Policy on Resolution Framework 2.0

For Covid-19 related stress of MSME, Individuals and Small Business

A. Preamble :

Micro, Small and Medium Enterprises (MSMEs) form an important component of the Indian economy and contribute significantly to the country's GDP. However, the resurgence of COVID-19 pandemic in the country has put many of MSME, Individuals and Small Business account under deep stress. Therefore, in order to alleviating the potential stress, RBI vide its circulars nos. RBI/2021-22/31 dated 5th May 2021 and RBI/2021-22/32 dated 5th May 2021 under Resolution Framework – 2.0 suggested measures and directed all the lending institutions to put in place a Board approved policy for implementing the resolution measures for Covid-19 related stress. In light of the above, this policy is put in place for resolution of these accounts.

This policy guidelines covers Restructuring / rehabilitation for revival of potentially viable stressed MSME, Individuals and Small business accounts.

B. Objectives:

The main objective of this policy to provide resolution of stressed MSME advance, advances to individuals for business purposes and Small Business advances by providing restructuring /rehabilitation package under Resolution Framework – 2.0 issued by RBI.

C. Resolution Framework 2.0 – for Covid-19 related stressed assets of MSME borrowers (other than Individual and Small Business borrowers) : as per Annexure - I

D. Resolution Framework 2.0 – for Covid-19 related stressed assets of Individuals and Small Business: as per Annexure- II

E. Resolution Framework 2.0 – for Covid-19 related stressed assets of Agriculture loans falls within the either of the above two guidelines: as per Annexure- III

F. Other common general terms and conditions;

i). The borrower should not have diverted working capital funds. Current account, if any, with other banks would need to be closed as a pre-condition for restructuring.

ii). The borrower/promoter/promoter directors should have a good track record of repayment and satisfactory dealing with the banks, other than the current default/ overdue which is proposed to be rectified through restructuring.

iii). All Standard accounts of Individual availed finance for business purpose and small business accounts, including SMA0, SMA1 and SMA 2 accounts where the stress is related to Covid-19 and of temporary nature but the units are prima facie viable.

iv). No account will be taken up for restructuring by the bank **unless the financial viability** is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package.

v). Cases of wilful default, fraud and malfeasance will not be eligible for the Rehabilitation package.

vi). Red Flagged accounts will be dealt as per extant guidelines of the Bank.

vii). Chartered Accountant (CA) certified **Or** Self-certified provisional financials, projections is acceptable from the borrower or promoter for all the cases.

Annexure-I

Resolution Framework 2.0 – Resolution of Covid-19 related stress of MSME borrowers (excluding advances to Individuals and Small Business)

Eligibility	(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 Rs.25 crore as on March 31, 2021. (iv) The borrower's account was a 'standard asset' as on March 31, 2021. (v) Borrower should be registered in the Udyam Registration portal, if the borrower is not registered then such registration shall be required to be completed before the date of implementation of restructuring plan. (vi) The borrower's account was not restructured in terms of the our circular HOBC 112/150 dated January 15, 2019; HOBC 113/128 dated March 4, 2020 and HOBC 114/96 dated August 10, 2020. (collectively referred to as MSME restructuring circulars)
Pre-condition **Indicative list of eligibility for Covid-19 resolution**	Borrower should have stress on account of Covid-19. i) Supply Chain Affected ii) Cash Flow affected iii) Labour Shortage due to migration iv) Lock down v) Raw material shortage **The above list is indicative and not exhaustive.**

Restructuring Implementation and Invocation norms	i) The restructuring of the borrower account to be invoked by **September 30, 2021.** ii) Invocation shall mean receipt of application / request of borrower for restructuring by the Bank, duly acknowledged and replied within 30 days by the Bank informing the borrower that the account is being taken up for restructuring. iii) The restructuring of the borrower account to be implemented within 90 days from the date of invocation. iv) The decision to invoke the restructuring under this framework shall be taken by bank having exposure to a borrower independent of invocation decisions taken by other lending institutions if any, having exposure to the same borrower.
Asset Classification Norms	All eligible standard accounts restructured under these guidelines will continue to be classified as 'Standard' upon restructuring, whereas the accounts which may have slipped into NPA category between April 1, 2021 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan.
Resolution Measures	Following measures can be taken under resolutions plan as per the requirement on case to case basis; i) Max. Moratorium period of 24 months is permitted on restructured debt including FITL/WCTL. ii) Rephasement / Reschedulement of existing Term Loans by extending residual tenor by 24 months (including max. moratorium period of 24 months). iii) Funded interest term loan (FITL) for unrealized interest and future interest may be charged during moratorium period. iv) Working capital term loan for balance over drawing power. v) Reassessment of existing working capital limit. vi) FITL to be repaid in maximum 3 yrs excluding moratorium period. vii) Repayment period of WCTL (excluding moratorium period) should be co terminus with residual tenor of term loan or 5 yrs whichever is earlier.
Indicative Viability	**<u>For restructured debt upto Rs. 10 Lacs</u>.** The sanctioning authority should satisfy that the unit meets repayment obligations within the maximum moratorium period of 24 months.

