



**Policy on Resolution of Covid-19 related stress of Individuals and Small Businesses**

## **Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses**

### **Background and RBI circular**

The Reserve Bank of India vide its circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on “Resolution Framework for COVID-19-related Stress” (“**Resolution Framework – 1.0**”) had provided a window to enable lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions.

The resurgence of Covid-19 pandemic in India in the recent weeks and the consequent containment measures to check the spread of the pandemic may impact the recovery process and create new uncertainties. With the objective of alleviating the potential stress to individual borrowers and small businesses, RBI has vide, its circular RBI/2021-22/32 DOR.STR.REC.12/21.04.048/2021-22 dated May 05, 2021 has announced various measures. These set of measures are broadly in line with the contours of the Resolution Framework - 1.0, with suitable modifications.

### **Resolution Plan and permitted features**

The Company shall offer a limited window to individual borrowers and small businesses, to implement resolution plans in respect of their credit exposures, while classifying the same as Standard upon implementation of the resolution plan, subject to the conditions specified hereafter.

The resolution plans implemented under this window may inter alia include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, granting of moratorium etc. based on an assessment of income streams of the borrower. However, compromise settlements are not permitted as a resolution plan for this purpose.

The moratorium period, if granted, may be for a maximum of two years. The extension of the residual tenor of the loan facilities may also be granted to borrowers, with or without payment moratorium. The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years.

The resolution plan may also provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, wherever applicable, and the same shall be governed by terms prescribed in the Resolution Framework – 1.0

### **Eligible Borrowers**

1. The following borrowers shall be eligible for the window of resolution to be invoked by the Company:
  - a. Individuals who have availed of loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than [Rs.50 crore]<sup>1</sup> as on March 31, 2021.

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<sup>1</sup> The limit was enhanced from Rs. 25 crores to Rs. 50 crores pursuant to RBI notification dated June 04, 2021

- b. Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises as on March 31, 2021, and to whom the lending institutions have aggregate exposure of not more than [Rs.50 crore]<sup>1</sup> as on March 31, 2021.
2. The borrower accounts / credit facilities shall not belong to the categories listed Resolution Framework 1.0.
3. The borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0.
4. The credit facilities / investment exposure to the borrower was classified as Standard by the lending institution as on March 31, 2021.

Provided that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19

### **Invocation of resolution process**

The resolution process under this window shall be treated as invoked when the Company and an eligible borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower.

In respect of applications received by the Company from their customers for invoking resolution process under this window, the assessment of eligibility for resolution as per the instructions contained in this policy shall be completed, and the decision on the application shall be communicated in writing to the applicant by the lending institutions within 30 days of receipt of such applications.

Product-level standardized templates shall be finalized and used in order to optimise the processing time for resolution under this window.

The decision to invoke the resolution process under this window taken by the Company shall be independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.

The last date for invocation of resolution permitted under this window is September 30, 2021.

### **Implementation**

The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. The resolution plan shall be deemed to be implemented only if all the conditions in as below are met:

- a) all related documentation, including execution of necessary agreements between Company and borrower and collaterals provided, if any, are completed in consonance with the resolution plan being implemented;
  - b) the changes in the terms of conditions of the loans get duly reflected in the books of the Company;
- and,

- c) borrower is not in default with the Company as per the revised terms.

## **Asset classification and provisioning norms**

### **A. Asset classification:**

If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers' accounts shall, upon implementation, be classified as below:

- Accounts classified as Standard may be retained as Standard and
- accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the resolution plan.

The subsequent asset classification for such exposures will be governed by the criteria laid out in the relevant instructions as applicable to NBFCs ("extant IRAC norms").

### **B. Provisioning norms:**

The Company shall keep provisions from the date of implementation, higher of the below:

- a) provisions held as per the extant IRAC norms immediately before implementation, or
- b) 10 percent of the renegotiated debt exposure of the lending institution post implementation (residual debt).

