



# Vreedhi Financial Services Private Limited

Resolution of Covid-19 related stress of Micro, Small  
and Medium Enterprises (MSMEs)

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# Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

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**FRAMEWORK:**

- In view of the uncertainties created by the resurgence of the Covid-19 pandemic in India in the recent weeks, RBI has decided to extend the facility for restructuring existing loans without a downgrade in the asset classification as per circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020.
- Vreedhi Financial Services Private Limited (VFS) lends to Micro Enterprises (MEs) in small cities and towns, majority of them being customer facing retail businesses i.e. Traders. However, few of other customers from Manufacturing and Service, might fall under the Micro category of MSME.

**RESOLUTION POLICY:**

- The restructuring facility may be extended subject to following conditions,
  - The borrower should be classified as a micro, small or medium enterprise as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020.
  - The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 31, 2021.
  - \*The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed ₹50 crore as on March 31, 2021.
  - The borrower's account was a 'standard asset' as on March 31, 2021.
  - The borrower's account was not restructured in terms of the circulars DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020; DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020; or DBR.No.BP.BC.18/21.04.048/2018-19 dated January 1, 2019 (collectively referred to as MSME restructuring circulars).

***\*Altered vide Board Approval dated June 17, 2021***

- The restructuring of the borrower account will be invoked by September 30, 2021. For this purpose, the restructuring shall be treated as invoked when VFS and the borrower agree to proceed with the efforts towards finalizing a restructuring plan to be implemented in respect of such borrower.
- A Resolution Committee consists of Executive Director, Chief Operating Officer, Head – Finance and Manager – Credit & Risk, shall evaluate such Applications of Resolutions, from the customer.
- The customers with genuine stress due to Covid, shall be eligible for applying for resolution, such as
  - Major Business disruption leading to notable loss of Income or Cash Flow issues due to, Health deterioration of customer or any of his family members
  - Lockdowns
  - Inadequate supplies or Supply chain disruptions
- A proper due diligence process shall be carried on by Business, Credit and Collection team, collectively for presenting the case to Committee, which may include but not limited to,
  - Receipt of restructuring application/request from the borrowers with genuine stress due to Covid
  - Field verification by TM and sharing the findings (in such field visit report) with supporting documents such as medical reports/Bank statement/UPI statement/any other document which substantiates the requirement of resolution
  - Further review by RCM and recommend of such resolution/restructuring/recast with precise parameters of change & relaxation, to be extended, for Credit Committee for approval/rejection
- The decisions on applications received by VFS from their customers for invoking restructuring under this facility shall be communicated in writing to the applicant by VFS within 30 days of receipt of such applications.
- The decision to invoke the restructuring under this facility shall be taken by VFS having exposure to a borrower, independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- The restructuring of the borrower account is implemented within 90 days from the date of invocation.
- If the borrower is not registered in the Udyam Registration portal, such registration shall be required to be completed before the date of implementation of the restructuring plan for the plan to be treated as implemented.

- Upon implementation of the restructuring plan, VFS shall keep provision of 10 percent of the residual debt of the borrower.
- 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.
- A restructuring would be treated as implemented if the following conditions are met:
  - All related documentation, including execution of necessary agreements between VFS and borrower / creation of security charge / perfection of securities are completed; and
  - The new capital structure and / or changes in the terms and conditions of the existing loans get duly reflected in the books of VFS and the borrower.
- Post-restructuring, NPA classification of these accounts shall be as per the extant IRAC norms.
- \*\*VFS shall mandatorily consider the following key ratios such as Total Outside Liabilities / Adjusted Tangible Net Worth (TOL/ATNW); Total Debt / EBITDA; Current Ratio; Debt Service Coverage Ratio (DSCR) & Average Debt Service Coverage Ratio (ADSCR) while finalizing the resolution plan in respect of eligible borrowers. Sector specific thresholds have been prescribed by the RBI. However, where the sector-specific thresholds have not been specified, VFS shall make its own internal assessments 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.
- VFS shall ensure the compliance to TOL/ATNW ratio by March 31, 2022 and on an ongoing basis thereafter. All other key ratios shall be complied by October 1, 2022.

**Sector-specific thresholds (ceilings or floors, as applicable) of key ratios for 26 sectors**

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	

**\*\* Altered vide Board Approval dated August 13, 2021**



**DISCLOSURES:**

- VFS shall make appropriate disclosures in its financial statements, under 'Notes on Accounts', relating to the MSME accounts restructured under these instructions as per the following format:

No. of accounts restructured	Amount (₹ in million)

Customers can reach our CLs for any assistance. In case of delay/ no response, customers can also reach Grievance Redressal Officer (details are available on company's website).

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