

**Poonawalla Fincorp Limited**  
(Formerly, Magma Fincorp Limited)

## **Policy on Resolution Framework 2.0**

Effective Date: 26.05.2021

Approval Date: 26.05.2021

Version No. : 1.0

Approved By: Board of Directors

Policy Owner: Business & Credit team

This document is confidential in nature and should be read in conjunction with the most recent RBI Directives & Guidelines and Policy on resolution of Covid 19 related stress.

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<b>Base Document</b>	:	<b>Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses and MSMEs customers</b>
<b>Initial Document Prepared by</b>	:	Mr. Anand Roy
<b>Functional aspects checked by</b>	:	Ms. Anjana Kaura, Mr. Arindam Mukherjee, Mr. Rajesh Singhania, Mr. Girish Poddar
<b>Governing Guideline/Policy</b>	:	<b>Regulatory Guidelines</b>
<b>Legal aspects checked by</b>	:	Mr. Jitendra Maheshwari, M/s Vinod Kothari & Co.

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## Background

The Reserve Bank of India (RBI) vide its circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on “Resolution Framework for COVID-19-related Stress” (“Resolution Framework 1.0”) had provided a window to enable lenders to implement a resolution plan in respect of eligible exposures to individuals and MSMEs without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions.

In addition to the aforesaid, RBI had also extended the scheme for restructuring of existing loans to Micro, Small and Medium Enterprises (MSMEs) classified as 'standard' without a downgrade in the asset classification, subject to the prescribed conditions. The said notification dated August 6, 2020 (“MSME Restructuring 1.0”) was an extension of the then existing notification on Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances dated February 11, 2020 read along with January 1, 2019 notification requiring adoption of a Board approved policy on restructuring of MSME advances.

Due to resurgence of the COVID-19 pandemic in India and the associated containment measures adopted at local/regional levels new uncertainties and it has most certainly impacted the nascent economic revival that was taking shape.

The regulators, trade representatives felt it was necessary to support the individuals, small businesses and Micro, Small and Medium Enterprises (MSMEs) businesses. For granting relief from economic hardship during of these times, the RBI issued circulars dated May 5, 2021 on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses (“Resolution Framework 2.0”) and Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (“MSME Restructuring 2.0”) (both the circulars together referred to as ‘RBI Circulars’).

**This Policy will act as a general guideline towards restructuring existing loans of customer of Poonawalla Fincorp Limited (Formerly, Magma Fincorp Limited) (PFL / Company), without a downgrade in the asset classification, subject to various terms and conditions as outlined in RBI Circulars. Any changes, clarifications or circulars pertaining to the subject matter of the Policy, as coming from the RBI, shall be deemed incorporated into the Policy, so as to make the Policy completely subservient to the RBI’s regulatory framework.**

## Approval Authority

This Policy is guided by the provisions of the RBI Circular. The Policy has been approved by the Risk Management Committee of the Company and the Board of Directors of the Company on 13.05.2021 and 26.05.2021 respectively.

The Management Committee of the Company is authorised to approve all operational procedures/ guidelines as may be required to implement the Policy and make any changes to the Policy in line with the directions/ guidelines/ clarifications issued by the RBI, from time to time. All changes made by the Management Committee shall be presented to the Risk Management Committee of the Company at its next meeting for ratification.

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## Resolution of advances to individuals and small businesses under Resolution Framework 2.0

