Policy on Resolution Framework for COVID-19-related Stress

A. Objective of the Policy:

The objective of the Policy is to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers. This Policy has been prepared in line with RBI instructions vide its circulars dated August 6, 2020 on Resolution Framework for COVID-19-related Stress and September 7, 2020 on Resolution Framework for COVID-19-related Stress – Financial Parameters read in conjunction with RBI Circular dated June 7, 2019 on Prudential Framework for Resolution of Stressed Assets.

B. Definitions:

1. **Resolution Plan (RP):** Resolution Plan is a modification in terms of the loan so as to make the loan serviceable. It may include:

- capitalization of interest
- allowing extension of the residual tenor of the loan by period not more than 2 years with or without moratorium
- sanctioning of additional credit facilities if found necessary to address financial stress;
- infusion of capital by the borrower
- conversion of debt into instruments such as equity, preference and debentures etc.
- such other modifications in the terms of the loan as stipulated by RBI in its circulars dated August 6, 2020 and September 7, 2020.

2. **Eligible Borrower/s:**

- Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard, but not in default for more than 30 days with any lending institution as on March 1, 2020.
- Further, the accounts should continue to remain standard till the date of invocation of Resolution Plan under this framework.
- For applicability of this current one-time restructuring framework, aggregate exposure to be considered as exposure with all the lending institutions collectively as on 01.03.2020.

3. **Conditions for Resolution Framework for COVID-19 related stress:**

   The lending institutions shall frame Board approved policies 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 Covid19.

The Board approved policy shall, inter alia, detail the eligibility of borrowers in respect of whom the lending institutions may be willing to consider the resolution, and shall lay down the due diligence considerations to be followed by the lending institutions to establish the necessity of implementing a resolution plan in respect of the concerned borrower.

Without prejudice to the exceptions specified in paragraphs 25-28 of the Prudential Framework for Resolution of Stressed Assets (hereinafter called "Prudential Framework"), 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 (eg. Municipal Corporations); and, body corporate established by an Act of Parliament or State Legislature.
- Exposures of housing finance companies where the account has been rescheduled in terms of para 2(1)(zc)(ii) of the Master Circular - The Housing Finance Companies (NHB) Directions, 2010 after March 1, 2020, unless a resolution plan under this framework has been invoked by other lending institutions. However, from the date of this circular, any resolution necessitated on account of the economic fallout of Covid-19 pandemic, shall be undertaken only under this framework.

4. **Date of Invocation:** The date of invocation means the date on which both the borrower and lender have agreed to proceed with a resolution plan for the Eligible Borrower in terms of this Policy. However, in no case the Date of Invocation will be later than December 31, 2020.

5. **Reference Date:** The reference date for the outstanding amount of debt that may be considered for resolution shall be March 1, 2020.

Terms used in this document, to the extent not defined herein, shall have the same meaning assigned to them in the Prudential Framework.

C. Key parameters for approval of resolution plan and timeline involved:

1. In case where there is only one lending institution with exposure to the borrower, decision regarding the request for resolution by the borrower may be taken by the lending institution as per the Board approved policy of the institution and within the contours of this framework. For this purpose, the date of invocation shall be the date on which both the borrower and lending institution have agreed to proceed with a resolution plan under this framework.

2. If there are multiple lending institutions with exposure to the borrower, the resolution process shall be treated as invoked in respect of the borrower if lending institutions representing 75 per cent by value of the total outstanding credit facilities (fund based as well non-fund based), and not less than 60 per cent of lending institutions by number agree to invoke the same.

3. Resolution under this framework may be invoked not later than December 31, 2020 and must be implemented within 180 days from the date of invocation.

4. In all cases involving multiple lending institutions, where the resolution process is invoked and consequently a resolution plan has to be implemented, ICA shall be required to be signed by all lending institutions within 30 days from the date of invocation**.**

5. In cases where the resolution process has been invoked but lending institutions representing not less than 75 per cent by value of the total outstanding credit facilities (fund based as well non-fund based) and not less than 60 per cent of lending institutions by number do not sign the ICA within 30 days from the invocation, the invocation will be treated as lapsed. In respect of such borrowers, the resolution process cannot be invoked again under this framework.

6. Lenders to the borrower which are other than the lending institutions as per this circular may also sign the ICA, if they so desire. If such lenders sign the ICA, they shall be fully bound by the stipulations of the ICA.

