While Restructuring Loans and Advances)

Under the Reserve Bank of India (RBI) Prudential Framework for Resolution of Stressed Assets, banks and financial institutions are required to formulate a **Resolution Plan (RP)** for borrowers under stress. The Resolution Plan aims to preserve economic value, restore viability, and ensure timely repayment through an appropriate restructuring package.

A critical aspect of the Resolution Plan is the determination of **Sustainable Debt**, i.e., the level of debt that can be serviced by the borrower from future cash flows, and **Unsustainable Debt**, which may require restructuring through moratorium, extension of tenor, conversion into equity, preference shares, optionally convertible instruments, FITL, WCTL, or sacrifice by lenders.

The following format is generally used while restructuring loans and advances.

RESOLUTION PLAN AND SUSTAINABLE DEBT FORMAT

PART-I: BASIC INFORMATION:

Particulars	Details
Name of Borrower	
Constitution	
Industry	
Existing Asset Classification	
Date of Default	
Date of Review Period Commencement	
Exposure of All Lenders	
Lead Bank	
Resolution Framework Applicable	
Proposed Date of Implementation	

PART-II: EXECUTIVE SUMMARY:

Brief Profile of Borrower:

- ✱ Nature of business.
- ✱ Existing operations.
- ✱ Causes of stress.
- ✱ Existing debt profile.
- ✱ Proposed restructuring package.
- ✱ Major assumptions.
- ✱ Promoters' contribution.
- ✱ Expected turnaround period.

**PART-III: DETAILS OF EXISTING DEBT:**

(₹ in Lakhs)

Nature of Facility	Sanctioned Limit	Outstanding Amount
Cash Credit		
Working Capital Demand Loan		
Term Loan-I		
Term Loan-II		
FITL		
WCTL		
Bank Guarantees		
Letter of Credit		
Other Liabilities		
Total Debt		

PART-IV: CAUSES OF STRESS:**Internal Factors:**

- ☐ Delay in Project Implementation
- ☐ Under-utilization of Capacity
- ☐ Working Capital Shortage
- ☐ Cost Overruns
- ☐ Diversion of Funds
- ☐ Weak Financial Management

External Factors:

- ☐ Economic Slowdown
- ☐ Demand Contraction
- ☐ Increase in Raw Material Prices
- ☐ Regulatory Changes
- ☐ Foreign Exchange Fluctuations
- ☐ Pandemic Effects

PART-V: TECHNICAL AND FINANCIAL VIABILITY:

Parameters	Status
Technical Viability	
Commercial Viability	

Parameters	Status
Financial Viability	
Market Prospects	
Management Capability	
Operational Efficiency	

PART-VI: PROJECTED OPERATING PERFORMANCE:

(₹ in Lakhs)

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
Revenue from Operations					
EBITDA					
PAT					
Cash Accruals					
Net Worth					
Total Debt					

PART-VII: CASH FLOW AVAILABLE FOR DEBT SERVICING:

(₹ in Lakhs)

Particulars	Year-1	Year-2	Year-3	Year-4	Year-5
EBITDA					
Less: Taxes					
Less: Working Capital Changes					
Less: Capital Expenditure					
Free Cash Flow					
Available for Debt Servicing					

PART-VIII: SUSTAINABLE DEBT COMPUTATION:

Step-1: Future Cash Generation

Particulars	Amount
Average Annual EBITDA	
Average Cash Accruals	
Average Free Cash Flow	

Step-2: Debt Servicing Capacity

Particulars	Amount
Annual Debt Service Capacity	



Particulars	Amount
Average DSCR Assumed	
Sustainable Debt Capacity	

Step-3: Debt Classification

Particulars	Amount
Total Outstanding Debt	
Sustainable Debt	
Unsustainable Debt	

PART-IX: TREATMENT OF UNSUSTAINABLE DEBT:

(₹ in Lakhs)