### Eligible Borrowers and Eligibility Conditions

- Individuals who have availed of personal loans<sup>1</sup>. Loan to own personnel / staff shall be excluded
- Individual borrowers who have availed loan for business purpose where all lending institutions have aggregate exposure of up to Rs. 25 Cr as on 31 March'21
- Small business, including wholesale and retail trade, excluding the ones classified as MSMEs as on 31st March 2021, with aggregate exposure of all lending institutions upto Rs. 25 Cr as on 31 March 21.
- Credit facilities to the borrower should be classified as Standard (all accounts of the borrower) as on 31 March 21.
- Borrower should continue to be Standard as on the date of invocation of resolution plan.
- Borrower having credit exposure from other lending institution shall also be eligible for availing benefit, under the Resolution Framework 2.0, from the Company, subject to compliance with other eligibility criteria.
- In case of loans where resolution plans had been implemented in terms of the Resolution Framework 1.0, and where the resolution plans had permitted no moratorium or moratorium of less than two years and / or extension of residual tenor by a period of less than two years, the Company may modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor such that the total moratorium tenure/ extension of residual tenure granted under Resolution Framework 1.0 and Resolution Framework 2.0, does not exceed 2 years. No other change to such earlier restructured cases is allowed.
- Any other specific criteria for restructuring of any account, as prescribed under the applicable RBI guidelines/ circulars, issued from time to time, such specific criteria shall be fulfilled before restructuring is implemented.

### Borrowers not eligible for resolution:

- Borrowers account not eligible under Resolution Framework 2.0 as below:
  - MSME borrowers where aggregate exposure of lending institutions collectively, is more than Rs. 25 crores as on March 31, 2021.
  - Farm credit
  - Loans to primary agricultural society etc.
  - Exposures to financial service providers

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<sup>1</sup> *Personal loan would mean* the following:

- **Consumer credit:**
  - Auto loans (other than for commercial use)
  - Personal loans secured by immovable property (other than for business/ commercial purpose)
  - Personal loans to professionals (excluding loan for business purpose)
  - Loans given for other consumption purposes (e.g. social ceremonies etc.)

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- Exposure to Central or State Governments, Local Government bodies
- Borrowers who have been restructured under Resolution Framework 1.0 will be eligible for resolution 2.0, where the resolution plan under Framework 1.0 had permitted no moratorium or moratorium of less than 2 years and/or extension of residual tenor by a period of less than 2 years, only to extent of increasing the period of moratorium/ extension of residual tenor such that the total moratorium tenure/ extension of residual tenure granted under Framework 1.0 and Framework 2.0, does not exceed 2 years. No other change except this is allowed.
- Such other exclusions, over and above the exclusions mentioned in the Resolution Framework 2.0, as may be specified by the respective business teams.

### **How resolution of stressed assets is to be carried out:**

- The financial parameter recommendation by K V Kamath Committee for 26 sectors, under 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 for resolution under Resolution Framework 2.0.
- The resolution plans shall include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, granting of moratorium etc., based on assessment of income stream of the borrower.
- Moratorium period, and/or extension of the residual tenor of the loan facilities may be for a maximum of two years and shall come into force immediately upon implementation of the resolution plan.
- The Company shall invoke resolution process under the Restructuring 2.0 Notification after the review of the loan accounts, on or before September 30, 2021 (last date of invocation).
- The decision to invoke the resolution process shall be taken by the Company independent of invocation decisions taken by other LIs having exposure on the same borrower.
- The decision on applications received by the Company from their Borrowers for invoking restructuring shall be communicated in writing by the Company within 30 days of receipt of such applications.

### **Asset classification and provisioning**

- Accounts shall continue to remain “standard” upon implementation of resolution package.
- Accounts which may have slipped to NPA between invocation of resolution and implementation shall be upgraded to “standard” as on the date of implementation of the plan.
- Asset classification after implementation shall be as per applicable IRAC norms, depending on the behaviour of the asset.
- Additional facility provided to borrower between the period of invocation of plan till implementation shall be classified as standard till plan is implemented irrespective of repayment performance of the borrower for this facility, subject to plan has been implemented within stipulated timeline.
- Provisions, from the date of implementation, shall be higher of the provisions held as per IRAC norms immediately before implementation, or 10% of the renegotiated debt

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exposure of the lending institution post implementation (residual debt). The Company may apply Management overlay under ECL on such cases, subject to regulatory floor.

