

## **POLICY ON RESTRUCTURING OF STRESSED ASSETS**

**V 2.0**

(Pursuant to Notification No. RBI/2021-22/31 DOR. STR.REC.11/ 21.04.048/2021-22 dated May 5, 2021- Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses)

**Nov 2023**

## SATYA MICROCAPITAL LIMITED

### Policy on Restructuring of Stressed Assets- Resolution Framework – 2.0

#### 1. Background

SATYA MicroCapital Limited (hereinafter referred to as “the Company” or “NBFC” or “Lender”) is a Public Limited Company incorporated under the provisions of the Companies Act, 1956 and registered as a non-deposit accepting Non-Banking Financial Company (“NBFC”) with the Reserve Bank of India (“RBI”).

The RBI on August 06, 2020, vide its circular no. RBI/2020-21/16 DOR. No. BP. BC/3/21.04.048/2020-21 has released guidelines for NBFCs on implementation of resolution framework for COVID-19 related stress (Resolution Framework – 1.0) and further released Resolution Framework – 2.0 on May 05, 2021, vide its circular no. RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 on Resolution of Covid-19 related stress of Individuals and Small Businesses.

Earlier on June 7, 2019, the RBI had issued directions on Prudential Framework for Resolution of Stressed Assets commonly referred to as RBI (Prudential Framework for Resolution of Stressed Assets) Directions 2019 (“Prudential Framework”), which provides a principle-based resolution framework for addressing borrower defaults under a normal scenario.

The Company in accordance with RBI guidelines for NBFCs on implementation of resolution framework for COVID-19 related stress, issued vide RBI circular no. RBI/2020-21/16 DOR. No. BP. BC/3/21.04.048/2020-21 dated August 06, 2020 read with Prudential Framework had implemented a Board approved Policy on Restructuring of Stressed Assets.

However, the economic fallout on account of the COVID-19 pandemic has led to significant financial stress for borrowers nationwide and the resultant stress can potentially impact the long term viability of many Companies, otherwise having a good track record, due to their debt burden becoming disproportionate relative to their cash flow generation abilities.

Further, 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 RBI provided a window under the Prudential Framework and enabled the lenders to provide a resolution framework to the eligible borrowers for repayment of their loan by way of restructuring the loan or extending the tenure for repayment of the debt. Pursuant to aforesaid RBI circular dated May 5, 2021, 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 classifying the same as Standard upon implementation of the resolution plan subject to the conditions specified therein. The aforesaid RBI circular dated May 5, 2021 further stipulates that the following borrowers shall be eligible for the window of resolution to be invoked by the lending institutions:

- 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.

Provided that the borrower accounts/ credit facilities shall not belong to the categories listed in sub-clauses (a) to (e) of the Clause 2 of the Annex to the Resolution Framework 1.0, read with the response to Sl. No. 2 of FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020).

Provided further that the borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0 subject to the special exemption mentioned at Clause 9 below.

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

## 2. Objective of the Policy:

The objective of the Policy is to facilitate the overall revival of the target segment of the Company and to allow the Company's borrowers to service their obligations under the loan agreements despite of getting affected by COVID-19.

## 3. Definitions:

For the purposes of this policy, the below terms shall have the meaning as provided herein under:

- a) **Board:** The Board shall mean the Board of Directors or any authorized committee(s) of the board of the Company.
- b) **COVID-19:** Coronavirus Disease or COVID-19 is an infectious disease, which was declared as a global pandemic by World Health Organization on 11 March 2020.
- c) **Standard Assets:** Standard asset shall mean the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business.
- d) **Invocation:** The resolution process under this window 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. 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 aforesaid RBI circular dated May 5, 2021 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 the Company within 30 days of receipt of such applications. In order to optimize the processing time, the Company shall prepare product-level standardized templates as part of their Board approved policies, as above, for resolution under this window. The decision to invoke the resolution process under this Policy shall be taken by the Company having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower. 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. The last date for invocation of resolution permitted under this Policy is September 30, 2021.