Particulars	Amount
Conversion into FITL	
Conversion into WCTL	
Conversion into Equity Shares	
Conversion into Preference Shares	
Optionally Convertible Debentures	
Sacrifice by Lenders	
Deferred Payment Obligations	
Total Unsustainable Portion	

PART-X: DETAILS OF RESTRUCTURING PACKAGE:

Reliefs Proposed

Particulars	Existing Terms	Revised Terms
Interest Rate		
Repayment Period		
Moratorium		
Instalment Structure		
Working Capital Limits		
Additional Finance		
Security Coverage		

PART-XI: ADDITIONAL FINANCE:

Particulars	Amount
Additional Working Capital	
Additional Term Loan	

FITL Requirement	
WCTL Requirement	
Total Additional Funding	

Source of Additional Funding

Source	Amount
Existing Lenders	
New Lenders	
Promoters' Contribution	
Internal Accruals	

PART-XII: PROMOTERS' CONTRIBUTION:

Particulars	Amount
Fresh Equity Infusion	
Unsecured Loans	
Sale of Non-Core Assets	
Internal Resources	
Total Contribution	

PART-XIII: REVISED DEBT STRUCTURE:

(₹ in Lakhs)

Particulars	Existing Debt	Restructured Debt
Working Capital Facilities		
Term Loans		
FITL		
WCTL		
Additional Finance		
Total Exposure		

PART-XIV: REPAYMENT SCHEDULE:

(₹ in Lakhs)

Year	Principal Repayment	Interest Payment	Total Debt Service
Year-1			
Year-2			
Year-3			
Year-4			
Year-5			



PART-XV: DEBT SERVICING PARAMETERS:

Parameters	Year-1	Year-2	Year-3	Year-4	Year-5
EBITDA					
Cash Accruals					
Interest Coverage Ratio					
DSCR					
Current Ratio					
Debt Equity Ratio					

PART-XVI: SACRIFICE ANALYSIS OF LENDERS:

(₹ in Lakhs)

Particulars	Amount
Interest Rate Reduction Impact	
Moratorium Impact	
Extension of Repayment Impact	
Conversion Impact	
Present Value Sacrifice	
Total Sacrifice	

PART-XVII: SECURITY STRUCTURE:

Existing Security

Asset	Realizable Value
Primary Security	
Collateral Security	
Guarantees	
Total Security Value	

Security Coverage Ratio:

Security Value ÷ Total Debt = _____

PART-XVIII: FINANCIAL COVENANTS:

Parameter	Benchmark
Current Ratio	Minimum 1.25
DSCR	Minimum 1.20
Interest Coverage Ratio	Minimum 1.50
Debt Equity Ratio	As Approved
TOL/TNW	As Approved

PART-XIX: IMPLEMENTATION SCHEDULE:

Activity	Target Date
Approval by Lenders	
Execution of Documents	
Promoters' Contribution	
Additional Funding Release	
Completion of Restructuring	
Account Upgradation Target	

PART-XX: MONITORING MECHANISM:

Monthly Monitoring:

- ✱ Stock Statements.
- ✱ Receivables Ageing.
- ✱ Cash Flow Statements.
- ✱ GST Returns.

Quarterly Monitoring:

- ✱ QIS Statements.
- ✱ Financial Statements.
- ✱ Compliance Certificates.

Annual Monitoring:

- ✱ Audited Accounts.
- ✱ Insurance Coverage.
- ✱ Valuation Reports.