Benchmark /parameters	**Applicable for restructured debts above 10 Lacs upto Rs.50 Lacs.**

Indicative viability	**Benchmark**
Viable	Yes
Current ratio	1.1:1 (MIN)
DSCR during the first 2 years of rehabilitation (applicable for TL)	1:1 (MIN)
DSCR after 2 years (applicable for TL)	1.25:1 (MIN)
Compliance of terms of previous sanction	Yes
Closure of Current account with other Banks if any	Yes

Applicable for restructured debts above 50 Lacs upto Rs.25 Crs.

Indicative viability	**Benchmark**
Viable	Yes
Current ratio	1.1:1 (MIN)
DSCR during the first 2 years of rehabilitation (applicable for TL)	1:1 (MIN)
DSCR after 2 years (applicable for TL)	1.25:1 (MIN)
Long term Debt/EBIDTA	4:1 (MAX)
FACR	1:1 (MIN)
Interest Coverage ratio	1.25:1 (MIN)
Break Even Point	Unit should achieve breakeven level at a capacity utilization, not exceeding 85%
Promoters contribution	For FITL & WCTL-Nil For additional facilities other than FITL & WCTL-15%
Compliance of terms of previous sanction	Yes
Closure of Current account with other Banks if any	Yes

Concessions	• Concessional ROI on restructured debt. • Concessional charges on Non fund based limit
Already restructured account under one time restructuring policy	It has been permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle of restructured MSME accounts under previous one-time restructuring policy, without the same being treated as restructuring again. Following measure are available, i) Reassessment of Working capital ii) Reduction in Margin up to 10% on inventory and 15% on receivables. iii) Allowing drawing power upto 180 days receivables. The reassessed sanctioned limit / drawing power shall be subject to review at least on **a half yearly basis** and the renewal / reassessment at least on an annual basis. The **annual renewal/reassessment** shall be expected to suitably modulate the limits as per the then-prevailing business conditions.

Annexure-II

Resolution Framework 2.0 – Resolution of Covid-19 related stress of Individual business loan and Small Business Loans

Eligibility	(a) Individuals who have availed of loans and advances for business purposes and they have aggregate exposure of not more than Rs.25 crore as on March 31, 2021 from all lending institutions. (b) Small businesses, including those engaged in retail and wholesale trade, other than those covered under 'Annexure-I' of this policy for micro, small and medium enterprises, as on March 31, 2021, and have aggregate exposure of not more than Rs.25 crore as on March 31, 2021 from all lending institutions. (c) Borrower's Credit facilities / investment exposure should be Standard as on 31 March 2021. (d) Borrower accounts should not have availed of any resolution under previous one-time restructuring policy circulated vide HOBC 112/150 dated 15 January 2019 and subsequent amendments thereof vide HOBC 113/228 dated 4 March 2020 and HOBC 114/96 dated 10 August 2020. (e) Borrower accounts/ credit facilities **shall not** belong to the categories as under; • Farm credit as listed in Paragraph 6.1 of RBI Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as updated). • Loans to Primary Agricultural Credit Socities (PACS), Farmers' Services Societies (FSS) and Large-sized Adivasi Multi- Purpose Socities (LAMPS) for on lending to agriculture. • Exposures to Financial service providers • Exposures to Central and State Governments; Local Government bodies (eg. Muncipal Corporations); and body corporates established by an act of Parliament or State Legislature.

Classification: Internal

	(F) Borrowers should have financial stress on account of Covid-19 and necessity of implementing a resolution plan should be established.
Pre-condition **Indicative list of eligibility for Covid-19 resolution**	Borrower should have stress on account of Covid-19. i) Supply Chain Affected ii) Cash Flow affected iii) Labour Shortage due to migration iv) Lock down v) Raw material shortage **The above list is indicative and not exhaustive**.
Restructuring Implementation and Invocation norms	i) The restructuring of the borrower account to be invoked by **September 30, 2021.** ii) Invocation shall mean receipt of application / request of borrower for restructuring by the Bank, duly acknowledged and replied within 30 days by the Bank informing the borrower that the account is being taken up for restructuring. iii) The restructuring of the borrower account to be implemented within 90 days from the date of invocation. iv) The decision to invoke the restructuring under this framework shall be taken by bank having exposure to a borrower independent of invocation decisions taken by other lending institutions if any, having exposure to the same borrower.
Asset Classification Norms	All eligible standard accounts restructured under these guidelines will continue to be classified as 'Standard' upon restructuring. Borrowers' 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.
Resolution Measures	Following measures can be taken under resolutions plan as per the requirement on case to case basis; i) Moratorium on restructured debt up to 24 months. ii) Rephasement / Reschedulement of existing Term Loans by extending residual tenor by 24 months (including max. moratorium period of 24 months). iii) Funded interest term loan (FITL) for unrealized interest and future interest to be charged during moratorium period. iv) Working capital term loan for balance over drawing power. v) Reassessment of existing working capital limit.

