



# Vreedhi Financial Services Private Limited

Resolution of Covid-19 related stress of Small  
Businesses



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# Resolution of Covid-19 related stress of Small Businesses

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**FRAMEWORK:**

- 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, RBI has set the measures as ‘Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses’ vide RBI/2021-22/31 DOR.STR.REC. 11/21.04.048/2021-22 dated May 05, 2021.
- Since Vreedhi Financial Services Private Limited (VFS) lends to small businesses, mostly customer facing retailers (Traders), though few of the other borrowers may be defined as Micro under MSME, this resolution policy has been prepared in line with the extant guidelines applicable to target borrower for small business loans to traders. VFS does not lend any personal loans.

**RESOLUTION POLICY:**

- VFS shall offer a window to its borrowers, by which it may invoke resolution plans in respect of credit exposure.
- Such exposure shall be classified as Standard upon implementation of the resolution plan subject to the conditions specified in this policy.
- \*Individuals who have availed of loans for business purposes and to whom the lending institutions have aggregate exposure of not more than Rs.50 crore as on March 31, 2021, will be eligible for such window.
- 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, will also be eligible for such window

***\*Altered vide Board Approval dated June 17, 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) i.e. MSME, Farm Credit, PACS, financial service providers, government & such other central/state/local body establishments.

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 and the overall limit should not exceed two years.

Provided further that VFS loan/credit facility was Standard, as on March 31, 2021.

#### **INVOCATION OF RESOLUTION PROCESS:**

- VFS shall ensure that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19.
- A Resolution Committee consists of Executive Director, Chief Operating Officer, Head – Finance and Manager – Credit & Risk, shall evaluate such Applications of Resolutions, from the borrower.
- 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 decision on the application shall be communicated in writing to the borrower by VFS, within 30 days of receipt of such applications, post completion of assessment of eligibility for resolution as per the instructions contained in the referred RBI circular and this policy.
- The resolution process under this window shall be treated as invoked when VFS and the borrower agree to proceed with the efforts towards finalizing a resolution plan to be implemented in respect of such borrower.
- The decision to invoke the resolution process under this window shall be taken by VFS, independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- The last date for invocation of resolution under this window shall be September 30, 2021.
- \*\*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**

**FEATURES OF RESOLUTION PLANS AND IMPLEMENTATION:**

- The resolution plans implemented under this window may inter alia include rescheduling of payments, conversion of any interest accrued or to be accrued into another loan/credit facility, granting of moratorium etc. based on an assessment of income streams of the borrower.

- There shall be no compromise or settlements 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 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 resolution plan should be finalized 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 in Paragraph 10 of the Annex to the Resolution Framework – 1.0 are met. i.e.
  - all related documentation, including execution of necessary agreements between lending institutions and borrower and collaterals provided, if any, are completed by the lenders concerned in consonance with the resolution plan being implemented;
  - the changes in the terms of conditions of the loans get duly reflected in the books of the lending institutions; and,
  - borrower is not in default with the lending institution as per the revised terms.

**ASSET CLASSIFICATION AND PROVISIONING:**

- If a resolution plan is implemented in adherence to the provisions of this circular, 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 Directions (extant IRAC Norms)



- In respect of borrowers where the resolution process has been invoked, VFS is permitted to 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.
- VFS shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation/as per Provisioning Policy, or 10 percent of the renegotiated debt exposure of VFS post implementation (residual debt). Residual debt, for this purpose, will also include the portion of non-fund based facilities (if any) that may have devolved into fund based facilities after the date of implementation.
- 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.

**DISCLOSURES:**

- VFS shall disclose details of such resolutions in annual financial statements, along with other prescribed disclosures.

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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