PART-XXI: STRESS TESTING AND SENSITIVITY ANALYSIS:

Scenario-I: Sales Decline by 10%

Particulars	Base Case	Stress Case
EBITDA		
Cash Accruals		
DSCR		

Scenario-II: Increase in Cost by 10%

Particulars	Base Case	Stress Case
EBITDA Margin		

Particulars	Base Case	Stress Case
PAT		
DSCR		

PART-XXII: EXIT STRATEGY:

Particulars	Details
Target Date for Normalization	
Reduction in Debt	
Account Upgradation	
Release of Additional Provisions	

PART-XXIII: OVERALL ASSESSMENT:

Whether the Unit is:

- ☐ Technically Viable
- ☐ Commercially Viable
- ☐ Financially Viable
- ☐ Capable of Servicing Sustainable Debt
- ☐ Requiring Additional Finance
- ☐ Requiring Moratorium
- ☐ Capable of Revival

PART-XXIV: RECOMMENDATIONS:

Proposed Resolution Measures:

- ☐ Extension of Repayment Period.
- ☐ Moratorium on Principal.
- ☐ Reduction in Interest Rate.
- ☐ FITL Creation.
- ☐ WCTL Creation.
- ☐ Additional Working Capital.
- ☐ Conversion into Equity Instruments.
- ☐ Promoters' Equity Infusion.
- ☐ Sale of Non-Core Assets.
- ☐ Periodic Monitoring Mechanism.

CERTIFICATE OF LEAD BANK / MONITORING INSTITUTION

Based on the techno-economic viability study, projected cash flows, and discussions among lenders, it is certified that the Resolution Plan has been formulated in accordance with applicable RBI guidelines and that the sustainable debt identified under this plan is capable of being serviced by the borrower under normal operating conditions.

Signature

Name: _____

Designation: _____

Bank: _____

Date: _____

Place: _____

ANNEXURES:

Annexure-I

Information Memorandum.

Annexure-II

TEV Study Report.

Annexure-III

Historical Financial Statements.

Annexure-IV

Projected Financial Statements (5–10 Years).

Annexure-V

Cash Flow Projections.

Annexure-VI

Debt Repayment Schedule.

Annexure-VII

Lender-wise Exposure Statement.

Annexure-VIII

Security and Valuation Reports.

Annexure-IX

Promoters' Contribution Plan.

Annexure-X

Sensitivity Analysis and Stress Testing.

Purpose of Resolution Plan and Sustainable Debt Format:

Banks and financial institutions use this format to:

1. Identify sustainable and unsustainable portions of debt.
2. Design an appropriate restructuring package.
3. Determine the level of additional funding required.
4. Assess debt servicing capability based on future cash flows.
5. Evaluate lender sacrifice and economic viability.
6. Implement the Resolution Plan in accordance with RBI Prudential Framework.
7. Monitor post-restructuring performance and covenant compliance.
8. Preserve economic value and maximize recovery while ensuring long-term viability of the borrower.

Accordingly, the Resolution Plan and Sustainable Debt Format constitute the core document governing the restructuring and resolution process of stressed assets and borrower rehabilitation by banks and financial institutions.

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7. MONITORING AND COMPLIANCE FORMAT

(Comprehensive Post-Restructuring Monitoring and Compliance Format Used by Banks for Loans and Advances)

The success of any restructuring package does not depend merely upon the approval of the Resolution Plan, but upon effective post-restructuring monitoring and continuous compliance with the terms and conditions imposed by the lenders. Accordingly, banks establish a Monitoring and Compliance Framework to ensure that the borrower adheres to the financial covenants, operational milestones, promoter commitments, and repayment obligations envisaged under the Resolution Plan.

The Monitoring and Compliance Format provides a mechanism for periodic review of business performance, cash flows, asset coverage, statutory compliance, and covenant compliance. It also enables lenders to identify early warning signals and initiate corrective actions before the account slips into stress again.

