NOTE ON RESTRUCTURING - STRESS DUE TO COVID 19

Background: In continuation to the note on restructuring presented earlier during the last Board Meeting we now seek approval for one-time restructuring (OTR) of loans under the RBI Resolution Framework for COVID 19 related stress for the set of selected accounts basis RBI and Internal selection criteria:

We have received additional information through FAQs and clarification received from MFINs:

a) Exclusion of Farm Credit: It has now been clarified that "All farm credit exposures of all lending institutions, including NBFCs, of the nature listed in Paragraph 6.1 of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as updated), (except for loans given to allied activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture) are excluded from the scope of resolution framework. **Therefore, allied Agri-loan given are eligible for restructuring.**

b) Clarity on Categorization of JLG Loans under Part A & Part B: It remains the same as mentioned in prudential framework that all loans that could be categorized as Personal Loan as per the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on "XBRL Returns – Harmonization of Banking Statistics" could be categorized under Part A & the rest under Part B. Only additional condition for loans falling under Part B is the requirement to enter on an Inter Creditor Agreement (ICA) in case the borrowing is having loan facilities from multiple lenders. No response from RBI yet on ICA, MFIN had in its representation to the Governor dated 29th September 2020 had stated that restructuring of microfinance loans be approached with "the spirit rather than the letter" as otherwise it will be a difficult situation to handle on the ground for MFI's.

c) Provisioning for Institutions following IND AS: RBI in its response to MFIN and through FAQs has advised that NBFCs which are required to comply with Indian Accounting Standards (INDAS) would be guided by the guidelines duly approved by their Board and as per ICAI Advisories for recognition of significant increase in credit risk and computation of Expected Credit Losses (ECL). However, the various additional provisions mentioned in the circular dated August 6, 2020 would constitute the prudential floors for the purpose of Paragraph 2 of the Annex to the circular DOR (NBFC).CC.PD.No.109/22.10.106/2019-20 dated March 13, 2020 on Implementation of Indian Accounting Standards. The various additional provisions prescribed under the resolution framework are specific provisions to be maintained in respect of each exposure under consideration.

   As per this framework, the institution should maintain a provision as per income recognition and asset classification (IRAC) norms or 10% whichever is higher in case of a Personal loan/Other loans under Part B & 5% over and above existing provision in case of MSME.

   Now as per this clarification, institutions following INDAS should hold higher of INDAS provision or IRAC provision as stated above.

Selection:

With the above clarifications, we propose to provide OTR to 28,523 loan accounts amounting to principal outstanding (POS) of INR 53.31 Crores. The classification of the above set of loan accounts are given below:

Category	No of Loans	POS as of 13th Dec 2020
Non- Agri – Eligible	28,479	53,24,78,382
31-60 DPD	14,764	28,08,78,187
61-90 DPD	13,715	25,16,00,195
Agri Allied – Eligible	44	6,54,614
31-60 DPD	19	2,45,919
61-90 DPD	25	4,08,694
Grand Total	**28,523**	**53,31,32,996**

These accounts were arrived after excluding loan accounts as per exclusion criteria stipulated in framework. The date of Invocation of loan account is 13th Dec 2020.

a) Selected loan accounts are less than 30 days DPD as on 29th February 2020
b) Excluded all loan accounts whose loan purpose is agriculture.
c) Excluded all loan accounts which are more than 90 days DPD (As per the condition that loan account **should be standard on the date of invocation i.e 13th Dec 2020**). The number of eligible accounts would vary on changing date of invocation as more accounts would move past 90 days DPD and few accounts which are currently 90+ DPD would fall back to 31-90 days DPD.

In addition to the above, RBI vide its Circular dated 06th Aug 2020 on Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances allows restructuring of MSME exposures that have slipped into NPA category between March 2, 2020 and date of implementation. These exposures may be upgraded as 'standard asset', as on the date of implementation.

Accordingly, we have identified below pool of assets for implementation of restructuring under the aforesaid MSME related circular: -

Category	No of Loans	POS as of 13th Dec 2020
Non- Agri – Eligible		
>90 days DPD	2326	5,18,61,604
Agri Allied – Eligible		
>90 days DPD	13	2,17,796
Grand Total	**2339**	**5,20,79,400**

Type of Restructuring: We propose to extend loan tenure (last due date of restructured loan to be on or before 31st August 2022 – maximum two years extension permissible as per framework) for these identified loan accounts by reducing EMI.

Group Dynamics:

Given below the group segregation for these 28,523 loan accounts:

- 8,623 loan accounts fall under Non-JLG products
- 19,900 loan accounts belong to JLG, of which
  - 3,321 loan accounts constitute entire group
  - 16,579 loan accounts form partial group

Rationale: These loan accounts identified have higher probability to move into Stage 3 before 31st March 2021 and therefore needs higher ECL provision (Stage 3). Upon OTR these loan accounts (since the date of invocation is on or before 31st December 2020 & to be implemented well before 31st March 2021), these loan accounts would be upgraded as Standard (reset to 0 DPD, reported to credit bureaus as restructured and disclosed in financial statements as directed by RBI). Though these loans are reset to Zero, thereby requires a lower loan loss provision of Stage 2 as we have adopted INDAS provisions as stated in earlier para c above.

Post OTR, these loans would be treated as individual loans.