<table>
<tr>
<td></td>
<td>vi) FITL to be repaid in maximum 3 yrs excluding moratorium period.
vii) Repayment period of WCTL (excluding moratorium period) should be co terminus with residual tenor of term loan or 5 yrs whichever is earlier.</td>
</tr>
<tr>
<td>Indicative Viability Benchmark /Parameters</td>
<td>
<u>For restructured debt upto Rs. 10 Lacs.</u>
The sanctioning authority should satisfy that the unit meets repayment obligations within the maximum moratorium period of 24 months.
<u>Applicable for restructured debts above 10 Lacs upto Rs.50 Lacs.</u>
<table>
<tr><th>Indicative viability</th><th>Benchmark</th></tr>
<tr><td>Viable</td><td>Yes</td></tr>
<tr><td>Current ratio</td><td>1.1:1 (MIN)</td></tr>
<tr><td>DSCR during the first 2 years of rehabilitation (applicable for TL)</td><td>1:1 (MIN)</td></tr>
<tr><td>DSCR after 2 years (applicable for TL)</td><td>1.25:1 (MIN)</td></tr>
<tr><td>Compliance of terms of previous sanction</td><td>Yes</td></tr>
<tr><td>Closure of Current account with other Banks if any</td><td>Yes</td></tr>
</table>
<u>Applicable for restructured debts above 50 Lacs upto Rs.25 Crs.</u>
<table>
<tr><th>Indicative viability</th><th>Benchmark</th></tr>
<tr><td>Viable</td><td>Yes</td></tr>
<tr><td>Current ratio</td><td>1.1:1 (MIN)</td></tr>
<tr><td>DSCR during the first 2 years of rehabilitation (applicable for TL)</td><td>1:1 (MIN)</td></tr>
<tr><td>DSCR after 2 years (applicable for TL)</td><td>1.25:1 (MIN)</td></tr>
<tr><td>Long term Debt/EBIDTA</td><td>4:1 (MAX)</td></tr>
<tr><td>FACR</td><td>1:1 (MIN)</td></tr>
<tr><td>Interest Coverage ratio</td><td>1.25:1 (MIN)</td></tr>
<tr><td>Break Even Point</td><td>Unit should achieve breakeven level at a capacity utilization, not exceeding 85%</td></tr>
<tr><td>Promoters contribution</td><td>For FITL & WCTL-Nil
For additional facilities other</td></tr>
</table>
</td>
</tr>
</table>

		than FITL & WCTL-15%
	Compliance of terms of previous sanction	Yes
	Closure of Current account with other Banks if any	Yes
Concessions	• Concessional ROI on restructured debt. • Concessional charges on Non fund based limit	
Already restructured account under One-time restructuring policy	It has been permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle of restructured accounts under previous one-time restructuring policy, without the same being treated as restructuring again. Following measure may be undertaken: i) reassessment of Working capital; ii) Reduction in Margin up to 10% on inventory and 15% on receivables; iii) allowing drawing power up to 180 days receivables; The margin and working capital limits should be restored to the levels as per previous resolution plan implemented under earlier framework by 31 March 2022. **Moratorium period for loans resolved previously** Where the resolution plans had permitted no moratorium period or moratorium period of less than two years. Now moratorium period in such accounts can be extended maximum up to 2 years along with the extension of residual tenor of the loans maximum up to 2 years and also the consequent changes necessary in the terms of the loan for implementing such extension. However, the overall moratorium and / or extension of residual tenor including already granted under earlier One-time restructuring guidelines should not exceed **two years.**	
Other condition	i) Compromise settlements are not permitted as a resolution plan for this purpose. ii) Any resolution plan implemented in breach of this stipulations of this circular shall be fully governed by the Prudential Framework for Resolution of Stressed Assets issued on June 7, 2019.	

Annexure-III

Resolution Framework 2.0 for Agriculture Advances

This part shall be applicable to resolution of Agriculture loans as explained below sanctioned to borrowers by our branches. The resolution under this framework is to be provided to the borrower having stress on account of COVID-19 pandemic.