7. All disputes, if any, between signatories to the ICA regarding the resolution process shall be settled as per the provisions of the ICA and the Reserve Bank will not intermediate any such disputes. Lending institutions shall ensure that the ICA contains a dispute redressal mechanism that clearly lays down the recourse available to a signatory to the ICA who wants to raise a dispute regarding the resolution process.

8. As the resolution process requirements and the prudential treatment subsequent to the implementation are applied collectively to all lenders, including those to which the Prudential Framework is not applicable, the ICA should provide for suitable mechanisms for information sharing amongst lending institutions during and after implementation of the resolution plan.

9. If any of the above timelines are breached at any point, the resolution process ceases to apply immediately in respect of the borrower concerned. Any resolution plan implemented in breach of the above stipulated timelines shall be fully governed by the Prudential Framework, as if the resolution process was never invoked under this framework.

10. The required financial parameters as recommended by the K.V. Kamath Committee (the Expert Committee) and approved by RBI, along with the sector specific benchmarks shall be

factored into each resolution plan. The parameters shall inter alia cover aspects related to leverage, liquidity, debt serviceability, etc.

11. The Expert Committee shall also have the responsibility of vetting the resolution plans to be implemented under this window in respect of all accounts where the aggregate exposure of the lending institutions at the time of invocation of the resolution process is Rs.1500 crore and above..

12. STCI Finance Limited (hereinafter called "STCI") shall mandatorily consider the following key ratios while finalizing the resolution plans in respect of eligible borrowers. Sector specific thresholds (ceilings or floors, as the case may be) provided under the Committee's recommendations shall have to be met for eligibility under the Plan.

Key Ratio	**Definition**
Total Outside Liabilities / Adjusted Tangible Net Worth (TOL/ATNW)	Addition of long-term debt, short term debt, current liabilities and provisions along with deferred tax liability divided by tangible net worth net of the investments and loans in the group and outside entities.
Total Debt / EBITDA	Addition of short term and long-term debt divided by addition of profit before tax, interest and finance charges along with depreciation and amortisation.
Current Ratio	Current assets divided by current liabilities.
Debt Service Coverage Ratio (DSCR)	For the relevant year addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges.
Average Debt Service Coverage Ratio (ADSCR)	Over the period of the loan addition of net cash accruals along with interest and finance charges divided by addition of current portion of long-term debt with interest and finance charges.

13. The sector-specific thresholds (ceilings or floors, as the case may be) for each of the above key ratios that should be considered by STCI in the resolution assumptions with respect to an eligible borrower are given in the **'Annex'**. In respect of those sectors where the sector-specific thresholds have not been specified, STCI shall make its own internal assessment regarding TOL/ATNW and Total Debt/EBITDA. However, the current ratio and DSCR in all cases shall be 1.0 and above, and ADSCR shall be 1.2 and above.

14. Subject to para 12 above, STCI is free to consider other financial parameters as well while finalizing the resolution assumptions in respect of eligible borrowers apart from the above mandatory key ratios and the sector-specific thresholds that have been prescribed. The above requirements are applicable even in cases when ~~there is~~ only STCI is sole lender with exposure to an eligible borrower. Apart from the above prescribed ratios, wherever STCI is sole lender, STCI may also evaluate the resolution plan based on the Lending Policy parameters.

15. Given the differential impact of the pandemic on various sectors/entities, STCI may, at its discretion adopt a graded approach depending on the severity of the impact on the borrowers, while preparing or implementing the resolution plan. Such graded approach may also entail classification of the impact on the borrowers into mild, moderate and severe, as recommended by the Expert Committee. STCI may adopt a graded approach wherever it is sole lender. Such graded approach shall be approved by the Credit & Investment Committee of the Board (CIC).

16. STCI shall ensure compliance to TOL/ATNW agreed as per the resolution plan at the time of implementation itself. Nevertheless, in all cases, this ratio shall have to be maintained as per the resolution plan by March 31, 2022 and on an ongoing basis thereafter. However, wherever the resolution plan envisages equity infusion, the same may be suitably phased-in over this period. All other key ratios shall have to be maintained as per the resolution plan by March 31, 2022 and on an ongoing basis thereafter.

17. The compliance with regard to meeting the agreed ratios must be monitored as financial covenants on an ongoing basis, and during subsequent credit reviews. Any such breach not rectified within a reasonable period, in terms of the loan contract, will be considered as financial difficulty.

