

Restructuring Policy & Resolution Framework

Edelweiss Retail Finance Limited
CIN: U67120MH1997PLC285490
Regd. Office: Tower 3, Wing 'B',
Kohinoor City Mall, Kohinoor City,
Kiorl Road, Kurla (West),
Mumbai-400070, Maharashtra
www.edelweissretailfin.com

Resolution Framework for COVID-19-Related Stress

The economic fallout on account of the COVID-19 pandemic has led to significant financial stress for a number of borrowers across the board. The resultant stress can potentially impact the long-term viability of a large number of 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 the above, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, RBI has provided a window under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard subject to specified conditions. Such conditions are considered necessary to ensure that the facility of this resolution window is available only to the COVID-19 related stressed assets.

Further, in view of the continued need to support the viable MSME^{*1} entities on account of the fallout of COVID-19 and to align these guidelines with the Resolution Framework for COVID 19 – related Stress announced for other advances, RBI has decided to extend the scheme permitted vide circular dated August 6, 2020, RBI has allowed to extend the one-time restructuring of MSME advances permitted in terms of the RBI circular dated February 11, 2020. The Resolution Framework may be invoked for resolution of all exposures of lending institutions to eligible borrowers, including investment exposures that are credit substitutes like corporate bonds, commercial papers etc. However, the Resolution Framework is without prejudice to all applicable guidelines issued by the relevant financial sector regulators and other Departments of the RBI in respect of any particular exposure.

In view of the foregoing, Edelweiss Retail Finance Limited (“the Company”) may restructure the loans of its borrower within the overall framework provided by RBI vide circular dated August 6, 2020 - Resolution Framework for COVID-19-Related Stress and circular dated August 6, 2020 - Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances, as amended from time to time

A. Restructuring of MSME Loans

A one-time restructuring of existing loans to MSMEs^{*1} classified as 'standard' without a downgrade in the asset classification is permitted, subject to the following conditions:

- a) The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹25 crore as on March 1, 2020.
- b) The borrower's account was a 'standard asset' as on March 1, 2020.
- c) The restructuring of the borrower account is implemented on or before March 31, 2021.
- d) 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 1, 2020.
- e) Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between March 2, 2020 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan. The asset classification benefit would be available only if the restructuring is done as per provisions of this circular.

- f) As hitherto, for accounts restructured under these guidelines, Company shall maintain additional provision of 5% over and above the provision already held by it.

**1 Note-as defined under Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006*

The resurgence of COVID-19 pandemic (Second Wave) 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 MSMEs sector, the following measures are announced by RBI via Circular No RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 dated May 05, 2021 - Resolution Framework 2.0 – Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs) and further RBI Circular No. RBI/2021-22/47 DOR.STR.REC.20/21.04.048/2021-22 dated June 04, 2021 on Revision in the threshold for aggregate exposure and as per any further RBI's direction in this regard from time to time.

It has been decided to extend one-time restructuring existing loans without a downgrade in the asset classification subject to the following conditions:

- i. 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.
- ii. 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.
- iii. 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.
- iv. The borrower's account was a 'standard asset' as on March 31, 2021.
- v. 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) or the circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on "Resolution Framework for COVID-19-related Stress.
- vi. The restructuring of the borrower account is invoked by September 30, 2021.
- vii. The restructuring of the borrower account is implemented within 90 days from the date of invocation.
- viii. 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. Certificate of Udyam Registration should be part of loan documentation for implementation.
- ix. Upon implementation of the restructuring plan, the lending institutions shall keep provision of 10 percent of the residual debt of the borrower.
- x. All other instructions specified in the circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 shall remain applicable.

It may be noted that 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.

In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, lending institutions are permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. The decision with regard to above shall be taken by lending institutions by September 30, 2021. The reassessed sanctioned limit / drawing power shall be subject to review by the lending institution at least on a half yearly basis and the renewal / reassessment at least on an annual basis. The annual renewal/reassessment shall be expected to suitably modulate the limits as per the then-prevailing business conditions.

The restructuring cases as per above must satisfy that the same is necessitated on account of the economic fallout from COVID-19.

B. Resolution of Stress in Personal Loans

Coverage - Personal loans sanctioned to individual borrowers (first applicant). ^{*2}

However, credit facilities provided to own personnel/staff shall not be eligible for resolution under this framework.