MONITORING AND COMPLIANCE FORMAT

PART-I: BASIC INFORMATION:

Particulars	Details
Name of Borrower	
Constitution	
Industry	
Lead Bank	
Date of Implementation of Resolution Plan	
Existing Exposure	

Particulars	Details
Restructured Exposure	
Monitoring Institution	
Monitoring Period	
Review Frequency	Monthly/Quarterly/Half-Yearly

PART-II: DETAILS OF RESTRUCTURED FACILITIES:

₹ in Lakhs)

Nature of Facility	Sanctioned Amount	Outstanding Amount	Repayment Terms
Cash Credit			
Working Capital Term Loan (WCTL)			
FITL			
Term Loan			
Additional Finance			
Total Exposure			

PART-II : DETAILS OF RESTRUCTURED FACILITIES

(₹ in Lakhs)

Nature of Facility	Sanctioned Amount	Outstanding Amount	Repayment Terms
Cash Credit			
Working Capital Term Loan (WCTL)			
FITL			
Term Loan			
Additional Finance			
Total Exposure			

PART-III: MONTHLY MONITORING FORMAT:**Sales Performance**

₹ in Lakhs)

Particulars	Budgeted	Actual	Variance	Variance (%)
Domestic Sales				
Export Sales				
Total Sales				



Production Performance

Product	Installed Capacity	Actual Production	Capacity Utilization (%)

Receivables Analysis

Ageing	Amount
Up to 90 Days	
91–180 Days	
Above 180 Days	
Total Debtors	

Inventory Position

Particulars	Amount
Raw Materials	
Work-in-Progress	
Finished Goods	
Total Inventory	

PART-IV: CASH FLOW MONITORING:

(₹ in Lakhs)

Particulars	Budgeted	Actual
Cash Inflows		
Cash Outflows		
Net Cash Flow		
Opening Balance		
Closing Balance		

PART-V: DEBT SERVICING MONITORING:

(₹ in Lakhs)

Particulars	Due Amount	Paid Amount	Delay (Days)
Principal Instalment			
Interest Payment			
LC/BG Obligations			
Total Debt Service			

PART-VI: WORKING CAPITAL MONITORING:

(₹ in Lakhs)

Particulars	Budgeted	Actual
Inventory		
Receivables		
Creditors		
Current Assets		
Current Liabilities		
Working Capital Gap		

PART-VII: FINANCIAL COVENANT COMPLIANCE:

Covenant	Benchmark	Actual	Compliance Status
Current Ratio	≥ 1.25		
DSCR	≥ 1.20		
Interest Coverage Ratio	≥ 1.50		
Debt Equity Ratio	As Approved		
TOL/TNW Ratio	As Approved		
EBITDA Margin	Positive		

PART-VIII: OPERATIONAL COVENANT COMPLIANCE:

Covenant	Status
Capacity Utilization Achieved	
Production Targets Achieved	
Sales Targets Achieved	
Cost Reduction Measures Implemented	
Capital Expenditure Completed	
Asset Disposal Completed	

PART-IX: PROMOTERS' CONTRIBUTION MONITORING:

(₹ in Lakhs)

Particulars	Proposed	Infused	Balance
Equity Infusion			
Unsecured Loans			
Sale of Non-Core Assets			
Total Contribution			

**PART-X: STATUTORY COMPLIANCE MONITORING:**

Particulars	Due Date	Status	Remarks
GST Returns			
Income Tax Returns			
TDS Payments			
EPF Contributions			
ESI Contributions			
ROC Filings			
Labour Law Compliance			
Factory Licence Renewals			

PART-XI: SECURITY MONITORING:

Particulars	Status	Remarks
Stock Audit Conducted		
Insurance Renewed		
Valuation Reports Updated		
CERSAI Registration Updated		
ROC Charges Updated		
Collateral Security Available		

PART-XII: INSURANCE COMPLIANCE:

Asset	Policy Expiry Date	Sum Insured	Status
Building			
Plant & Machinery			
Stocks			
Vehicles			

PART-XIII: LEGAL COMPLIANCE:

Particulars	Status	Remarks
Pending Litigation		
SARFAESI Proceedings		
DRT Cases		
NCLT Proceedings		
Arbitration Cases		
Wilful Defaulter Proceedings		

PART-XIV: DIGITAL FOOTPRINT MONITORING:

GST Verification

Particulars	Status
GSTR-1 Filed	
GSTR-3B Filed	
GST Turnover Matches Projections	

Income Tax Verification

Particulars	Status
ITR Filed	
TDS Compliance	
Form 26AS Reconciliation	

MCA Compliance

Particulars	Status
Annual Return Filed	
Financial Statements Filed	
Directors KYC Completed	

Employee Compliance

Particulars	Status
EPFO Deposits	
ESIC Contributions	

PART-XV: EARLY WARNING SIGNALS (EWS):

Parameter	Status	Risk Level
Decline in Sales		
Delay in Receivables		
Continuous Losses		
Frequent Overdrawing		
Cheque Returns		
GST Default		
Statutory Dues Overdue		
Decline in Capacity Utilization		
Related Party Transactions		

PART-XVI: EXCEPTIONS AND DEVIATIONS:

Particulars	Approved Benchmark	Actual	Deviation
Sales			
EBITDA			
DSCR			
Current Ratio			
Working Capital Cycle			

PART-XVII: QUARTERLY INFORMATION SYSTEM (QIS):

QIS-I (Estimated Performance)

Particulars	Next Quarter Projection
Sales	
EBITDA	
Profit	
Working Capital Requirement	

QIS-II (Actual Performance)

Particulars	Actual
Sales	
EBITDA	
PAT	
Cash Flow	

QIS-III (Half-Yearly Review)

Particulars	Amount
Sales Achieved	
Debt Servicing	
Current Ratio	
Net Worth	

PART-XVIII: MONITORING COMMITTEE REVIEW:

Members:

- ✱ Lead Bank.
- ✱ Consortium Banks.
- ✱ Independent Consultant.
- ✱ Borrower Representatives.

Review Observations

Particulars	Observations
Sales Performance	
Operational Efficiency	
Debt Servicing	
Compliance Status	
Additional Funding Requirement	
Risk Areas	

PART-XIX: CORRECTIVE ACTION PLAN:

Deficiency Identified	Corrective Action	Timeline
Delay in Receivables		
Lower Sales		
Cost Overruns		
Covenant Breaches		
Delay in Promoters' Contribution		

PART-XX: ACCOUNT STATUS REVIEW:

Particulars	Status
Standard Asset	
SMA-0	
SMA-1	
SMA-2	
NPA	

PART-XXI: OVERALL COMPLIANCE ASSESSMENT:

Parameter	Compliance Status
Financial Covenants	
Operational Covenants	
Statutory Compliance	
Security Compliance	
Debt Servicing Compliance	
Promoters' Commitment	
Monitoring Requirements	

PART-XXII: RECOMMENDATIONS:**Whether:**



- ☐ Account is Performing Satisfactorily.
- ☐ Additional Monitoring is Required.
- ☐ Corrective Action is Required.
- ☐ Additional Funding is Required.
- ☐ Covenants Need Modification.
- ☐ Security Enhancement is Required.
- ☐ Account Requires Special Mention Classification.
- ☐ Recovery Action Needs Initiation.

CERTIFICATE OF MONITORING INSTITUTION

Based on the periodic review carried out and the information furnished by the borrower, it is certified that the borrower has complied/not complied with the terms and conditions of the Resolution Plan and the account performance is satisfactory/unsatisfactory. The observations and recommendations contained in this report are submitted for consideration by the lenders.

Signature

Name: _____

Designation: _____

Bank / Monitoring Institution: _____

Date: _____

Place: _____

ANNEXURES:

Annexure-I

Monthly Stock Statements.

Annexure-II

Receivables Ageing Analysis.

Annexure-III

Cash Flow Statements.

Annexure-IV

QIS-I, QIS-II and QIS-III Statements.

Annexure-V

GST Returns and Income Tax Compliance Reports.

Annexure-VI

Insurance Policies and Valuation Reports.

Annexure-VII

Monitoring Committee Minutes.

Annexure-VIII

Covenant Compliance Certificates.