- 50% of the above provision may be written-back on borrower paying at least 20% of the residual debt without slipping into NPA, and the remaining half may be written back upon the borrower paying another 10% of the residual debt without slipping into NPA subsequently.
- Above provision in case of exposure other than personal loan 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.

**Note:** If resolution plan is not implemented within prescribed timelines, the asset classification of additional finance will be as per actual performance of the borrower or performance of his/ her other credit facilities, whichever is worse.

### Implementation of Resolution Plan

- Resolution plan should be finalized and implemented within 90 days from the date of invocation
- The resolution plan shall be deemed to be implemented only if all the following conditions are met:
  - Date of receipt of application should be captured
  - All related documentation is completed by the lender and the borrower;
  - Changes in the terms of conditions of the loans get duly reflected in the books of the Company;
  - Borrower is not in default with the lending institution as per the revised terms.

## Resolution of Covid-19 related stress of MSMEs under MSME Restructuring 2.0

### Eligible Borrowers

- Borrower is classified as MSME as on 31 March 21 in terms of MSME Ministry notification no. S.O. 2119(E) dated June 26, 2020. This should include the past cases as well.
- Borrower should be GST registered as on the date of implementation. However, GST registration shall not be mandatory for the exempted borrowers. For GST registration threshold calculation, turnover as on 31<sup>st</sup> March 2021 shall be considered.
- Aggregate exposure (fund and non-fund based) of banks and NBFCs as on 31 March 21 does not exceed Rs. 25 Cr.
- Account should be standard as on 31 March 21;
- Borrowers account should not have been previously restructured in terms of MSME Restructuring 1.0, circular no. RBI/2019-20/160.DOR.No.BP.BC. 34/21.04.048/2019-20 dated 11 February 2020 or circular no. RBI/2018-19/100 DBR.No.BP.BC.18/21.04.048/2018-19 dated 1 January 2019.
- Any other specific criteria for restructuring of any account, as prescribed under the applicable RBI guidelines/ circulars, issued from time to time, such specific criteria shall be fulfilled before restructuring is implemented.

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### **Invocation and implementation**

- Restructuring of MSME accounts shall be invoked by 30 September' 21.
- Restructuring 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.
- Decision on application for restructuring should be intimated to the borrower, in writing, within 30 days of receipt of request.
- Decision to invoke restructuring shall be taken by the lending institution independent of invocation decisions taken by other lending institutions.
- Restructuring shall be implemented within 90 days of invocation.
- In case the borrower does not already have Udyam Registration, the borrower needs to obtain the same before implementation of the resolution plan.

### **Asset classification and provisioning**

- Upon implementation of plan, Company shall keep provision of 10% of the residual debt of the borrower. The Company may apply Management overlay under ECL on such cases, subject to regulatory floor.
- Asset classification of borrowers classified as standard may be retained, 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 plan.
- Barring the one-time exception provided under RBI's circular dated 5 May 2021, any MSME account which is restructured must be downgraded to NPA upon restructuring and will slip into progressively lower asset classification and higher provisioning requirements as per extant IRAC norms. Such an account may be considered for upgradation to 'standard' only if it demonstrates satisfactory performance during the specified period<sup>2</sup>.

## **Resolution of Covid-19 related stress of Asset-based Finance borrowers**

### **Exclusions**

- Proposed contract should not be of customer who has gone legal against PFL
- Proposed asset should not be with any Third Party

## **Credit due-diligence and approval process for ABF Loans**

### **Viability Check**

- Borrower's cash flow assessment will be done to assess the viability

<sup>2</sup> 'Specified Period' means a period 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 under the terms of restructuring package. 'Satisfactory Performance' means no payment (interest and/or principal) shall remain overdue for a period of more than 30 days. In case of cash credit / overdraft account, satisfactory performance means that the outstanding in the account shall not be more than the sanctioned limit or drawing power, whichever is lower, for a period of more than 30 days

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- Compulsory Credit Calling
  - to assess the present situation and future plans
  - to ascertain the viability of business and/or cash-flow and income of the borrower
- Restructuring may include, among others, alteration of repayment period / repayable amount / the amount of instalments / rate of interest / sanction of additional credit facility / granting moratorium in repayment by way of reduced installments to the borrower after assessment of his present cash-flow situation. In cases where the borrower account had been restructured under Resolution Framework 1.0, the restructuring would involve only moratorium, where the overall period of moratorium, taking both Resolution Framework 1.0 and Resolution Framework 2.0, shall not exceed 2 years.