D. Permitted features of the resolution plan

1. The resolution plan may involve any action as provided in Paragraph 13 of the Prudential Framework, except compromise settlements which shall continue to be governed by the provisions of the Prudential Framework. The resolution plan may also include sanctioning of additional credit facilities to address the financial stress of the borrower on account of Covid19 even if there is no renegotiation of existing debt.

2. STCI may allow extension of the residual tenor of the loan with or without payment moratorium, by a period not more than two years. The moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan**.**

3. The revised assumptions that go into the plan shall, at the minimum, factor in the financial parameters decided by the Expert Committee and the ranges for such parameters, as notified by RBI.

E. Conversion into other securities and valuation

1. The resolution plan may provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, 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 STCI , post implementation of the resolution plan. The holding of such instruments by STCI shall be subject to the extant instructions on investments as applicable to it.

2. 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 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).

3. In case STCI converts any portion of the debt into any other security, the same shall collectively be valued at Re.1.

F. Details regarding Due diligence to be followed:

1. The ratios prescribed in para C(12) are intended as floors or ceilings, as the case may be, but the resolution plan shall take into account the pre-Covid-19 operating and financial performance of the borrower and impact of Covid-19 on its financials, with respect to the Fund Flow & Cash Flow challenges arising out of Covid19, at the time of finalising the resolution plan and shall assess the cash flows in subsequent years, while stipulating appropriate ratios in each case, subject to the floors /ceilings recommended by the Expert Committee.

2. Resolution plans in respect of accounts where the aggregate exposure of the lending institutions at the time of invocation of the resolution process is Rs.100 crore and above, shall require an independent credit evaluation (ICE) by any one credit rating agency (CRA) authorized by the Reserve Bank under the Prudential Framework.

3. Resolution plans for accounts with cumulative debt of Rs.1,500 crore and above shall require validation by the Expert Committee which shall check and verify that all the processes have been followed by the parties concerned.

4. The resolution plan shall further provide that in accounts involving consortium or multiple banking arrangements, post implementation of the plan, all receipts by the borrower, all repayments by the borrower to the lending institutions, as well as all additional disbursements, if any, to the borrower by the lending institutions as part of the resolution plan, shall be routed through an escrow account maintained with one of the lending institutions.

5. The various parameters to be checked as part of due diligence exercise while evaluating the resolution plan are detailed below:

   i. CIBIL-Suit filed accounts (Wilful Defaulters) of Rs.25 lakhs & above & Suit filed accounts of Rs.1 Cr & above shall be checked.
   ii. CIBIL/CRIF report of Company/guarantors/partners/proprietor shall be generated and checked.
   iii. Detailed ROC search of the company and compliance to our facility and charge creation shall be checked.

iv. CERSAI shall be checked for charge creation/search for all existing security interest for primary and collateral security.

v. Status report shall be obtained from other bankers/FIs.

6. Stock Auditor shall be appointed for verification of stock and receivables /book debts with books of account, where STCI is sole lender.

7. Wherever additional security of immovable property is being obtained as part of resolution plan, Title Search and Investigation shall be carried out by empanelled advocates.

8. All related documentation, including executing of necessary agreements between lenders and borrower/creation of security charge/perfection of securities shall be completed in consonance with the RP being implemented.

9. Waiver of any the above conditions can only be done by the Sanctioning Authority.

G. Inter Creditor Agreement (ICA) and escrow arrangement

1. To ensure that the above operations are carried out smoothly, lending institutions shall enter into a formal agreement with the escrow manager detailing the duties and responsibilities of the escrow manager and the lending institutions, as well as the enforcement mechanism that will be contractually available to the escrow manager to ensure that lending institutions service their disbursement obligations on a timely basis.

2. The various requirements of the Resolution Framework, especially the mandatory requirement of Inter Creditor Agreement, wherever applicable, and maintenance of an escrow account after implementation of a resolution plan, shall be applicable at the borrower-account level.

3. Signing of ICA is a mandatory requirement in all cases involving multiple lending institutions, where the resolution process is invoked, and the requirement of additional provisions if the ICA is not signed within 30 days of invocation does not substitute for the mandatory nature of ICA. Compliance with this regulatory requirement shall be assessed for all lending institutions as part of the supervisory review.

H. Asset classification and provisioning

1. 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.

2. 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.

3. 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.

