



Policy on Restructuring of Advances (Resolution Framework 2.0)

Ver.3. May 2021

MSME SECTOR - RESTRUCTURING OF ADVANCES.

Background:

With a view to facilitate meaningful restructuring of MSME accounts as defined in the MSMED Act, 2006, that have become stressed, RBI vide its circular dated January 1, 2019, had allowed one-time restructuring of existing loans to MSMEs (which was in default but was standard as on January 1, 2019) classified as 'standard' without a downgrade in the asset classification. The said scheme was extended upto December 31, 2020 by RBI vide circular DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020 upon fulfilment of the certain conditions slated in the circulars issued by RBI. Accordingly, the Board of Directors vide its circular resolution dated March 11, 2020 had approved the said policy and the same was amended on August 12, 2020 in line with the extension of the scheme till March 31, 2021 by RBI vide its circular dated RBI/2020-21/17 DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020. RBI circular dated January 1, 2019, February 11, 2020 and August 6, 2020 are collectively referred to as ("**Old Notifications**")

Considering uncertainties created by resurgence of the Covid-19 pandemic RBI vide circular reference number RBI/2021-22/32 DOR.STR.REC.12/21.04.048/2021-22 dated May 05, 2021 ("**New Notification**") has further decided to extend the above facility vide circular reference number for restructuring the existing loans without a downgrade in the asset classification subject to the certain conditions.

NBFCs desirous of adopting the scheme laid down in RBI circular dated May 05, 2021 are required to put in place a Board approved policy on restructuring of MSME advances covering the framework for viability assessment of the stressed accounts and regular monitoring of the restructured accounts within one month of issue of circular by RBI.

Covid 19 impact:

In view of the second wave of COVID 19 and continued need to support the viable MSME entities on account of the fallout of Covid19 and to align these guidelines with the Resolution Framework for COVID 19 – related Stress announced for other advances, RBI has extended the scheme upto September, 30, 2021 in terms of circular the aforesaid circular.

The Scheme:

Existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification, subject to the following conditions:

- i. The borrower should be classified as a micro, small or medium enterprise as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020.
- ii. The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 31, 2021.
- iii. The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed [₹50 crore]¹ as on March 31, 2021.

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

- iv. The borrower's account was a 'standard asset' as on March 31, 2021.
- v. The borrower's account was not restructured in terms of the Old Notifications.
- vi. The restructuring of the borrower account will be invoked by September 30, 2021. The restructuring shall be treated as invoked when the Company and the borrower agree to proceed with the efforts towards finalising a restructuring plan to be implemented in respect of such borrower.
- vii. The decisions on applications received by the Company from customers for invoking restructuring under this facility will be communicated in writing to the applicant within 30 days of receipt of such applications.
- viii. The restructuring of the borrower account is implemented within 90 days from the date of invocation.
- ix. The borrower should be registered in Udyam Registration Portal, If the borrower is not registered in the Udyam Registration portal, such registration shall be required to be completed before the date of implementation of the restructuring plan for the plan to be treated as implemented.
- x. Company shall make appropriate disclosures in their financial statements, under 'Notes on Accounts', relating to the MSME accounts restructured under these instructions in a prescribed format.
- xi. All related documentation, including execution of necessary agreements between company and borrower / creation of security charge / perfection of securities should be completed, wherever applicable.

Asset Classification and Provisioning:

In respect of restructuring plans implemented under this policy, asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between April 1, 2021 and date of implementation will be upgraded as 'standard asset', as on the date of implementation of the restructuring plan. The asset classification benefit will be available only if the restructuring is done as per provisions of this New Notification.

For accounts restructured under the New Notification, upon implementation of the restructuring plan, provision of 10 percent of the residual debt of the borrower shall be kept as provision.

For accounts which were restructured under the Old Notifications, provision in the books of accounts shall be guided by such respective notifications.

Framework for Viability Assessment:

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

- a) Customers identified as suitable for restructuring 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 restructured.

Once a Customer is found eligible to be considered for restructuring 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 restructured.

Process to be followed for assessment of viability –

1. Necessary documents such as Udyam Registration, GST returns and Bank statement to be collected from the customer or any other documents as deemed necessary as per customers business.
2. The documents shall be analysed for identifying the gap/ delay/ decrease in revenue etc. since the original disbursement of loan. 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's intent of repayment of 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 evidence and customer acceptance to adhere to such revised repayment scheme.
8. All such restructuring of advances shall be considered only after satisfying themselves that the same is necessitated on account of the economic fallout from Covid-19 and 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 same 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.

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.