**MANAPPURAM FINANCE LIMITED (MAFIL)**

**RESOLUTION FRAMEWORK FOR COVID-19 RELATED STRESS – INDIVIDUALS & SMALL BUSINESSES**

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**Prepared By : Risk Management Department**

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Contents

 [Background 3](#_Toc71887616)

 [Resolution of advances to individuals and small businesses 4](#_Toc71887617)

 [Working capital support for small businesses where resolution plans were implemented previously..7](#_Toc71887618)

 [Disclosures and credit Reporting 8](#_Toc71887621)

 [Annexures 9](#_Toc71887622)

# Background

The economic fallout on account of the Covid-19 pandemic has led to significant financial stress for borrowers across the globe. The resultant stress can potentially impact the long-term viability of many firms, otherwise having a good track record under the existing promoters, due to their debt burden becoming disproportionate relative to their cash flow generation abilities. Such wide spread impact could impair the entire recovery process, posing significant financial stability risks.

Considering the above, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, RBI had provided a framework (Resolution Framework – 1.0) 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, the following set of measures are being announced. These set of measures are broadly in line with the contours of the Resolution Framework - 1.0, with suitable modifications.

Part A of this policy pertains to requirements specific to resolution of advances to individuals and small businesses and Part B pertains to working capital support for: (i) individuals who have availed of loans for business purposes, and (ii) small businesses, where resolution plans were implemented previously. Part C lists the disclosure requirements for the lending institutions with respect to the resolution plans implemented under this framework.

The RBI has directed the lenders to adopt a Board approved policy for Resolution Framework for Covid-19 Related Stress, ensuring that the resolution under this facility is extended only to borrowers having stress on account of Covid-19.

**A. Resolution of advances to individuals and small businesses**

# Eligible Borrowers for Resolution

The following categories of borrowers shall be eligible for resolution plan under this framework:

* Individuals who have availed of personal loans excluding the credit facilities provided to their own personnel/staff.
* 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 cr as on March 31, 2021.
* 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 cr as on March 31, 2021.

Credit facilities / investment exposure to the borrower was classified as Standard by the lending institution as on March 31, 2021. The borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0

The following categories of borrowers / credit facilities shall not be eligible for a resolution plan under this framework:

* MSME borrowers whose aggregate exposure to lending institutions collectively, is Rs. 25 crore or less as on March 1, 2020.
* Farm credit as listed in Paragraph 6.1 of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as updated) or other relevant instructions as applicable to specific category of lending institutions.
* Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.
* Exposures of lending institutions to financial service providers.
* Exposures of lending institutions to Central and State Governments; Local Government bodies (e.g. Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature.

#  Timeline

The last date for invocation of resolution permitted under this framework is September 30, 2021. The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this framework.

# Guidelines for Implementation of Resolution

* The lending institutions shall frame Board approved policies at the earliest (but not later than four weeks from the date of this Circular), pertaining to implementation of viable resolution plans for eligible borrowers under this framework.
* In respect of applications received by the lending institutions from their customers for invoking resolution process, the decision on the application shall be communicated in writing to the applicant by the lending institutions within 30 days of receipt of such applications.
* The resolution plans implemented under this framework 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.
* 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.
* 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.
* The resolution plan shall be deemed to be implemented only if all of the following conditions are met:

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.

1. **Asset Classification and provisioning**
* 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 resolution plan.
* 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 the additional finance or the rest of the credit facilities, whichever is worse.
* The lending institutions 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 of the lending institution 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.
* 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. In respect of exposures other than personal loans, the 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.
* The provisions required to be maintained under this framework, 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.
1. **Convergence of the norms for loans resolved previously**
* In cases of loans of borrowers specified in Clause 1 of Part A 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 framework to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor subject to the caps in clause 3 of Part A above, and the consequent changes necessary in the terms of the loan for implementing such extension.
* This modification shall also follow the timelines specified in part A above. For loans where modifications are implemented in line with above clause, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0.

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

* The following categories of borrowers shall be eligible for resolution plan where resolution plans had been implemented under Resolution Framework - 1.0 :-
* 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 cr as on March 31, 2021.
* 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 cr as on March 31, 2021.
* 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 with regard to above shall be taken by lending institutions 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.
* The above measures shall be contingent on the lending institutions satisfying themselves 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 regard to their justifiability on account of the economic fallout from COVID-19.
* Lending institutions 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.

**C. Disclosures and credit Reporting**

* Lending institutions publishing quarterly statements shall, at the minimum, make disclosures as per the format prescribed in Format-A 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.
* The number of borrower accounts where modifications were sanctioned and implemented in terms of Clause 5 of Part A 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.
* Lending institutions required to publish only annual financial statements shall make the required disclosures in their annual financial statements, along with other prescribed disclosures.
* The credit reporting by the lending institutions in respect of borrowers where the resolution plan is implemented under Part A of this framework shall reflect the “restructured due to COVID-19” 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.

**Annexures**

**Format – A**

Format for disclosures to be made in the quarters ending September 30 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  |  |  |  |

**Format-B**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Type of borrower | Exposure to accounts classified as Standard consequent to implementation of resolution plan – Position as at the end of the previous half-year (A) | Of (A), aggregate debt that slipped into NPA during the half-year | Of (A) amount written off during the half-year | Of (A) amount paid by the borrowers during the half-year | Exposure to accounts classified as Standard consequent to implementation of resolution plan – Position as at the end of this half-year |
| Personal Loans |   |   |   |   |   |
| Corporate persons\* |   |   |   |   |   |
| Of which MSMEs |   |   |   |   |   |
| Others |   |   |   |   |   |
| Total |   |   |   |   |   |
| \* As defined in Section 3(7) of the Insolvency and Bankruptcy Code, 2016 |

Format for disclosures to be made **half yearly** starting September 30, 2021