1. In terms of RBI letter Ref.No.RBI/2021-22/32 (DOR. STR.REC.12/ 21.04.048/2021-22 dated May 5, 2021 related to Resolution Framework 2.0 - **Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)** with an aggregate exposure of all lending institutions of not more than Rs.25.00 Crore as on 31.03.2021. The following categories of borrowers / credit facilities shall be eligible for a resolution plan under this scheme.

i. Loan financed for food and Agro processing activity.
ii. Loan financed for Agriculture Infrastructure activity. Details as under:-
   - Loans for construction of storage facilities (warehouses, market yards, go-downs and silos) including cold storage units/cold storage chains designed to store agriculture produce/products, irrespective of their location.
   - Soil conservation and watershed development.
   - Plant tissue culture and Agri. Biotechnology, seed production, production of bio-pesticides, bio-fertilizer and vermi composting.
   - Loans for construction of oil extraction/processing units for production of bio fuel, their storage and distribution infrastructure along with loans financed to entrepreneurs for setting up compressed Bio Gas (CBG) Plants.

Note:-I:-The above eligible Agriculture accounts should comply all other terms and conditions of RBI letter Ref.No.RBI/2021-22/32 dated May 5, 2021 meticulously.

Note-II:- All the terms and conditions narrated in the resolution framework for MSME are applicable to Agriculture accounts on mutatis-mutandis basis.

2. In terms of RBI letter Ref.No.RBI/2021-22/31 (DOR. STR.REC.11/ 21.04.048/2021-22 dated May 5,2021 related to Resolution Framework 2.0 - **Resolution of COVID-19 related stress of Individual and small business** with an aggregate exposure of all lending institutions of not more than Rs.25.00 Crore as on 31.03.2021. The following categories of borrowers / credit facilities shall be eligible for a resolution plan under this scheme.

i. Loan sanctioned to individuals for Business propose, which are eligible to be classified under Priority sector (Agriculture).
ii. Loan sanctioned for small business activity (other than those classified as micro, small and medium enterprises) which are eligible to be classified under Priority sector (Agriculture).
iii. Loans for setting up of Agri-Clinics and Agribusiness Centres.
iv. Loans to Custom Service Units managed by individuals/Firms/corporates who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers,

combines, etc., and undertake farm work for farmers on contract basis **(Except H&T advances granted under tie-up arrangement with sugar factories in certain zones).**

v. SHG/JLG loans financed for non-farm activity/small business activity subject to the advance is eligible to be classified under priority sector (Agriculture).

Note: The above eligible Agriculture Accounts should comply all other terms and conditions of RBI letter Ref.No.RBI/2021-22/31dated May 5, 2021 meticulously.

In-eligible activities:-

1. SHG/JLG loans financed for internal lending proposes, farm credit activity and consumption purpose etc.
2. Loan to PACS, FSS, LAMPS for on-lending to agriculture.
3. Loans to Co-operative societies of farmers for purchase of the produce of members.
4. Loan sanctioned by Banks to MFI/NBFCs for on-lending.
5. Farm credit as per RBI priority sector guidelines dtd-04.09.2020 as detailed under-

A. Farm Credit - Individual farmers

Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs) i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans] and Proprietorship firms of farmers, directly engaged in Agriculture and Allied Activities, viz. dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. This will include:

- Crop loans including loans for traditional/non-traditional plantations, horticulture and allied activities.
- Medium and long-term loans for agriculture and allied activities (e.g. purchase of agricultural implements and machinery and developmental loans for allied activities).
- Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.
- Loans to distressed farmers indebted to non-institutional lenders.
- Loans under the Kisan Credit Card Scheme.
- Loans to small and marginal farmers for purchase of land for agricultural purposes.
- Loans against pledge/hypothecation of agricultural produce (including warehouse receipt) for a period not exceeding 12 months subject to a limit up to ₹75 lakh.
- Loans to farmers for installation of stand-alone Solar Agriculture Pumps and for solarisation of grid connected Agriculture Pumps.

- Loans to farmers for installation of solar power plants on barren/fallow land or in stilt fashion on agriculture land owned by farmer.

B. <u>Farm Credit - Corporate farmers, Farmer Producer Organisations (FPOs)/(FPC) Companies of Individual Farmers, Partnership firms and Co-operatives of farmers engaged in Agriculture and Allied Activities:-</u>

- Loans for the following activities will be subject to an aggregate limit of ₹2 crore per borrowing entity:

  (a) Crop loans to farmers which will include traditional/non-traditional plantations and horticulture and loans for allied activities.

  (b) Medium and long-term loans for agriculture and allied activities (e.g. purchase of agricultural implements and machinery and developmental loans for allied activities).

  (c) Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.

- Loans up to ₹75 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

- Loans up to ₹5 crore per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price.