

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

Background:

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 issued Resolution Framework 2.0.

In lieu of the above, Avendus Finance Private Limited (AFPL/the Company) formulates Policy in pursuance of these Covid-19 Resolution Framework 2.0 for individuals and small borrowers.

Key highlights of the Policy is as under:

Sr. No.	Parameter	Details
1.	Eligible Borrowers	<p>Borrowers of AFPL that have been materially impacted due to Covid-19 pandemic but otherwise have a good track record in assessment of the Company and satisfying the conditions laid out below are eligible for consideration for resolution under this Framework.</p> <p>a) Borrowers that are classified Standard as of Mar 31, 2021</p> <p>b) Individuals who have availed of personal loans (as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on “XBRL Returns – Harmonization of Banking Statistics”), excluding the credit facilities provided by AFPL to own personnel/staff</p> <p>c) Individuals who have availed of loans and advances for business purposes and to whom AFPL have aggregate exposure of not more than Rs.50 crore as on March 31, 2021.</p> <p>d) 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 as on March 31, 2021.</p> <p>e) Borrowers who did not avail any resolution in terms of the Resolution Framework – 1.0</p> <p>f) Existing borrower of AFPL as of implementation date of this Framework</p>

2.	Pre-requisites for invocation of Resolution Framework 2.0	<p>A formal request (either written / electronic) received from authorized person of Eligible Borrower asking for relief under Covid-19 Resolution Framework 2.0. This request must also contain details of:</p> <p>1) Outstanding debt with AFPL as on March 31, 2021 2) Rationale of impact of Covid-19</p>
3.	Invocation of Resolution Plan	<p>A decision to invoke resolution under this Framework needs approval from Approving Authority of the Company.</p> <p>In respect of formal request received from the Eligible Borrower for invoking resolution process under this window, the assessment of eligibility for resolution as per the instructions contained in the applicable RBI Circulars and the Board of Directors approved Policy shall be completed, and the decision on the application shall be communicated in writing to the applicant by AFPL within 30 days of receipt of such formal request.</p> <p>The resolution process under this window shall be treated as invoked when AFPL post receipt of requisite approval and the Eligible Borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such Eligible Borrower. This day shall be ascertained as invocation date.</p> <p>The decision to invoke the resolution process under this window shall be taken by Approving Authority independent of invocation decisions taken by other lending institutions, if any, having exposure to the same Eligible Borrower. The last date for invocation of resolution permitted under this window is September 30, 2021.</p>
4.	Permitted Resolution Plan	<p>Following Resolution Plans or a combination of these which result in Regularisation of account are permissible under Covid-19 Resolution Framework 2.0:</p> <ul style="list-style-type: none"> ▪ rescheduling of payments, except compromise settlement ▪ conversion of any interest accrued or to be accrued into another credit facility ▪ revisions in working capital sanctions ▪ granting of moratorium⁽¹⁾ ▪ Extension of residual tenor with or without moratorium ▪ Conversion of portion of debt into equity or any other securities ⁽²⁾ ▪ Additional financing to meet interim liquidity requirement

		<p><i>Note:</i></p> <ol style="list-style-type: none"> 1. <i>Moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan and may be offered for a maximum period of 24 months.</i> 2. <i>Valuation of equity instruments issued, if any, shall be governed by the provisions of Paragraphs 19(c) and 19(d) of the Annex to the Prudential Framework for Resolution of Stressed Assets, dated June 7, 2019 whereas debt securities shall be valued as per the instructions compiled at Paragraph 3.7.1 of the Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks dated July 1, 2015 (as amended from time to time), or other relevant instructions as applicable to specific category of lending institutions. In case of any other security, the same shall collectively be valued at Re. 1.</i>
5.	Implementation of Resolution Plan	<p>Resolution Plan under Covid-19 Resolution Framework needs approval from Approving Authority of the Company. Necessary documentation needs to be executed to implement the RP post receipt of requisite approval. Implementation must be completed within 90 days from date of invocation.</p> <p>The RP shall be deemed to be implemented only if all of the following conditions are met:</p> <ol style="list-style-type: none"> a. all related documentation, including execution of necessary agreements between lending institutions and borrower and collaterals provided, if any, are completed by the lenders concerned 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 lending institutions; and, c. borrower is not in default with the lending institution as per the revised terms.
6.	Asset Classification and Provisions	<p>If Eligible Borrower slips into NPA between invocation and implementation, the account shall be upgraded to Standard upon implementation. Additional financing provided to meet interim liquidity requirement shall be Standard.</p> <p>Upon invocation and till implementation of Resolution Plan under Covid-19 Resolution Framework 2.0, asset</p>

		<p>classification shall continue to be guided as per Prudential Norms based on performance of account. Till such time, AFPL shall be required to hold ECL as derived on such account as per Risk Rating and ECL Policy. Post implementation, the provisions mentioned in Covid-19 Resolution Framework 2.0 shall in addition be the Prudential ECL floor.</p> <p>If Resolution Plan is not implemented within the stipulated timelines (90 days from invocation), the asset classification of the original facility and additional facility (if any) will be as per the actual performance of the Borrower with respect to the additional finance or the rest of the facilities, whichever is worse. Provision shall be as per Risk Rating and ECL Policy.</p>
7.	Grievance of Eligible Borrowers	<p>Any grievances related to the Resolution Framework 2.0, borrowers may follow the Grievance Redressal Mechanism as available on the website of the Company i.e. www.avendus.com or email at afplig@avendus.com.</p>