Annexure-IX

Early Warning Signal Reports.

Annexure-X

Corrective Action Plan.

Purpose of Monitoring and Compliance Format:

Banks use this format to:

1. Monitor the implementation of the restructuring package.
2. Track compliance with financial and operational covenants.
3. Ensure timely servicing of restructured debt.
4. Verify statutory and regulatory compliance.
5. Identify early warning signals and emerging stress.
6. Assess promoters' commitment and additional funding requirements.
7. Facilitate periodic review by the Monitoring Committee and consortium lenders.
8. Ensure long-term sustainability and prevent recurrence of financial stress.

Accordingly, the **Monitoring and Compliance Format serves as the principal post-restructuring control mechanism**, enabling banks and financial institutions to preserve asset quality, protect security interests, and maximize the probability of successful rehabilitation of stressed borrowers.

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8. DIGITAL FOOTPRINT AND FORENSIC VERIFICATION FORMAT

(Comprehensive Format Used by Banks While Restructuring Loans and Advances of Borrowing Entities)

In the era of digital banking, lenders increasingly rely on digital footprints and forensic verification mechanisms to assess the integrity, transparency, and financial behaviour of borrowing entities. Apart from conventional financial statements and security documents, banks now examine various digital trails generated through GST filings, Income Tax records, MCA filings, EPFO and ESIC contributions, e-way bills, bank statements, payment gateways, customs data, and social media presence to ascertain the genuineness of operations and detect early warning signals.



Forensic verification assumes greater significance in stressed assets and restructuring cases, particularly where diversion of funds, related-party transactions, round-tripping, fictitious sales, evergreening, or siphoning of funds are suspected. The following format provides a comprehensive framework for digital footprint analysis and forensic due diligence.

DIGITAL FOOTPRINT AND FORENSIC VERIFICATION FORMAT

PART-I: BASIC INFORMATION:

Particulars	Details
Name of Borrower	
Constitution	
CIN / LLPIN	
PAN	
GSTIN	
Industry Sector	
Existing Exposure	
Asset Classification	
Date of Default	
Lead Bank	
Consortium Arrangement	
Purpose of Verification	

PART-II: GST DIGITAL FOOTPRINT VERIFICATION:

GST Registration Details

Particulars	Details
GSTIN	
State Code	
Registration Date	
Nature of Business	
Status of Registration	

GST Return Filing Status

Return Type	Latest Period Filed	Status
GSTR-1		
GSTR-3B		
GSTR-9		
GSTR-9C		

GST Turnover Reconciliation

(₹ in Lakhs)

Particulars	Amount
Turnover as per GSTR-1	
Turnover as per Financial Statements	
Difference	
Percentage Variation	

Way Bill Verification

Particulars	Details
Number of E-Way Bills Generated	
Monthly Movement Trend	
Peak Activity Period	
Abnormal Fluctuations	

PART-III: INCOME TAX DIGITAL FOOTPRINT:**Income Tax Return Verification**

Assessment Year	Return Filed	Date of Filing

Reconciliation of Financial Data

(₹ in Lakhs)

Particulars	ITR
Sales	
Profit Before Tax	
Depreciation	
Net Profit	

Form 26AS Verification

Particulars	Amount
TDS Credits	
Advance Tax Paid	
Tax Refunds	

**AIS/TIS Verification**

Particulars	Remarks
High-Value Transactions	
Property Transactions	
Securities Transactions	
Foreign Remittances	

PART-IV: MCA DIGITAL FOOTPRINT:**Corporate Filings**

Particulars	Status
Annual Return (MGT-7)	
Financial Statements (AOC-4)	
DIR-3 KYC Compliance	
Charge Registration	

Directors' Verification

Director Name	DIN Status	Disqualified	Remarks

Related Party Transactions

Particulars	Amount	Remarks
Loans to Related Parties		
Purchases from Related Parties		
Sales to Related Parties		