### **Credit Process:**

- To check aggregate debt size of a borrower should not exceed Rs.25 Crore as on March 31, 2021 by external de dupe report
- Physical and/or Tele verification to be done by the business / credit to assess whether the stress is due to Covid. Restructuring to be done only if the current stress is due to Covid
- Assessment will be based on the following factors:
  - Asset deployment and/or income status
  - Viability check by the credit
  - Revised tenure would be Balance Tenure in the existing loan + 2years

### **Approvals By**

- ACM and above & existing delegation matrix on loan amount would be applicable

### **Credit policy parameters:-**

- **Proposed Loan:** Fresh terms of the rehabilitated contract will be updated in the system. The re-structured contract will be tagged appropriately in PFL's system to facilitate identification of such contracts in the portfolio. The loans covered under the CGTMSE will be not be closed in the system and shall be re-structured for the outstanding and overdue principal portions only and appropriately tagged in the system to identify such contracts.
- **Loan Amount:** Proposed Loan Amount will cover the principal outstanding, overdue EMI and/or unrecovered charges, if not already cleared, as may be negotiated with the customer. Proposed loan amount for contracts covered under CGTMSE scheme will cover the outstanding and overdue principal amount only : no interest component and other accrued charges, if any shall be added to the principal to arrive at the re-structured loan amount under CGTMSE guaranteed contracts
- **Loan Tenure** Proposed tenure extension to be of maximum 24 months from the existing contract tenure. This total extension of tenure will be inclusive of the tenure already availed of at the time of Resolution Framework 1.0
- **Interest Rate:** There should not be any reduction in the interest rate. Any increase in the rate of interest will be decided by the business team as per the Pricing Grid for restructured loans Allied / Accrued Charges Foreclosure, ODI & other accrued charges to be collected upfront from the customer or built into the proposed loan amount of the restructured loan. Any waiver (by part or in full) will go through usual deviation matrix

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- **Processing Fees**, if any to be collected upfront from the customer. Any waiver (by part or in full) will go through usual deviation matrix

### **Documentation**

- Fresh / addendum agreement as decided by the Management and after considering lockdown conditions,, will be signed by all the parties to the parent contract and KYC, SPDC, ACH Mandate, etc. as applicable will be refreshed and/or re-validated. In case of any deceased party, the remaining parties of the parent contract will sign on the fresh / addendum agreement.
- Consent of the customer to be taken for restructuring and shall be documented in the file.

## **Credit due-diligence and approval process for SME Business Loan and LAP**

### **Viability Check**

- Borrower's cash flow assessment will be done to assess the viability
- Credit Calling
  - to assess the present situation and future plans
  - to ascertain the viability of business
- Restructuring may include, among others, alteration of repayment period / repayable amount / the amount of instalments / rate of interest / rollover of credit facilities / sanction of additional credit facility / enhancement of existing credit limits

### **Credit Process:**

- Aggregate debt size of a borrower should not exceed Rs.25 Crore as on March 31, 2021 - Generate the Commercial CIBIL for this requirement
- Physical / Video PD or Tele PD to be done by the credit to assess whether the stress is due to Covid. Restructuring to be done only if the current stress is due to Covid
- Assessment approach
  - Entities where business is re-started and expected to become normal in the near future
  - Fundamentally strong businesses & sustainable after Covid as per projections provided by the customer
  - Customer should be confident of making the future instalments with revised lower EMI basis the cash flow projections and stock & book debt position
  - Revised tenure would be Balance Tenure in the existing loan + 2years (Max tenure in any case is 60 months)
  - Any other parameter that the Company finds necessary to evaluate the viability of the resolution and the stress faced by the borrower.

