Regulatory Disclosure-Policy on Resolution Framework 2.0

Background

The Reserve Bank of India (RBI) 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 2.0") had provided a window to enable lenders to implement a resolution plan in respect of eligible exposures to individuals and MSMEs without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions.

In addition to the aforesaid, RBI had also extended the scheme for restructuring of existing loans to Micro, Small and Medium Enterprises (MSMEs) classified as 'standard' without a downgrade in the asset classification, subject to the prescribed conditions. The said notification dated August 6, 2020 ("MSME Restructuring 2.0") was an extension of the then existing notification on Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances dated February 11, 2020 read along with January 1, 2019 notification requiring adoption of a Board approved policy on restructuring of MSME advances

Due to resurgence of the COVID-19 pandemic in India and the associated containment measures adopted at local/regional levels new uncertainties and it has most certainly impacted the nascent economic revival that was taking shape.

The regulators, trade representatives felt it was necessary to support the individuals, small businesses and Micro, Small and Medium Enterprises (MSMEs) businesses. For granting relief from economic hardship during of these times, the RBI issued circulars dated May 5, 2021 on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses ("Resolution Framework 2.0") and Resolution Framework 2.0 – Resolution of Covid19 related stress of Micro, Small and Medium Enterprises ("MSME Restructuring 2.0") (both the circulars together referred to as 'RBI Circulars').

This Policy will act as a general guideline towards restructuring existing loans of customer of Chirag Credit Private Limited (Chirag/Company), without a downgrade in the asset classification, subject to various terms and conditions as outlined in RBI Circulars. Any changes, clarifications or circulars pertaining to the subject matter of the Policy, as coming from the RBI, shall be deemed incorporated into the Policy, so as to make the Policy completely subservient to the RBI's regulatory framework.

Resolution of advances to individuals and small businesses under Resolution Framework 2.0

Eligible Borrowers and Eligibility Conditions

Individuals who have availed of Personal Loans, Loan to own personnel /staff shall be excluded.

Individual borrowers who have availed loans for business purpose where all lending institutions have aggregate exposure of up to Rs 25 Cr as on 31st March 21.

Small business, including wholesale and retail trade, excluding the ones classified as MSME's as on 31st March 2021, with aggregate exposure of all lending institutions up to 25Cr as on 31st March 21.

Credit facilities to the borrower should be classified as standard (all accounts of the borrower) as on 31st March 21.

Borrower should continue to be standard as on the date of invocation of resolution plan.

Borrower having credit exposure from other lending institution also be eligible for availing benefits, under the resolution framework 2.0from the company, subject to compliance with other eligibility criteria.

Any other specific criteria for restructuring of any account, as prescribed under the applicable RBI guidelines/ circulars, issued from time to time, such specific criteria shall be fulfilled before restructuring is implemented.

Borrowers not eligible for resolution:

Borrowers account not eligible under Resolution Framework 2.0 as below:
MSME borrowers where aggregate exposure of lending institutions collectively, is more than Rs. 25 crores as on March 31, 2021.

- Exposure to Central or State Government, Local
- Borrowers who have been restructured under Resolution Framework 1.0 will be eligible for resolution 2.0, where the resolution plan under Framework 1.0 had permitted no moratorium or moratorium of less than 2 years and/or extension of residual tenor by a period of less than 2 years, only to extent of increasing the period of moratorium/ extension of residual tenor such that the total moratorium tenure/ extension of residual tenure granted under Framework 1.0 and Framework 2.0, does not exceed 2 years. No other change except this is allowed.
- Such other exclusions, over and above the exclusions mentioned in the Resolution Framework 2.0, as may be specified by the respective business teams.

How resolution of stressed assets is to be carried out:

• The financial parameter recommendation by K V Kamath Committee for 26 sectors, under circular DOR. No. BP. BC/13/21.04.048/2020-21 dated September 7, 2020 on "Resolution Framework for COVID-19-related Stress – Financial Parameters", shall not be applicable for resolution under Resolution Framework 2.0.
• The resolution plans shall include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, granting of moratorium etc., based on assessment of income stream of the borrower.
• Moratorium period, and/or extension of the residual tenor of the loan facilities may be for a maximum of two years and shall come into force immediately upon implementation of the resolution plan.
• The Company shall invoke resolution process under the Restructuring 2.0 Notification after the review of the loan accounts, on or before September 30, 2021 (last date of invocation).
• The decision to invoke the resolution process shall be taken by the Company independent of invocation decisions taken by other LIs having exposure on the same borrower.
• The decision on applications received by the Company from their Borrowers for invoking restructuring shall be communicated in writing by the Company within 30 days of receipt of such applications.

