



IIFL Finance Limited

Policy Note on Restructuring Framework 2.0

FY 2022-23



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Loan restructuring under Resolution Framework – 2.0 for COVID-19 related Stress of Individuals and Small Businesses May 2021

Introduction:

The economic fallout on account of the Covid-19 pandemic has led to significant financial stress for borrowers across the board. 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 this, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, RBI vide circular RBI/2020-21/16 | DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 had earlier provided a window under the Prudential Framework (1.0) to enable the FIs to implement a resolution plan in respect of eligible borrowers, while classifying such exposures as Standard, subject to certain specified conditions.

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, the set of measures are announced by RBI in line with the contours of the Resolution Framework - 1.0, with suitable modifications via 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.

In line with the guidelines/Instructions of the above circular, IIFL lays down following policy as under

Eligibility Criteria for Loans:

- i. The resolution under this facility is extended only to borrowers having stress on account of Covid19 and to those not covered under the resolution framework 1.0 (Circular dated 6th August, 2020 DOR.No.BP.BC/3/21.04.048/2020-21)
- ii. Borrower, whose loan account was classified as Standard as on 31st March, 2021
- iii. Type of Borrowers covered:
 - a. Individuals who have availed personal loans (as per Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018)
 - b. Individuals who have availed loans and advances for business purposes and aggregate exposure is \leq Rs 25 cr as on 31st March, 2021
 - c. Small businesses including those engaged in retail and wholesale trade, other than loans classified as MSME as on 31st March, 2021 and aggregate exposure is \leq Rs 25 cr as on 31st March, 2021

- iv. Employees of IIFL shall not be eligible for resolution under this framework
Borrowers' accounts should continue to be classified as Standard till the date of invocation of resolution
- v. 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)

Timelines:

- (i) The date of invocation shall be the date on which both the borrower and IIFL have agreed to proceed with a resolution plan under this framework.
- (ii) Resolution under this framework may be **invoked** not later than 30th September, 2021
- (iii) The resolution plan must be **implemented** within 90 days from the date of invocation. 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 IIFL and borrower, are completed;
 - b. the changes in the terms of conditions of the loans get duly reflected in the books; and, borrower is not in default with IIFL as per the revised terms

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 IIFL within 30 days of receipt of such applications

Approval Authority: Restructuring proposals to be proposed by Collections team and would require 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

Asset classification and provisioning:

1. Asset classification:

- a. The eligible borrowers' accounts should continue to be classified as Standard till the date of invocation of resolution
- b. **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.
- c. However, **if the resolution plan is not implemented** within the stipulated timelines (date of invocation: 30th September, 2021 & date of implementation: 90 days from invocation), the resolution plan shall be fully governed by the Prudential Framework

2. Provisioning norms (post implementation)

IIFL 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% of the renegotiated debt exposure post implementation (residual debt)

3. 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

4. Exposures resolved under Resolution Framework 1.0

In cases of loans of borrowers specified 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, it is 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 a cap of maximum 2 years, 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.

5. 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 overdue at the end of the specified period.

Policy – for working capital support for small businesses where resolution plans were implemented previously

- i. This facility is extended to only those small businesses where resolution plan under Resolution Framework 1.0 was implemented.
- ii. A onetime measure to review the working capital sanctioned limits and/ or drawing power based on a reassessment of the working capital cycle, reduction of margin, etc
- iii. The above assessment would not be treated as restructuring
- iv. 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
- v. 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

The number of borrower accounts where modifications were sanctioned and implemented as per above, and the aggregate exposure of the lending institution to suc

Disclosures & Credit reporting:

Credit Reporting:

The credit reporting 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.

Disclosures

IIFL will make required disclosure as mentioned in the guidelines ie. Quarterly as well as half yearly disclosures in its financial statements as per prescribed format

Grievance Redressal

In case of any query /concern related to this scheme, the borrower may approach the nodal officer through nodalofficer@iifl.com.

Other

- a. 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.
- b. All other regulatory changes in this regard will stand updated in the policy from time to time