Personal loans refers to loans given to individuals with no related company/non individual entity has been taken as co-borrower on the loan structure to supplement the income for repayment of loan and consist of (a) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), personal loans granted only to Individuals secured by immovable property is in name of individual (other than for business / commercial purposes), (b) personal loans to professionals (excluding loans for business purposes), and (c) loans given for other consumptions purposes (e.g., social ceremonies, etc.)

^{*2}Note: 'Personal loans', shall have the same meaning as defined in the [Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018](#) on "XBRL Returns – Harmonization of Banking Statistics".

Eligibility - Loan accounts classified as 'standard', but not in default for more than 30 (thirty) days as on March 1, 2020.

The eligible borrowers' accounts should continue to be classified as Standard till the date of invocation of resolution under this framework. For this purpose, the date of invocation shall be the date on which both the borrower and the Company have agreed to proceed with a resolution plan under this framework.

Timeline - Resolution under this framework may be invoked not later than December 31, 2020 and must be implemented within 90 days from the date of invocation.

Nature of Restructuring - The resolution plans may include rescheduling of payments, conversion of interest accrued/ to be accrued into another credit facility, or, granting of moratorium, based on an assessment of income streams of the borrower, subject to a maximum of 2 (two) years. Correspondingly, the overall tenor of the loan may also get modified commensurately. The moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan.

Approval – Restructuring to be approved as per applicable sanctioning authority matrix.

The resolution plan will be deemed to be implemented only after all the necessary documentation is completed, the revised terms are reflected in the books of the relevant Lenders and the borrower is not in default as per the revised terms.

Resolution Framework – 2.0: Resolution of COVID-19 related stress of Individuals and Small Businesses (RBI Circular No - RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 dated May 05, 2021) and further RBI Circular No. RBI/2021-22/46 DOR.STR.REC.20/21.04.048/2021-22 dated June 04, 2021 on **Revision in the threshold for aggregate exposure** and as per any further RBI's direction in this regard from time to time.

The Company is permitted to offer a limited window to individual borrowers and small businesses to implement resolution plans in respect of their credit exposures while classifying the same as Standard upon implementation of the resolution plan subject to the conditions specified hereafter.

Eligible borrowers:

- a. Individuals who have availed of personal loans (as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on "XBRL Returns – Harmonization of Banking Statistics"), excluding the credit facilities provided by lending institutions to their own personnel/staff.
- b. Individuals who have availed of loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than Rs.50 crore as on March 31, 2021.
- c. 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.50 crore as on March 31, 2021.
- d. The credit exposure to the borrower should be standard as on 31st March 2021.
- e. The borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0 (Resolution Framework for COVID-19-related Stress dated August 06, 2020)

Aggregate exposure means both funded and non-funded exposures of all facilities of lending institutions. Categories of borrower, who are satisfying the definition of being classified as MSME as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020 will be restructured under Resolution Framework 2.0 – Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

The last date for invocation of resolution permitted under this window is September 30, 2021. The decision on the application shall be communicated in writing to the applicant by the lending institutions within 30 days of receipt of such applications.

The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window.

Permitted 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 credit facility, revisions in working

capital sanctions, granting of moratorium etc. based on an assessment of income streams of the borrower. However, compromise settlements are not permitted as a resolution plan for this purpose. The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years and shall come into force immediately upon implementation of the resolution plan.

Convergence of the norms for loans resolved previously:

In cases of loans of borrowers where resolution plans had been implemented in terms of the Resolution Framework – 1.0 (Resolution Framework for COVID-19-related Stress dated August 06, 2020) , 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 the overall caps of two years (Both Resolution Framework 1.0 & 2.0 combined).

Resolution plan as above to be approved as per applicable sanctioning authority matrix.

Working capital support for small businesses where resolution plans were implemented previously

- In respect of borrowers specified at sub-clauses (b) and (c) of Clause 5 above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, lending institutions are permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. 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.
- 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.
- Lending institutions may, accordingly, put in place a Board approved policy to implement the above measures, which should be disclosed in the public domain and placed on their websites in a prominent and easily accessible manner.

