

# Aditya Birla Finance Limited (ABFL)

## Resolution Framework for COVID related Stress 2.0

Version: ABFL/Resolution Framework COVID/130521/2.0

## Objective & Scope

Relief measures provided by the Reserve Bank of India (RBI) to the borrowers under the Resolution Framework for COVID-19-related Stress, enabled the economy to bounce back. There was significant development and positive economic movement in Q4 FY21 after the shocks of first wave waned and deployment of the stress relief measures by banks and FI's. 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. As a measure to alleviate the potential stress the RBI has come with Resolution Framework 2.0

The RBI has decided to provide a window to implement a resolution plan in respect of eligible Individual Borrowers and small businesses (both MSME and non MSME) while classifying such exposures as Standard, subject to specified conditions. These set of measures are broadly in line with the contours of the Resolution Framework - 1.0, with suitable modifications.

RBI has mandated lending institutions including NBFC's to formulate a Board approved policy pertaining to implementation of viable resolution plans for eligible borrowers under this framework, ensuring that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19.

The policy should detail the eligibility parameters of borrowers that Aditya Birla Finance Ltd will be willing to consider for resolution detailing the way evaluation may be done and the objective criteria that may be applied while considering the resolution plan in each case. The policy should also address the system for redressing the grievance of borrowers who request for resolution under the window and / or are undergoing resolution under this window. Accordingly, the policy is formulated & placed before the Board for approval.

## References of other applicable Circulars

- 1) **Circular 1- RBI vide its circular number [DOR.STR.REC.11/21.04.048/2021-22](#) Resolution Framework – 2.0: [Resolution of Covid-19 related stress of Individuals and Small Businesses dated May 5, 2021](#) This circular covers directions to be followed by all financial institutions under the window permitted for resolution of Covid-19 related stress of Individuals and Small Businesses .**
- 2) **Circular 2- RBI vide its circular number [DOR.STR.REC.12/21.04.048/2021-22](#) Resolution Framework 2.0 – [Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises \(MSMEs\) Dated May 5, 2021](#) This circular covers directions to be followed by all financial institutions under the window permitted for resolution of Covid-19 related stress of MSME.**

- 3) **Circular 3-**The Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019 (DBR.No.BP.BC.45/21.04.048/2018-19) dated June 7, 2019 (“Prudential Framework”): This circular contains the resolution framework for resolution of stressed assets. These directions as they predate the spread of COVID 19 pandemic, is applicable for resolution of stressed assets in the normal course of business.
- 4) **Circular 4-** Circular DBR.No.BP.BC.18/21.04.048/2018-19 dated January 01, 2019 on Micro, Small and Medium Enterprises (MSME) sector; followed by circular DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020 and then DOR. No. BP. BC/4/21.04.048/2020-21 dated August 06, 2020 **Micro, Small and Medium Enterprises (MSME) sector – Restructuring of advances** circular allowed Bank/NBFCs to permit one-time restructuring of existing MSME advances classified as 'standard' without a downgrade in the asset classification.
- 5) **Circular 5 – Resolution Framework for COVID related Stress** circular DOR. No. BP.BC/3/21.04.048/2020-21 dated August 6, 2020 (“**Resolution Framework**”) and DOR. No. BP. BC/13/21.04.048/2020-21 dated Sept 7, 2020 laying down the parameters for restructuring under the resolution framework guidelines issued on August 6, 2020 referred to as Kamath committee parameters
- 6) **Circular 6 - ‘Personal loans’, for the purpose of this circular shall have the same meaning 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”.**  
*(Personal loans refers to loans given to individuals and consist of (a) consumer credit, (b) education loan, (c) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.))*
- 7) **Circular 7-** Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (DNBR. PD. 008/03.10.119/2016-17) dated September 01, 2016 (updated as on 17<sup>th</sup> April 2020) This notification amongst other guidelines defines the prudential norms on Income Recognition, Asset Classification and Provisioning.
- 8) **Circular 8-** Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (DBR.No.BP.BC.2/21.04.048/2015-16) dated July 1, 2015- This circular is to be referred wherever specific reference to this circular is given by RBI in the circulars on Resolution Framework – 2.0: Resolution of Covid-19 related stress mentioned in the foregoing paragraphs.

