



**The Institute of Chartered
Accountants of India**

**COMMITTEE ON
MSME AND STARTUP**



Pre-Packaged Insolvency Resolution Process (PPIRP) Framework for Micro Small and Medium Enterprises



INFORMATION BOOKLET

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BACKGROUND

MSMEs are critical for India's economy as they contribute significantly to India's GDP and provide employment to a sizeable population. During Covid 19 period, a significant number of MSMEs were impacted by liquidity constraints on account of supply constraints, lockdown, etc., resulting in defaults on their bank and other financial creditor loans.

The Government recognized the need to put such MSMEs undergoing financial crisis back on their track to recovery and have created a scheme under the Insolvency and Bankruptcy Code, 2016 to help them to come out of the crisis.

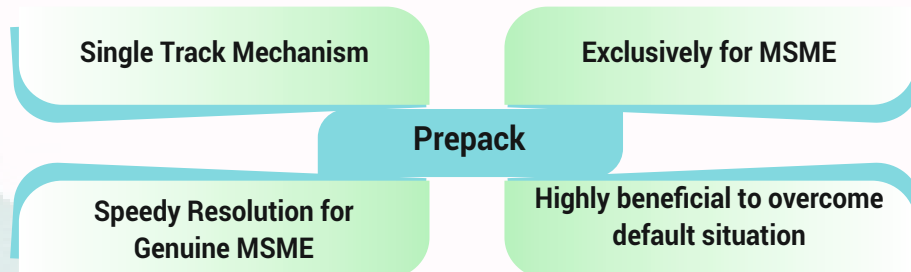
This scheme framework is called as Pre-pack Insolvency Resolution Framework or 'PPIRP' which provides an efficient and quicker alternative to other options like one-time settlement by banks. This has been provided under Insolvency and Bankruptcy Code, 2016 (IBC).

MSMEs and the promoter of the business undergoing stress are the best person to propose a scheme to come out of their financial crisis. To this effect, PPIRP allows the MSME Company itself to initiate the process voluntarily and obtain consent of key stakeholders (that is, by 66% voting by unrelated financial creditors) before approaching the designated Court which is NCLT.

The FAQs, as follows, have been prepared with a view to guide and facilitate the MSMEs as well as financial creditors to take advantage of new framework.

The objective of this document is to enlighten MSMEs on this excellent scheme. For more information on this, please contact your banker and/or a professional who will be able to guide you better on this. The detailed guidelines on PPIRP are also contained in Section 54(A) to 54(P) of the IBC as available on the link:

<https://ibbi.gov.in/uploads/legalframework/2022-04-28-181717-r28jw-af0143991dbbd963f47def187e86517f.pdf>



1 What is PPIRP?

It refers to the manner of resolution of a corporate person, wherein a resolution plan is formulated by the management of the corporate debtor in consultation with their creditors while retaining control over the management and operations of the corporate debtor to be able to overcome their financial crisis and resolve the same

2 Why is there a need for PPIRP?

The cumulative stress faced by MSMEs accelerated by Covid 19 pandemic has resulted in cash flow mismatch and need assistance in matters of liquidity, debt management, etc. PPIRP provides an efficient alternative insolvency resolution process under the IBCode ensuring quicker, cost-effective and value maximizing outcomes for all the stakeholders.

3 Who can file an application to initiate the PPIRP?

Any corporate person i.e., a company or a limited liability partnership, classified as an MSME under Section 7(1) of the MSME Act, 2006 ("Corporate Debtor").

4 Which Companies are classified as MSME?

MSMEs are Micro, Small and Medium Enterprises that engage in the Manufacturing, Processing, Production and Preservation of goods or Services sector that are categorized according to below parameters as per existing law covering such MSME's

Composite Criteria of Investment in Plant & Machinery or Equipment and Turnover*

Classification	Micro	Small	Medium
Manufacturing & Services	Investment does not exceed Rs 1 crore and Turnover does not exceed Rs 5 crore	Investment does not exceed Rs 10 crore and Turnover does not exceed Rs 50 crore	Investment does not exceed Rs 50 crore and Turnover does not exceed Rs 250 crore

* Please refer to MSME Act, 2006 and subsequent amendments for applicability and eligibility

5 When can the PPIRP be initiated?

If there is a minimum default of Rs. Ten lakhs, PPIRP can be initiated to help resolve the situation for the MSME Company "Default" under Section 3(12) of the Code means non-payment of debt when whole or any part or instalment of the amount of debt has become due and payable and is not paid by the debtor or the corporate debtor, as the case may be. Defaults can be from multiple accounts aggregating to a minimum threshold of Rs. 10 lacs.

6 Does the MSME Company need to have professional support during PPIRP?

Yes, the MSME would need to engage the service of an Insolvency Professional (IP). An IP has a dual role to play as Advisor to CD till the filing of Application to AA and thereafter as a Resolution Professional as appointed by the Financial Creditors under Pre- Pack Framework for MSMEs. IP may be same or different during above phases.

7 What are the actions to be taken by the Corporate Debtor before filing the application?

- Pass a special resolution of more than 3/4th of the partners must pass a resolution approving the filing of the application for initiating PPIRP;
- Prepare a base resolution plan;
- Director's declaration that: (a) application would be filed within 90 days; (b) PPIRP is not being initiated to defraud any entity; (c) particulars of the resolution professional who is being proposed for the matter;
- Approval of filing of the application by 66% of the unrelated financial creditors;
- Nominate an insolvency resolution professional ("RP") and such nomination must be approved by 66% of the unrelated financial creditors who are not related parties of the corporate debtor.

8 What is a base resolution plan?

A base resolution plan is the resolution plan prepared by the Corporate Debtor in conformity with Section 30 of the Code and presented in the first instance to its committee of creditors ("COC") for consideration after the PPIRP application is admitted.

9 Who are unrelated financial creditors?

Financial creditors who are not related parties of the Corporate Debtors are unrelated financial creditors.

10 What is the timeline specified for PPIRP?

The PPIRP shall be completed within 120 days from the date of commencement – 90 days for approval of resolution plan by COC and 30 days for Adjudicating Authority.

11 What is the process of approval of the base resolution plan?

The base resolution plan is presented to the Lenders/Creditors within 2 days of its formation and must be approved by 66% of the COC for it to be approved and implemented.

12 What are the reasons for rejection of the base resolution plan?

COC evaluates the plan based on its commercial feasibility and viability. Other than the issue of the COC on the commercial feasibility and viability criteria of the base resolution plan, if the base resolution plan impairs any claim owed by the Corporate Debtor to the operational creditors it shall be rejected.

12 How PPIRP is different from Corporate Insolvency Resolution Process (CIRP) under IBC?

PPIRP is a quicker, cost-effective process than the CIRP, designed to serve the MSME sector, which is considered as the engines of economic growth and promotes equitable development. PPIRP also guarantees the continuity of the businesses by adopting Debtor in Possession model compared to the CIRP where the board of CD is suspended. PPIRP ensures that the promoter continues to run the business.

14 How do we proceed on the matter?

Please read the contents of CHAPTER III-A, Section 54(A) to 54(P) of the IBC as available on the link:

<https://ibbi.gov.in/uploads/legalframework/2022-04-28-181717-r28jw-af0143991dbbd963f47def187e86517f.pdf>

and if necessary, kindly approach a professional who may be able to guide you.