#### **4. Eligibility for Resolution Under this Policy:**

The Company shall take into consideration only the Eligible Borrowers for the purpose of considering and implementing the resolution plans. However, it is necessary that the Eligible Borrowers account is classified as Standard Asset as on the Date of Invocation and having stress on account of Covid-19. Provided that the borrower accounts / credit facilities shall not belong to the categories listed in sub-clauses (a) to (e) of the Clause 2 of the Annex to the Resolution Framework 1.0, read with the FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020).

Provided further that the borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0 subject to the special exemption mentioned at Clause 9 below.

Provided further that the credit facilities / investment exposure to the borrower was classified as Standard by the Lender as on March 31, 2021.

Implementation of resolution (also known as “Date of Implementation”) A restructuring of loan would be treated as implemented upon fulfilment of all of the following conditions:

- a. All related documentation, including execution of necessary agreement(s), if any, between the Company and Eligible Borrower(s) are completed.
- b. The new loan amount and/ changes in the terms and conditions of the existing loan account get duly reflected in the books of accounts of the Company.
- c. The Eligible Borrower is not in default with the Company as per the revised terms and conditions.

#### **5. Permitted Features of Resolution Plans and Implementation**

The resolution plans implemented under this Policy 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, and the same shall be governed by the Resolution Framework – 1.0. The resolution plan shall be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. The resolution plan shall be deemed to be implemented only if all the conditions of the Resolution Framework – 1.0 are met.

#### **6. Due Diligence Process**

The Company will carry out the due diligence process before approving the restructuring of the loan account. The due diligence process would involve ascertaining the impact of COVID-19 on the economic activity of the

Borrower, viability of payment after restructuring and existing cash flows of the Borrowers under discussion with the underlying Borrowers, and to record the revised terms and implement viable resolution plan(s).

## **7. Grievance Redressal System**

The Company shall have a system of grievance redressal of the borrowers who request for resolution under the window and / or are undergoing resolution under this window.

## **8. Asset Classification and Provisioning**

If a resolution plan is implemented in adherence to the provisions of this Policy, 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 resolution plan. The subsequent asset classification for such exposures will be governed by the criteria laid out in the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015 or other relevant instructions as applicable to specific category of lending institutions ("extant IRAC norms").

In respect of borrowers where the resolution process has been invoked, the Company may sanction additional finance even before implementation of the plan in order to meet the interim liquidity requirements of the borrower. This facility of additional finance may be classified as 'Standard' till implementation of the plan regardless of the actual performance of the borrower 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.

The Company 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. 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.

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.

## **9. Convergence of the Norms for Loans Resolved Previously**

In cases of loans of borrowers specified in Clause 4 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 in Clause 5 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. This modification shall also follow the timelines specified in this Policy and/ or the RBI Circular dated May 5, 2021 read with modifications issued from to time. For loans where modifications are implemented in line with this Policy, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0.

#### **10. Working Capital Support for Small Businesses where Resolution Plans were Implemented Previously**

In respect of borrowers specified at Clause 4 above under this Policy and/ or the RBI Circular dated May 5, 2021 read with modifications issued from to time, where the resolution plans had been implemented in terms of the Resolution Framework – 1.0, the Company is 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 Lender 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.

#### **11. Miscellaneous:**

- 1. Display on Website:** The Board approved policy on restructuring of stressed assets should be disclosed in the public domain and will also be hosted on the Company's website for its customers information and benefit in a prominent and easily accessible manner.
- 2. Effective Date:** This Policy shall be effective from the date of approval of this Policy by the Board.
- 3. Review of Policy:** The Policy shall be reviewed as and when required by the applicable rules and regulations.
- 4. Disclosures and Credit Reporting by the Company:** The Company shall abide by the disclosure and credit reporting requirements of RBI's restructuring circulars in force to the extent applicable on the Company.
- 5. While Policy outlines the broad internal guidance that the Company will follow to take decisions regarding this restructuring of stressed assets/loan in pursuance to RBI circulars issued from time to time, the Company retains the discretion to take decisions regarding this Policy depending on case specific issues or nuances. The Company reserves the right to amend the Policy within the framework of RBI guidelines.**