## Eligibility & Exclusions Criteria

1. Credit Exposures which do not satisfy the required eligibility conditions to be considered for resolution under Resolution Framework – 2.0: Resolution of Covid-19 related stress may be considered for resolution under the Restructuring framework specified in the Master Directions (Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 ) or governed by the Prudential Framework for Resolution of Stressed Assets issued on June 7, 2019 (“Prudential Framework”)

2. Lending institutions are permitted to offer a limited window to individual borrowers and small businesses to implement resolution plans in respect of their credit exposures while continuing to maintain the classification of the exposure as Standard upon implementation of the resolution plan subject to meeting the eligibility conditions mentioned below:

A) 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 lending institutions to their own personnel/staff.

B) 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.25 crore as on March 31, 2021.

C) 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.25 crore as on March 31, 2021.2.

3. The following categories of borrowers / credit facilities were not eligible for a resolution plan vide circular DOR. No. BP. BC/3/21.04.048/2020-21 dated August 6, 2020 and continue to be not eligible for a resolution plan under this framework as hitherto. :

i. MSME Borrowers whose aggregate exposure to lending institutions collectively, is Rs.25 crore or less as on March 1, 2020 (there is a separate framework for this category)

ii. Farm Credit

All the farm credit exposures of all lending institutions, including NBFCs, of the nature listed in Paragraph 6.1 of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as updated), except for loans to allied activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture are excluded from the scope of the Resolution Framework. Subject to the above, loans given to farmer households would be eligible for resolution under the Resolution Framework if they do not meet any other conditions for exclusions listed in the Resolution Framework.

iii. Loans to Primary Agricultural Credit Societies

iv. Exposures to financial service providers

v. Exposures to Central and State Governments; Local Government bodies (e.g. Municipal Corporations)

vi. Credit facilities provided by ABFL to their own personnel/staff.

**Note 1:** The borrower accounts should not have availed of any resolution in terms of the Resolution Framework 1.0 except where the tenor extension was offered was lower than 2 years at time of resolution under framework 1.0

4. The reference date for the outstanding amount of debt that may be considered for resolution shall be March 31, 2021

5. The credit facilities / investment exposure to the borrower was classified as Standard by the lending institution as on March 31, 2021.

6. The restructuring will be offered by ABFL basis its assessment and will be independent on any invocation decision taken by any other lending institution, if any, having exposure to the same borrower.
7. In respect of applications received by ABFL from its customers for invoking resolution process under this window, the decision on the application shall be communicated in writing to the applicants within 30 days of receipt of such applications.
8. The last date for invocation of resolution permitted under this window is September 30, 2021.

## **Resolution Framework**

### **I. Eligibility Norms**

1. Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard as on March 31,2021
2. The resolution process under this window shall be treated as invoked when ABFL and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented
3. 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.
4. The moratorium period, if granted, may be for a maximum of two years, and shall come into force immediately upon implementation of the resolution plan. 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.
5. 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 with the following conditions
  - Provided the amortisation schedule and the coupon carried by such debt securities are similar to the terms of the debt held on the books of the lending institutions, post implementation of the resolution plan. The holding of such instruments by the respective lending institutions shall be subject to the extant instructions on investments as applicable to them.
  - The 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 (Notification RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19 dated 07<sup>th</sup> June 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 the lending institutions convert any portion of the debt into any other security, the same shall collectively be valued at Re.1.

6. The resolution plan shall be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. The plan shall be deemed to have been implemented only when the following conditions are met:
- 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;
  - The changes in the terms of conditions of the loans get duly reflected in the books of the lending institutions; and,
  - borrower is not in default with the lending institution as per the revised terms.

**Note 2:** The instructions contained in the 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 to resolution plans implemented under this window.

## **II. Assessment Norms**

1. Bureau will be checked
2. Cashflow/ income streams of the borrower will be done
3. Customer Category will be checked (MSME/ Small Business / Personal Loan)
4. In cases of COVID impacted customer, a suitable resolution plan will be drafted and structured which 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 (subject to re-assessment of working capital requirement based on the working capital cycle) and , granting of moratorium etc.