4. In cases where a resolution plan is implemented under this facility, the lending institutions, which had signed the ICA within 30 days of invocation 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 total debt including the debt securities issued in terms of para E(1) hereinabove, held by the ICA signatories post-implementation of the plan (residual debt).

5. However, if STCI does not sign the ICA within 30 days of invocation it shall, immediately upon the expiry of 30 days keep provisions of 20 percent of the debt on their books as on this date (carrying debt), or the provisions required as per extant IRAC norms, whichever is higher. Even if STCI had earlier agreed for invocation but did not sign the ICA and the invocation lapses on account of the thresholds for ICA signing not being met, in terms of para C(5) hereinabove, it shall also be required to hold 20 percent provisions on its carrying debt.

6. The additional provisions maintained if any, in terms of the circular DOR.No.BP.BC.63/21.04.048/2019-20 dated April 17, 2020 in respect of such borrowers, to the extent not already reversed, may be utilised for meeting the provision requirements in all cases under this facility.

7. Any additional provisions maintained in terms of Paragraph 17 of the Prudential Framework, wherever applicable, may be reversed at the time of invocation of the resolution plan under this facility. However, if the plan is not implemented within 180 days from invocation, provisions as per the Prudential Framework shall be required to be maintained, as if a resolution process was never invoked under this window.

I. Reversal of Provisions

For loans resolved under this facility, half of the above provisions may be written back upon the borrower paying at least 20 percent 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.

However, in respect of the non-ICA signatories while half of the provisions may be reversed upon repayment of 20 percent of the carrying debt, the other half may be reversed upon repayment of another 10 per cent of the carrying debt, subject to the required IRAC provisions being maintained.

J. Post Implementation Performance

1. STCI shall ensure compliance of TOL/ATNW agreed as per the resolution plan at the time of implementation. Nevertheless, in all cases, this ratio shall have to be maintained as per the resolution plan by March 31, 2022 and on an ongoing basis thereafter. However, wherever the resolution plan envisages equity infusion, the same may be suitably phased-in over this period. All other key ratios shall have to be maintained as per the resolution plan by March 31, 2022 and on an ongoing basis thereafter. Reporting of such monitoring shall be done on quarterly basis to CIC.

2. The compliance regarding meeting the agreed ratios shall be monitored as financial covenants on an ongoing basis, and during subsequent credit reviews. Any such breach not rectified within a reasonable period, in terms of the loan contract, will be considered as financial difficulty.

3. Any default by the borrower with any of the signatories to the ICA during the monitoring period shall trigger a Review Period of 30 days.

   Monitoring period for this purpose, is defined as the period starting from the date of implementation of the resolution plan till the borrower pays 10 percent of the residual debt, subject to a minimum of 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.

4. If the borrower is in default with any of the signatories to the ICA at the end of the Review Period, the asset classification of the borrower with all lending institutions, including those who did not sign the ICA, shall be downgraded to NPA from the date of implementation of the resolution plan or the date from which the borrower had been classified as NPA before implementation of the plan, whichever is earlier.

5. Further up-gradation shall be subject to implementation of a fresh restructuring under the Prudential Framework.

6. Upon completion of the monitoring period without being classified as NPA, the asset classification norms will revert to the criteria laid out in the Master Circular-Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015.

7. The provisions required to be maintained under this window, to the extent not already reversed, shall be available for: (i) the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA; as well as, (ii) the additional provisioning requirements on account of Paragraph 17 of the Prudential Framework as and when the Prudential Framework becomes applicable in respect of the particular account.

K. Disclosures and Credit Reporting

1. Wherever applicable, STCI shall, at the minimum, make disclosures as per the format prescribed in Format-A in its financial statements for the quarters ending March 31, 2021, June 30, 2021 and September 30, 2021. Similarly, if applicable, STCI shall also make disclosures in the format prescribed in Format-B every half-year, i.e., in the financial statements as on September 30 and March 31, starting from the half-year ending September 30, 2021 till all exposures on which resolution plan was implemented are either fully extinguished or completely slips into NPA, whichever is earlier. Format A and Format B are as provided under RBI Circular dated August 6, 2020.

2. STCI shall make the required disclosures in its annual financial statements, along with other prescribed disclosures

3. Credit reporting by STCI in respect of borrowers where the resolution plan is implemented under this facility shall reflect the "restructured" status of the account if the resolution plan involves renegotiations that would be classified as restructuring under the Prudential Framework. 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.