PART-V: EPFO AND ESIC DIGITAL FOOTPRINT:**Employee Data Verification**

Particulars	Details
EPFO Registration Number	
ESIC Registration Number	
Number of Employees	
Average Monthly Contribution	

Compliance Status

Particulars	Status
EPFO Payments	

ESIC Contributions	
Arrears Outstanding	

PART-VI: BANKING TRANSACTION ANALYSIS:

Bank Statement Review

Particulars	Observation
Cash Withdrawals	
Large Transactions	
Frequent Fund Transfers	
Round-Tripping Indicators	
Related Party Payments	

Average Banking Turnover

Particulars	Amount
Monthly Credits	
Monthly Debits	
Peak Utilization	

PART-VII: TRADE RECEIVABLES AND PAYABLES ANALYSIS:

Debtors Verification

Particulars	Observation
Top Debtors	
Related Party Debtors	
Ageing Beyond 180 Days	
Concentration Risk	

Creditors Verification

Particulars	Observation
Major Suppliers	
Related Party Creditors	
Abnormal Balances	

PART-VIII: CUSTOMS AND FOREIGN TRADE DATA:

Import-Export Verification

Particulars	Details
IEC Number	
Export Turnover	



Particulars	Details
Import Turnover	
Countries of Trade	

Foreign Exchange Transactions

Particulars	Observation
Export Proceeds Realization	
Delayed Receivables	
Overseas Remittances	

PART-IX: DIGITAL COMMERCE FOOTPRINT:**Website and Online Presence**

Particulars	Status
Website Availability	
E-Commerce Presence	
Social Media Presence	
Online Reviews	

Market Reputation

Parameters	Observation
Customer Complaints	
Supplier Feedback	
Market Standing	

PART-X: RELATED PARTY AND GROUP ENTITY ANALYSIS:

Particulars	Observation
Common Directors	
Common Addresses	
Cross Guarantees	
Fund Transfers	
Inter-Corporate Deposits	

PART-XI: FIXED ASSET VERIFICATION:

Asset	Book Value	Physical Verification	Remarks
Land			
Building			
Plant & Machinery			
Vehicles			

PART-XII: FORENSIC RED FLAG ANALYSIS:

Early Warning Signals

Red Flag Indicator	Status
Sudden Increase in Sales	
Declining Cash Flows	
Frequent Cash Withdrawals	
Multiple Bank Accounts	
Related Party Transactions	
Evergreening of Loans	
Circular Transactions	
Layering of Funds	
Diversion of Funds	
Siphoning of Funds	

PART-XIII: TRANSACTION TESTING:

Sample Verification

Transaction Type	Number Tested	Exception Noted
Sales Transactions		
Purchase Transactions		
Bank Transactions		
Related Party Transactions		

PART-XIV: FORENSIC ANALYSIS OF UTILIZATION OF FUNDS:

Particulars	Observation
End-use of Funds	
Diversion Outside Business	
Related Party Transfers	
Capital Expenditure Verification	
Unusual Investments	

**PART-XV: STOCK AND INVENTORY ANALYSIS:**

Particulars	Observation
Stock Statements vs Books	
Inventory Movement	
Slow Moving Stock	
Obsolete Inventory	

PART-XVI: CASH FLOW TRAIL ANALYSIS:

Particulars	Remarks
Cash Generated from Operations	
Cash Diverted	
Non-Business Payments	
Fund Flow Pattern	

PART-XVII: LEGAL AND REGULATORY SEARCH:

Particulars	Status
ROC Search	
CERSAI Search	
DRT Cases	
NCLT Proceedings	
SARFAESI Cases	
Arbitration Proceedings	

PART-XVIII: FRAUD RISK ASSESSMENT:

Risk Area	Risk Level
Operational Risk	
Financial Risk	
Regulatory Risk	
Management Risk	
Fraud Risk	

PART-XIX: OVERALL FORENSIC FINDINGS:**Significant Observations:**

- 1.
- 2.
- 3.
- 4.