C. Resolution of Stress in Real Estate Loan

The economic fallout on account of the COVID-19 pandemic has led to significant financial stress on Real Estate Developers across the board. The resultant stress can potentially impact the long-term viability of many projects, otherwise having a good track record under the existing promoters, due to disproportionate delay in project execution resulting from a slowdown in sales and collections. Such widespread impact could impair the entire recovery process, posing significant financial stability risks. Considering the above, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, RBI has provided a window under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible exposures, while classifying such exposures as Standard subject to specified conditions. Such conditions are considered necessary to

ensure that the facility of this resolution window is available only to the COVID-19 related stressed assets.

Further, in view of the continued need to support the viable Developers on account of the fallout of COVID-19 and to align these guidelines with the Resolution Framework for COVID 19 – related Stress announced on August 6, 2020 as a special window under the Prudential Framework on Resolution of Stressed Assets issued on June 7, 2019.

The framework enables lending institutions including NBFCs, which are an essential part of the lenders' pool under this Framework, to implement a Resolution Plan (RP) in respect of eligible corporate exposure even without change in ownership while classifying such exposure as Standard, subject to specified conditions.

Eligibility:

- Resolution under this Framework extended only to borrowers having stress on account of COVID-19.
- Only those borrowers which were classified as standard and with arrears less than 30 days as at March 1, 2020 are eligible under the Framework.

Invocation Date and implementation:

- Resolution Framework may be invoked not later than December 31, 2020.
- RP needs to be implemented within 180 days from the date of invocation.

Signing of ICA and provision requirements:

- Resolution process shall be treated as invoked once lenders representing 75% by value and 60% by number (Majority Lenders) agree to invoke the same.
- ICA to be signed by all lenders as specified in the RBI circular - Resolution Framework for COVID-19-related Stress dated August 06, 2020 within 30 days of invocation. Other Lenders may also voluntarily sign the ICA
- Lenders who have signed ICA, to make provision, higher of 10% or IRAC norms.
- Lenders who have not signed ICA, to make a provision higher of 20% or as per IRAC norms, upon expiry of 30 days from invocation.
- For signing of ICA – Authorisation for resolution plan and loan sanctioning matrix applicable from time to time will follow.

Guidelines:

- The residual tenor of the loan may be extended by maximum 2 years with or without payment moratorium. The moratorium period, if granted, shall come into force immediately upon implementation of the RP.
- The asset classification may be maintained as standard or upgraded to standard subject to the RP being implemented as per the Framework.
- For aggregate exposures greater than Rs. 100 cr, an Independent Credit Evaluation (ICE) to be obtained from any one Credit Rating Agency authorised by RBI, credit opinion should of RP4 or better.
- Sale of the exposures to other entities / investors will be as per extant guidelines of RBI.
- Granting additional finance including FILT may also be considered under the RP.

D. Resolution of Stress in other Loans

Coverage - all other eligible exposures not covered in Part 'A', 'B' and "C" above.

Eligibility - loan accounts classified as 'standard', but not in default for more than 30 (thirty) days as on March 1, 2020. Further, the account continue to be classified as Standard till the date of invocation of resolution under this framework. For this purpose, the date of invocation shall be the date on which both the borrower and the Company have agreed to proceed with a resolution plan under this framework.

Timeline - 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.

Assessment Parameters:

Assessment parameters of such loans will be in line with RBI COVID related guidelines including recommendations of K V Kamath's Committee as applicable.

Conversion into other securities and valuation:

1. Conversion of portion of debt into equity or other marketable, non-convertible debt securities, provided amortisation schedule and the coupon carried by such debt securities are similar to the terms of the debt held post implementation of the RP.
2. Valuation of debt securities as per Master Circular on Valuations dated 1 July 2015
3. Valuation of equity instruments same as defined in 7 June 2019-Prudential Framework.
4. In case of conversion of debt to any other security – collective valuation to be INR 1/-.

Other Conditions:

Resolution plans in respect of accounts where the aggregate exposure of the lending institutions at the time of invocation of the resolution process is `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.

Resolution Plan involving consortium or multiple banking arrangements -

- the resolution process shall be treated as invoked in respect of any 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.
- ICA shall be required to be signed by all lending institutions within 30 days from the date of invocation;
- 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.