L. Miscellaneous

This Policy on Resolution Framework for COVID-19-related Stress is based on the extant RBI regulatory directions as contained in its circulars dated August 06, 2020 and September 07, 2020 read in conjunction with RBI circular dated June 07, 2019 on Prudential Framework on Resolution of Stressed Assets. Any change in the regulatory framework having a bearing on this Policy would forthwith amend this Policy to the extent of such change.

Annex

Sectors	TOL / ATNW	Total Debt/ EBITDA	Current Ratio	Average DSCR	DSCR
Auto Components	<= 4.50	<= 4.50	>= 1.00	>= 1.20	>= 1.00
Auto Dealership	<=4.00	<=5.00	>=1.00	>=1.20	>=1.00
Automobile Manufacturing*	<= 4.00	<= 4.00	NA	>= 1.20	>= 1.00
Aviation**	<= 6.00	<= 5.50	>= 0.40	NA	NA
Building Materials - Tiles	<=4.00	<=4.00	>=1.00	>=1.20	>=1.00
Cement	<=3.00	<=4.00	>=1.00	>=1.20	>=1.00
Chemicals	<=3.00	<=4.00	>=1.00	>=1.20	>=1.00
Construction	<=4.00	<=4.75	>=1.00	>=1.20	>=1.00
Consumer Durables / FMCG	<=3.00	<=4.00	>=1.00	>=1.20	>=1.00
Corporate Retails Outlets	<=4.50	<=5.00	>=1.00	>=1.20	>=1.00
Gems & Jewellery	<=3.50	<=5.00	>=1.00	>=1.20	>=1.00
Hotel, Restaurants, Tourism	<=4.00	<=5.00	>= 1.00	>=1.20	>=1.00
Iron & Steel Manufacturing	<=3.00	<=5.30	>=1.00	>=1.20	>=1.00
Logistics	<=3.00	<=5.00	>=1.00	>=1.20	>=1.00
Mining	<=3.00	<=4.50	>=1.00	>=1.20	>=1.00
Non Ferrous Metals	<=3.00	<=4.50	>=1.00	>=1.20	>=1.00
Pharmaceuticals Manufacturing	<=3.50	<=4.00	>=1.00	>=1.20	>=1.00
Plastic Products Manufacturing	<=3.00	<=4.00	>=1.00	>=1.20	>=1.00
Port & Port Services	<=3.00	<=5.00	>=1.00	>=1.20	>=1.00
Power					
- *Generation*	<=4.00	<=6.00	>=1.00	>=1.20	>=1.00
- *Transmission*	<=4.00	<=6.00	>=1.00	>=1.20	>=1.00
- *Distribution*	<=3.00	<=6.00	>=1.00	>=1.20	>=1.00
Real Estate##					
- *Residential*	<=7.00	<=9.00	>=1.00	>=1.20	>=1.00
- *Commercial*	<=10.00	<=12.00	>=1.00	>=1.20	>=1.00
Roads	NA	NA	NA	>=1.10	>=1.00
Shipping	<=3.00	<=5.50	>=1.00	>=1.20	>=1.00
Sugar	<=3.75	<=4.50	>=1.00	>=1.20	>=1.00
Textiles	<=3.50	<=5.50	>=1.00	>=1.20	>=1.00
Trading – Wholesale @	<=4.00	<=6.00	>=1.00	Instead Interest Coverage Ratio > = 1.70	

Note: Some of the key ratios have been marked as not applicable in the case of certain sectors in line with the recommendations of the Expert Committee which has concluded that those ratios may not be relevant for the respective sectors to which they have been made as not applicable.

*No threshold has been prescribed for Current Ratio due to the "just in time inventory" business model for raw materials and parts, and finished goods inventory is funded by channel financing available from the dealers.

**DSCR thresholds have not been prescribed since most of the airline companies work on refinancing of debt as a financing strategy. Consequently, average DSCR threshold is also not prescribed.

##In the roads sector, the financing is cash flow based and at SPV level where the level of debt is decided at the time of initial project appraisal. The working capital cycle in this sector is also negative. Accordingly, ratios like TOL / ATNW, Debt/EBITDA and Current ratio may not be relevant at the time of restructuring in this sector.

@Most of the companies in the sector do not use long term debt for funding their operations and are unlisted. Hence DSCR and average DSCR may not be relevant for the sector.