5.

PART-XX: CLASSIFICATION OF FINDINGS:

No Adverse Findings

☐ Yes

☐ No

Evidence of Diversion of Funds

☐ Yes

☐ No

Evidence of Siphoning of Funds

☐ Yes

☐ No

Related Party Irregularities

☐ Yes

☐ No

Fraud Indicators Present

☐ Yes

☐ No

PART-XXI: RECOMMENDATIONS:

Whether:

- ☐ Account is Suitable for Restructuring.
- ☐ Additional Security is Required.
- ☐ Promoters' Contribution is Required.
- ☐ Independent Forensic Audit is Recommended.
- ☐ Stock Audit is Required.
- ☐ Special Monitoring is Required.
- ☐ Fraud Examination is Required.
- ☐ Recovery Proceedings Need Initiation.

CERTIFICATE OF FORENSIC AUDITOR / INVESTIGATING PROFESSIONAL

Based on the examination of digital records, statutory filings, bank transactions, related party transactions, and other information made available, it is certified that the observations and findings contained in this report represent a fair assessment of the digital footprint and forensic indicators of the borrower. The conclusions are subject to the



scope and limitations of information available during the course of verification.

Signature

Name of Auditor / Professional: _____

Firm Name: _____

Membership Number: _____

Date: _____

Place: _____

ANNEXURES:

Annexure-I

GST Return Reconciliation.

Annexure-II

Income Tax Return and Form 26AS Analysis.

Annexure-III

AIS/TIS Verification Report.

Annexure-IV

MCA Master Data and Charge Details.

Annexure-V

EPFO and ESIC Contribution Statements.

Annexure-VI

Bank Statement Transaction Analysis.

Annexure-VII

Related Party Transaction Analysis.

Annexure-VIII

Stock Audit Report.

Annexure-IX

Fixed Asset Verification Report.

Annexure-X

Digital Trail and Forensic Working Papers.

Purpose of Digital Footprint and Forensic Verification Format:

Banks use this format to:

1. Verify the authenticity of business operations through digital trails.

2. Reconcile financial statements with GST and Income Tax records.
3. Assess employee and statutory compliance through EPFO and ESIC records.
4. Identify related-party transactions and group exposures.
5. Detect early warning signals, diversion, and siphoning of funds.
6. Evaluate the end-use of funds and transaction patterns.
7. Determine the suitability of the borrower for restructuring.
8. Strengthen risk management and fraud prevention mechanisms.

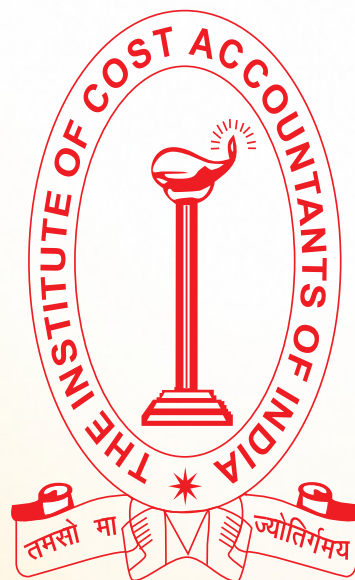
Accordingly, the Digital Footprint and Forensic Verification Format represent the modern investigative framework used by banks and financial institutions while restructuring loans and advances and serves as a powerful complement to traditional financial and security appraisal processes.

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3. Insolvency and Bankruptcy Board of India. *Insolvency and Bankruptcy Code, 2016* and regulations relating to corporate insolvency resolution.
4. Ministry of Corporate Affairs. Companies Act, 2013 and Rules relating to registration of charges and corporate disclosures.
5. Parliament of India. Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).
6. Basel Committee on Banking Supervision. *Principles for Credit Risk Management* and the *Basel Framework* on credit risk, restructuring, and supervisory practices.

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