### **Approving Authority**

- RCM and above & existing delegation matrix on loan amount would be applicable

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### Credit policy parameters:-

- **Proposed Loan:** All restructured contracts except for CGTMSE covered contracts will be booked only after closure of the parent loan so that only one contract is live at any point of time against a particular asset; The re-structured contract will be tagged appropriately in PFL's system to facilitate identification of such contracts in the portfolio.
- **Loan Amount:** Proposed Loan Amount will cover the principal outstanding, overdue EMI and/or unrecovered charges, if not already cleared, as may be decided by the business team.  
Proposed Loan Amount in case of CGS covered SME Business loan will cover the outstanding (including overdue principal amount). No interest component, other charges etc. to be added to the principal o/s to arrive at restructured amount under CGTMSE guaranteed accounts
- **Loan Tenure** Proposed SME Business Loan will be of max tenure of 60 months  
Proposed LAP Loan will be of max tenure of 240 months
- **Proposed Installment** can be with Principal Moratorium of up to 12 months however endeavour will be to bill and collect interest on a monthly basis.
- Tenor of the loan can be extended by up to 2yrs from the residual tenor of the loan. The customer's ability to repay the proposed instalment shall be checked and validated by credit through usual appraisal process before booking of any rehabilitated contract. Restructuring terms will be decided case to case basis;  
EMI relaxation of 20% to 80% or serving of interest only for next 12 months.
- **Interest Rate:** There should not be any reduction in the interest rate. Any increase in the rate of interest will be decided upon by the business team as per the Pricing Grid for restructured loans. Allied / Accrued Charges Foreclosure, ODI & other accrued charges to be collected upfront from the customer. It may be included inside the loan amount of the rehabilitated contract in case of LAP loans. Any waiver (by part or in full) will go through usual deviation matrix
- **Processing Fees,** if any to be collected upfront from the customer

### Documentation

- Fresh addendum agreement as decided by the management and after considering lockdown conditions, will be signed by all the parties to the parent contract and KYC, SPDC, ACH Mandate, etc. as applicable will be refreshed and/or re-validated. In case of any deceased party, the remaining parties of the parent contract will sign on the fresh / addendum agreement.
- Consent of the customer to be taken for restructuring and shall be documented in the file
- In case of LAP exposure, security documentation to be done as approved by Legal

### **Disclosure and Credit Reporting**

In case of resolution of individual, small business and MSME customer's, Company shall make disclosures as below:

- Company is required to make disclosure in financial statement for quarters ending September 30, 2021 and December 31, 2021 as per **format-X** of the RBI Circular (Refer Annexure-I of this Policy).

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- Any grievance of the customers from the redressal process as per this policy shall be redressed as per the Grievance Redressal Policy as uploaded on the website of the Company.
- Borrower accounts where resolution plans had been implemented in terms of the Resolution Framework 1.0 and further modifications sanctioned and implemented in terms of Resolution Framework 2.0 , the aggregate exposure of the lending institution to such borrowers shall be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.
- For MSME customers, the Company may make disclosure under 'Notes to Accounts' in pursuance of January 1, 2019 circular for restructuring of MSME customers in below format:

Number of MSME Accounts Restructured	Amount in Rs. Million

- Accounts restructured under this Policy shall be reported to CICs as "Restructured due to COVID-19".

## Uploading of Policy on the website

Immediately after the Policy is approved by the Board, Company shall upload the Policy on the website of the Company.

## Change Control Record

Version No.	Change Request by	Memorandum of Change	Approval date
-	-	Name of the Company changed to Poonawalla Fincorp Limited w.e.f 22.07.2021	-

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**Annexure – I**

**Format – X**

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			