Asset classification and provisioning

- Accounts shall continue to remain "standard" upon implementation of resolution package.

- Accounts which may have slipped to NPA between invocation of resolution and implementation shall be upgraded to "standard" as on the date of implementation of the plan.

- Asset classification after implementation shall be as per applicable IRAC norms, depending on the behaviour of the asset.

- Additional facility provided to borrower between the period of invocation of plan till implementation shall be classified as standard till plan is implemented irrespective of repayment performance of the borrower for this facility, subject to plan has been implemented within stipulated timeline.

- Provisions, from the date of implementation, shall be higher of the provisions held as per IRAC norms immediately before implementation, or 10% of the renegotiated debt exposure of the lending institution post implementation (residual debt). The Company may apply Management overlay under ECL on such cases, subject to regulatory floor.

- 50% of the above provision may be written-back on borrower paying at least 20% of the residual debt without slipping into NPA, and the remaining half may be written back upon the borrower paying another 10% of the residual debt without slipping into NPA subsequently.

- Above provision in case of exposure other than personal loan 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.

***Note:** If resolution plan is not implemented within prescribed timelines, the asset classification of additional finance will be as per actual performance of the borrower or performance of his/ her other credit facilities, whichever is worse.

Implementation of Resolution Plan

Resolution plan should be finalized and implemented within 90 days from the date of invocation

The resolution plan shall be deemed to be implemented only if all the following conditions are met:

- Date of receipt of application should be captured
- All related documentation is completed by the lender and the borrower;
- Changes in the terms of conditions of the loans get duly reflected in the books of the Company;
- Borrower is not in default with the lending institution as per the revised terms.

Resolution of Covid-19 related stress of MSMEs under MSME Restructuring 2.0

Eligible Borrowers

• Borrower is classified as MSME as on 31 March 21 in terms of MSME Ministry notification no. S.O. 2119(E) dated June 26, 2020. This should include the past cases as well.

• Borrower should be GST registered as on the date of implementation. However, GST registration shall not be mandatory for the exempted borrowers. For GST registration threshold calculation, turnover as on 31st March 2021 shall be considered.

• Aggregate exposure (fund and non-fund based) of banks and NBFCs as on 31 March 21 does not exceed Rs. 25 Cr.

• Account should be standard as on 31 March 21;

• Borrowers account should not have been previously restructured in terms of MSME Restructuring 1.0, circular no. RBI/2019-20/160.DOR.No.BP.BC. 34/21.04.048/2019-20 dated 11 February 2020 or circular no. RBI/2018-19/100 DBR.No.BP.BC.18/21.04.048/2018-19 dated 1 January 2019.

• Any other specific criteria for restructuring of any account, as prescribed under the applicable RBI guidelines/ circulars, issued from time to time, such specific criteria shall be fulfilled before restructuring is implemented.

Invocation and implementation

• Restructuring of MSME accounts shall be invoked by 30 September' 21.

• Restructuring shall be treated as invoked when the Company and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower.

• Decision on application for restructuring should be intimated to the borrower, in writing, within 30 days of receipt of request.

• Decision to invoke restructuring shall be taken by the lending institution independent of invocation decisions taken by other lending institutions.

• Restructuring shall be implemented within 90 days of invocation.

• In case the borrower does not already have Udyam Registration, the borrower needs to obtain the same before implementation of the resolution plan.

Asset classification and provisioning

• Upon implementation of plan, Company shall keep provision of 10% of the residual debt of the borrower. The Company may apply Management overlay under ECL on such cases, subject to regulatory floor.

• Asset classification of borrowers classified as standard may be retained, 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 plan.

• Barring the one-time exception provided under RBI's circular dated 5 May 2021, any MSME account which is restructured must be downgraded to NPA upon restructuring and will slip into progressively lower asset classification and higher provisioning requirements as per extant IRAC norms. Such an account may be considered for upgradation to 'standard' only if it demonstrates satisfactory performance during the specified period.