

## **Restructuring Policy for Advances to Individual and Small Businesses**

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### **Introduction:**

The Reserve Bank Of India (RBI) has taken multiple steps to address financial stress in various sectors caused by the ongoing COVID-19 pandemic. In view of the uncertainties created by the resurgence of the Covid-19 pandemic in India in the recent weeks, it has been decided by the RBI to extend the restructuring window for small and individual borrower loans without a downgrade. This scheme will be known as **Resolution Framework 2.0 – Resolution of Covid-19 related stress of Individual and Small Businesses.**

The resurgence of Covid-19 pandemic in India in the recent weeks (second wave) and the consequent containment measures to check the spread of the pandemic impacted the recovery process and create new uncertainties. Hence in order to alleviate the potential stress to individual borrowers and small businesses, a set of measures were announced by RBI in line with the contours of the Resolution Framework - 1.0, with suitable modifications vide circular dated 5th May, 2021 (RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22). Part A of this circular 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 window.

Profectus Capital Private Limited (PCPL) in compliance with RBI/2021-22/31 DOR.STR.REC.12/21.04.048/2021-22 dated May 5, 2021 is adopting the following policy on one-time restructuring of Individual and Small Business loans.

### **Eligibility of Loans:**

The loans fulfilling the below mentioned conditions will be eligible under this policy;

- 1) 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.
- 2) 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
- 3) 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.
- 4) The borrower’s account was a ‘standard asset’ as on March 31, 2021.
- 5) Profectus Capital Private Limited is satisfied that restructuring is necessitated on account of the economic fallout from Covid-19
- 6) Any account already restructured cannot be restructured under current circular.

The following categories of borrowers / credit facilities will not be eligible even if they fulfil the above conditions;

- a) MSME borrowers whose aggregate exposure to lending institutions collectively, is `25 crore or less as on March 1, 2020.

- b) 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.
- c) Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.
- d) Exposures of lending institutions to financial service providers.
- e) Exposures of lending institutions to Central and State Governments; Local Government bodies (eg. Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature.

No deviation shall be allowed for the eligibility criteria.

**Implementation:**

Restructuring needs to be invoked by September 30, 2021 and implemented within 90 days from the date of invocation with following conditions being satisfied:

- 1) The restructuring will be treated as invoked on when the borrower and lender agree to proceed with the efforts for finalizing the restructuring plan.
- 2) Application for restructuring from the borrower and decision on the application from the lender should be in writing. The decision on the application needs to be communicated by the lender to the borrower within 30 days from the date of receipt of application.
- 3) All related documentation including execution of necessary agreements between lenders and borrower.
- 4) Changes in terms and conditions of existing loans get duly reflected in the books of lender and borrower

**Asset Classification and Provisioning:**

- 1) Restructured assets would be classified as 'standard' without a downgrade in the asset classification
- 2) PCPL will maintain higher of the provisions held as per IRAC norms/Indian Accounting Standard ("Ind-AS") as applicable, immediately before implementation or 10% of the renegotiated debt exposure post implementation. (for this non funded exposure which will devolve into fund based facilities after the date of implementation will also be part of exposure for 10% provisioning)
- 3) Post-restructuring, NPA classification of these accounts shall be as per the extant IRAC/Ind-AS norms.
- 4) If any account is restructured more than once, the account which is restructured must be downgraded to NPA upon restructuring and will be governed by IRAC/Ind-AS norms.
- 5) In respect of restructuring plans implemented as above, asset classification of borrowers classified as standard may be retained as such, 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
- 6) However, **if the resolution plan is not implemented** within the stipulated timelines (date of invocation: 30<sup>th</sup>September, 2021 & date of implementation ie 90 days from invocation), the resolution plan shall be fully governed by the Prudential Framework

**Resolution plan: Qualification scenario, documentation & approval:**

Only COVID-19 impacted borrowers (Financial/ medical impact) shall qualify for this resolution plan. Accordingly, any borrower facing financial stress on account of following shall be eligible for restructuring:

- a. on account of income/ employment uncertainty, or
- b. on account of impact on business, or
- c. health issues arising from COVID

Additionally, in respect of applications received from the customers for invoking resolution process under this window, the assessment of eligibility for resolution as per the instructions contained in this circular and the Board approved policy put in place as above shall be completed, and the decision on the application shall be communicated in writing to the applicant by PCPL within 30 days of receipt of such applications

**Approval Authority:**

Restructuring proposals to be proposed by Collections team and would require further approval as per credit approval matrix. Additionally, approval of business head is also required.

**Resolution Plan: Methods to restructure a loan**

The resolution plans may inter alia **include**

- a. rescheduling of payments
- b. granting of moratorium
- c. revision of working capital sanctions

In above methods, the residual tenure can be restructured for maximum 2 year and tenure of the loan may be adjusted accordingly

- d. conversion of any interest accrued/ to be accrued into another credit facility.

The tenure of this additional facility to be commensurate with parent loan, subject to a maximum of 2 years.

- e. However, compromise settlement is specifically excluded from this resolution framework

**Reporting and Monitoring:**

- 1) Appropriate disclosures in financial statements under “Notes to Accounts” section detailing the count and amount of restructuring undertaken in the financial year
- 2) Monthly monitoring assessing the viability and performance of restructured accounts to be jointly undertaken by Collections and Risk

### **Credit Reporting:**

The credit reporting in respect of borrowers where the restructuring is implemented under this facility shall reflect the “**restructured due to COVID-19**” status of the account if the resolution plan involves renegotiations that would be classified as restructuring under the Prudential Framework.

### **Reversal of Provisions:**

The reversal may be carried out as under:

- a. **half of the above provisions may be written back** upon the borrower paying at least **20% of the residual debt** without slipping into NPA post implementation of the plan, and
- b. the **remaining half may be written back** upon the borrower paying another **10% of the residual debt** without slipping into NPA subsequently.
- c. However, in respect of provisions against exposures other than personal loans, the above provision shall not be written back before one year from the commencement of the first interest or principal payment (whichever is later) on the credit facility with the longest moratorium

### **Post Implementation Performance**

After implementation of the resolution plan in terms of this facility, the subsequent asset classification will be governed by the criteria laid out as per current IRAC norms which reads as under:

If satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

Specified period: one year from the date of commencement of repayment of principal/interest (whichever is later)

Satisfactory performance: No payment should remain overdue for a period of more than 90 days. In addition, there should not be any overdues at the end of the specified period.

### **Grievance Redressal**

In case of any query /concern related to this scheme, the borrower may approach the nodal officer through [customercare@profectuscapital.com](mailto:customercare@profectuscapital.com).

The Company will abide by all guidelines, directives instruction and advices of Reserve Bank of India as will be in force from time to time. The content of this policy shall be read in conjunction with above mentioned RBI Circular. All other provisions of the RBI's notification RBI/2021-22/31 DOR.STR.REC.12/21.04.048/2021-22 dated May 5, 2021 shall apply to any such restructuring. 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

Any other regulatory changes in this regard will stand updated in the policy from time to time.