## **III. Asset Classification & Provisioning**

1. If a resolution plan is implemented in adherence to the provisions of this facility, the asset classification of borrowers’ accounts classified as Standard may be retained as such upon implementation, whereas the 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 plan
2. Additional finance to borrowers in respect of whom the resolution plan has been invoked, if sanctioned even before implementation of the plan in order to meet the interim liquidity requirements of the borrower, may be classified as ‘standard asset’ till implementation of the plan regardless of the actual performance of the borrower with respect to such facilities 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.
3. ABFL shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 percent of the renegotiated debt

exposure post implementation (residual debt). Residual debt, for this purpose, will also include the portion of non-fund based facilities that may have devolved into fund based facilities after the date of implementation

#### **IV. Reversal of Provisions**

1. In case of personal loans resolved under this facility, half of the above provisions 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 half 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.*
2. 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.

#### **V. Convergence of the norms for loans resolved previously**

1. In cases of loans of borrowers specified in Note 1 above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, and where the resolution plans had permitted no moratoria or moratoria of less than two years and / or extension of residual tenor by a period of less than two years, lending institutions are permitted to use this window to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor subject to the caps as specified above, and the consequent changes necessary in the terms of the loan for implementing such extension. The overall caps on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall be two years
2. For loans where modifications are implemented in line with this clause, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework 1.0

#### **VI. Working capital support for small businesses where resolution plans were implemented previously**

1. In respect of borrowers specified under (B) and (C) of eligible borrowers (Para 1 of this policy), where resolution plans had been implemented in terms of the Resolution Framework – 1.0, lending institutions are 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, reduction of margins, etc. without the same being treated as restructuring. The decision regarding above shall be taken by ABFL by September 30, 2021, with the margins and working capital limits being restored to the levels as per the resolution plan implemented under Resolution Framework – 1.0, by March 31, 2022.

2. The above measures shall be contingent on ABFL satisfying itself that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review regarding their justifiability on account of the economic fallout from COVID-19.
3. ABFL may, accordingly, put in place a Board approved policy to implement the above measures, which should be disclosed in the public domain and placed on their websites in a prominent and easily accessible manner. Accordingly, the following norms are being proposed:

#### **Assessment Norms**

4. Bureau will be checked
5. The current assets build up – specifically raw material, finished goods and receivable build up – would be sought along with the reasons for build-up. ABFL would satisfy itself on the reason for the build-up and how such build up has been accentuated by the economic fallout of COVID 19; ABFL would also assess the margin from the promoter to support the additional working capital requirement and assess the incremental working capital requirement for the borrower.

#### **VII. Disclosures and Credit Reporting**

1. Lending institutions publishing quarterly financial statements shall, at the minimum, make disclosures as per the format prescribed in Format-X in their financial statements for the quarters ending September 30, 2021 and December 31, 2021. The resolution plans implemented in terms of Part A of this framework should also be included in the continuous disclosures required as per Format-B prescribed in the Resolution Framework – 1.0.
2. The number of borrower accounts where modifications were sanctioned and implemented in terms of Para V above, and the aggregate exposure of the lending institution to such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.
3. ABFL is required to publish only annual financial statements shall make the required disclosures in their annual financial statements, along with other prescribed disclosures in Annexure
4. The credit reporting by ABFL in respect of borrowers where the resolution plan is implemented under Resolution Framework 2.0 shall reflect the “restructured due to COVID19” 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



### References of other applicable Circulars

**Circular -1):** DOR.STR.REC.12/21.04.048/2021-22 Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs) Dated May 5, 2021 This circular covers directions to be followed by all financial institutions under the window permitted for resolution of Covid-19 related stress of MSME

**Circular - 2):** DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020, and

**Circular - 3):** DBR.No.BP.BC.18/21.04.048/2018-19 dated January 1, 2019 on the subject.

Our internal Policy “ABFL/Restructuring of MSME Loans/220119/1.0” was formulated and approved by the board

Policy is applicable to the following borrowers as per updated RBI circulars:

- 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 aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹25 crore as on March 31, 2021.
  - iii. The borrower’s account was a ‘standard asset’ as on March 31, 2021.
  - iv. The borrower’s account was not restructured in terms of the circulars DOR. No. BP. BC/4/21.04.048/2020-21 dated August 6, 2020; DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020; or DBR.No.BP.BC.18/21.04.048/2018-19 dated January 1, 2019 (collectively referred to as MSME restructuring circulars
  - v. The restructuring of the borrower account is invoked by September 30, 2021. For this purpose, the restructuring shall be treated as invoked when the lending institution and the borrower agree to proceed with the efforts towards finalising a restructuring plan to be implemented in respect of such borrower.
  - vi. The restructuring of the borrower account is implemented within 90 days from the date of invocation
  - vii. 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 based on exemption limit obtaining as on March 31,2021
  - viii. 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.
  - ix. Upon implementation of the restructuring plan, the lending institutions shall keep provision of 10 percent of the residual debt of the borrower.
  - x. All other instructions specified in the circular DOR. No. BP. BC/4/21.04.048/2020-21 dated August 6, 2020 shall remain applicable.
  - xi. Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between April 01, 2021 and date of implementation may 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 policy.
1. In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, lending institutions are 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, reduction of margins, etc. without the same being

treated as restructuring. The decision regarding above shall be taken by lending institutions by September 30, 2021. The reassessed sanctioned limit / drawing power shall be subject to review by the lending institution 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.

2. The above measures shall be contingent on the ABFL satisfying itself that the same is necessitated on account of the economic fallout from Covid-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regards to their justifiability on account of the economic fallout from Covid-19.

The viability assessment framework for restructuring of MSME loans was detailed in the board approved policy (ABFL/Restructuring of MSME Loans/220119/1.0 dated 22<sup>nd</sup> January 2019). Keeping in view the exposures ABFL takes in micro and small businesses through unsecured loans, the following partial modifications on the viability assessment requirements are proposed for exposures less than equal to INR 10 lakhs, as borrowers in this segment generally may not have complete set of financials to carry out a detailed financial analysis. The table brings out the relevant parts of the assessment framework where modifications are proposed:

Existing framework as per policy (ABFL/Restructuring of MSME Loans/220119/1.0 dated 22nd January 2019)	Proposed framework
Appraisal note needs to be prepared for the case specified under this policy. Viability of the Account shall be determined by the respective committee (at least ZCC & above).	Appropriate appraisal of the viability to be documented and can be approved by Credit Personnel with the requisite credit Authority as per the delegation of authority communicated to the executives from time to time.
Complete cash flow analysis (viability) financial analysis to be presented for the captioned customer.	Cashflow discussion to be done with the customer with or without detailed financial analysis and recorded in the assessment based on the discussions.
List of Documents  Detailed Financials / Bank statements etc.	List of Documents  As detailed financial statements or bank statements may not be available, the credit executive deciding on the restructuring to satisfy himself / herself of the financial position and future cash flow prospects and capture the same in the viability assessment. Basis the size of the borrower and borrower profile suitable documents should be obtained.

## Omnibus Clause

In case of any further clarifications issued by RBI on the subject from time to time, that shall override / amend this policy as applicable.

In order to ensure immediate implementation keeping in view the importance of extending relief due to the impact of COVID 19, any further changes to this policy based on the notifications from the RBI in this regard, can be done with approval from MD and CEO ABFL, CRO. Any significant changes will be informed to the Board.

**Format for disclosures to be made in the quarters ending September 30, 2021 and  
December 31, 2021**

Sl. No	Description	Individual Borrowers		Small businesses
		Personal Loans	Business Loans	
(A)	Number of requests received for invoking resolution process under Part A			
(B)	Number of accounts where resolution plan has been implemented under this window			
(C)	Exposure to accounts mentioned at (B) before implementation of the plan			
(D)	Of (C), aggregate amount of debt that was converted into other securities			
(E)	Additional funding sanctioned, if any, including between invocation of the plan and implementation			
(F)	Increase in provisions on account of the implementation of the resolution plan			