### **C. Reversal of provisions:**

The provisions made with respect to the accounts where resolution plan has been implemented shall be written back as below:

- 50% of the provisions made may be written back upon the borrower paying at least 20 per cent of the residual debt without slipping into NPA post implementation of the plan, and
- the remaining 50% may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently.

Provided that in respect of exposures other than personal loans, the above provisions shall not be written back before one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium.

The provisions required to be maintained under this window, to the extent not already reversed, shall be available for the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA.

### **D. Additional facility:**

In respect of borrowers where the resolution process has been invoked, Company may sanction additional finance even before implementation of the plan in order to meet the interim liquidity requirements of the

borrower. This facility of additional finance may be classified as 'Standard' till implementation of the plan regardless of the actual performance of the borrower in the interim.

However, if the resolution plan is not implemented within the stipulated timelines, the asset classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to such additional finance or performance of the rest of the credit facilities, whichever is worse.

### **Framework for Viability Assessment**

The following customers shall be considered for resolution subject to compliance with the requirements:

- a) Customers identified as suitable for resolution through a portfolio monitoring exercise or
- b) customers who delayed in their repayment obligations during the review period or
- c) customers who have requested their account to be considered for resolution.

Once a Customer is found eligible to be considered for resolution the following checks will be performed:

1. Customer meeting is done by U GRO team member (wherever applicable).
2. The reason for stress is identified and assessed for if the same is curable by either by reduction in EMI, increment in tenor, by offering moratorium etc.
3. Cases with fraud instances, skip customers, intentional defaulters shall not be considered for resolution.

### **Process to be followed for assessment of viability –**

1. Necessary documents such as GST returns and Bank statement to be collected from the customer or any other documents as deemed as per customers business.
2. The documents need to be analysed for changes from the time of origination and identifying the gap/ delay/ decrease in revenue etc. Viability will be checked for repayment
3. Reason for default to be assessed basis personal meeting with customer. The necessary documents if any for disruption in the business to be obtained and appraised
4. Customer to provide Guidance on revenue estimates for the next 12 months and then annual estimates for balance tenor.
5. Basis above analysis and understanding the customer intent of repayment a revised repayment capability to be analysed.
6. Wherever possible probability of securing loan through appropriate asset hypothecation/ mortgage to be explored (in case of Unsecured loans only)
7. The new repayment scheme to be proposed with necessary documentary evidences and customer acceptance to adhere to such revised repayment scheme.
8. All such restructuring of advances would be approved as per delegated authority as mentioned in the prevalent Credit Authority Delegation policy and should be reflected in record appropriately.

### **Monitoring Process**

1. Monitoring of all such accounts would be done regularly.
2. The monitoring for the would be based on the guidance/ milestones shared by customer.
3. Wherever required, a visit to the customer will be done.
4. Ensuring customer adheres to revised repayment schedules.

## **Credit Reporting**

The credit reporting by the Company in respect of borrowers where the resolution plan is implemented under this window shall reflect the “restructured due to COVID-19” status of the account.

The credit history of the borrowers shall consequently be governed by the respective policies of the credit information companies as applicable to accounts that are restructured.

## **Disclosures**

Company shall make necessary disclosures in their financial statements for the quarters ending September 30, 2021 and December 31, 2021 along with continuous disclosures required as per Format-B prescribed in the Resolution Framework – 1.0 which shall also include the resolution plans implemented in terms of this Policy.

## **Review of Policy**

Any or all provisions of this Policy would be subject to revision/ amendment in accordance with the amendments, circulars, notifications etc. on the subject as may be issued by the Reserve Bank of India, from time to time. The Managing Director be authorized to amend this Policy in line with any amendment(s), clarification(s), circular(s) etc. issued by the regulator, as and when deemed fit and any such revision/ amendment shall be placed before the Board for its noting.

In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant authorities are not consistent with the provisions laid down under this Policy, then such amendment(s), clarification(s), circular(s) etc. shall prevail upon the provisions hereunder and this Policy shall stand amended accordingly from the effective date as laid down under such amendment(s), clarification(s), circular(s) etc.