Asset Classification and Provisioning

The loans restructured/resolution plan provided under RBI circular on Resolution Framework for COVID-19-related Stress dated August 6,2020, the asset classification & provisioning norms will be as per Part C of the said circular and for the other restructured cases, will be as per the applicable RBI guidelines, as applicable from time to time in this regard.

Overarching Principles

For loans not covered/qualified above if any, will be restructured as per the guidelines of the RBI, prevailing time to time.

Performance post implementation of Plan

In case of personal loans, after implementation of the resolution plan, the subsequent asset classification will be governed as per the extant IRAC norms or other relevant instructions as applicable to the specific category of the Company.

In case of exposures other than personal loans, any default by the borrower with any of the ICA signatories during the monitoring period will trigger a review period of 30 days. For this purpose, 'monitoring period' means the period starting from the date of implementation of the resolution plan till the borrower pays 10% of the residual debt, subject to a minimum of 1 year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with the longest moratorium period.

In the event the borrower is in default with any of the ICA signatories at the end of the aforesaid review period, the asset classification of the borrower with all the Lenders, including the non-ICA signatories, will 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.

If the monitoring period is over without the account being classified as NPA, the asset classification norms will revert to the criteria laid out in the extant IRAC norms or other relevant instructions as applicable to the specific category of Lenders.

Disclosure Requirements & Credit Reporting

Quarterly, half yearly and annual disclosures in the financial statements (as the case may be) shall be made by the Company in the prescribed format as given by RBI from time to time till all exposures on which resolution plan was implemented are either fully extinguished or completely slips into NPA, whichever is earlier.

Further, the credit reporting in respect of borrowers where the resolution plan is implemented under this window shall reflect the “restructured due to COVID_19” status of the account.

Grievance Redressal System:

The company's Grievance redressal Policy as published in the website time to time will be applicable for borrowers who request for resolution under the window and / or are undergoing resolution under this window.

Annexure I – MSME Definition

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

(i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;

(ii) A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and

(iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O.1722 (E) dated October 5, 2006.

(b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below:

(i) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;

(ii) A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and

(iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

Ministry of Micro, Small and Medium Enterprises vide Gazette notification dated June 26, 2020 had notified certain criteria for classifying the enterprises as micro, small and medium enterprises and specifies the form and procedure for filing the memorandum known as Udyam Registration, with effect from the 1st day of July, 2020, namely:-

Classification of Enterprises-

An enterprise shall be classified as a micro, small or medium enterprise on the basis of the following criteria, namely:--

A **micro enterprise**, where the investment in plant and machinery or equipment does not exceed Rs.1 crore and turnover does not exceed Rs.5 crore;

A **small enterprise**, where the investment in plant and machinery or equipment does not exceed Rs.10 crore and turnover does not exceed Rs.50 crore; and

A **medium enterprise**, where the investment in plant and machinery or equipment does not exceed Rs.50 crore and turnover does not exceed Rs.250 crore.

Pursuant to RBI clarification Circular dated August 21, 2020, all Enterprises are required to register online and obtain Udyam Registration Certificate. The existing Entrepreneurs Memorandum (EM) Part

II and Udyog Aadhaar Memorandum of the MSMEs obtained till June 30, 2020 shall remain valid till March 31, 2021. Further, all enterprises registered till June 30, 2020, shall file new registration in the Udyam Registration Portal well before March 31, 2021.

Udyam Registration Certificate issued on self-declaration basis for enterprises exempted from filing GSTR and / or ITR returns will be valid for the time being upto March 31, 2021.

Annexure II

S.No.	Sectors- K V Kamath Committee	ECLGS 3.0 Sectors
1	Power	Hospitality
2	Construction	Travel & Tourism
3	Iron & Steel Manufacturing	Leisure
4	Roads	Sporting
5	Real Estate	
6	Trading-Wholesale	
7	Textiles	
8	Chemicals	
9	Consumer Durables	
10	Non-ferrous Metals	
11	Logistics	
12	Gems & Jewellery	
13	Cement	
14	Auto Components	
15	Hotel, Restaurants, Tourism	
16	Mining	
17	Plastic Products Manufacturing	
18	Automobile Manufacturing	
19	Auto Dealership	
20	Aviation	
21	Sugar	
22	Port & Port services	
23	Shipping	
24	Building Materials	
25	Corporate Retail Outlets	