Resolution Framework 2.0 – for Dealers & Non Dealer Corporate (NDC)

Contents

1. Name of the Scheme

Resolution Framework for COVID-19-related Stress for Dealer / Non Dealer Corporate (NDC).

2. Basis

This document is based on:

1. RBI Circular – Resolution Framework for COVID-19 related Stress issued vide notification no. RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21 on August 6, 2020 **and**

2. Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individual and small business issued vide notification no. RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 dated 5th May 2021

3. Purpose of the Scheme

Resurgence of Covid-19 pandemic in India since March 21 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 announced revised set of measures for allowing restructuring to individual & Small Business customer under the Resolution Framework 2.0 dated 5th May 2021.

Above measures are broadly in line with earlier release Framework - 1.0, with certain modifications.

4. Eligible Entity

a. The following borrowers shall be eligible for the resolution process under Resolution Framework 2.0:

   1. Dealers & Non Dealer Borrowers whose businesses are impacted due to COVID 19 **and**
   2. whose aggregate exposure to VWFPL is less than Rs.25 crore as on March 31, 2021 **and**
   3. Only those borrower accounts which were classified as standard, and not in default for more than 30 days with VWFPL as on March 31, 2021.

b. The below categories of borrower are **not eligible** for a resolution plan under this framework:
   1. Dealer and Non Dealer Borrowers those are classified as micro, small and medium enterprises as on March 31, 2021,
   2. MSME enterprises included under the resolution framework for MSME Sector restructuring of advances are excluded from this policy

c. The accounts should continue to remain standard till the date of invocation.

d. Resolution under this framework may be invoked not later than September 30, 2021 and must be implemented within 90 days from the date of invocation.

5. Restructuring Process

The restructuring process under Resolution Framework 2.0-Resolution of covid-19 related stress will be treated as invoked only when VWFPL and the borrower agree to proceed with the efforts towards finalizing a restructuring plan to be implemented in respect of the borrower.

Once the restructuring plan is invoked, Final decision on Borrower’s application will be communicated by VWFPL in writing to within 30 days of receipt of such applications.

VWFPL will have at their discretion, to decide whether or not to invoke the restructuring under this facility independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.

6. Resolution Plan

The Resolution Plan may involve any action / plan / reorganization including, but not limited to, regularization of the account by payment of all overdue by the borrower entity, sale of the exposures to other entities / investors, change in ownership and restructuring. The Resolution Plan shall be clearly documented by the lenders concerned.

(Note: Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of payment period / payable amount / the amount of instalments / rate of interest; roll over of credit facilities; sanction of additional credit facility/ release of additional funds for an account in default to aid curing of default / enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months.)

RBI has further clarified that 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.

Any Compromise settlement is outside purview of this guideline. The same will be governed by Prudential Framework on Restructuring issued by RBI.

The lending institutions may allow extension of the residual tenor of the loan, with or without payment moratorium, by a period not more than two years. The overall caps on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall be two years.

The moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan.

Borrower account where resolution plans was already implemented as per Resolution Framework – 1.0, RBI has allowed as a one-time measure, to review the working capital sanctioned limits and based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring.

The Timeline to implement resolution plan is 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.

6.1 Additional Criteria

1. VWFS will assess the viability of the borrower to pay the restructured amount basis the documents provided before granting the restructuring.
2. Viability calculation, repayment track record of borrower will be factored in restructuring decision.
3. Key Ratios to be assessed – Total Outside Liability/ Adjusted Tangible Net worth, Total Debt/EBITDA, DSCR, ADSCR, Current Ratio. Any deviation on the key ratios can be approved in CCM.
4. VWFS will assess the cash flows in subsequent years

6.2 Definitions of Key Ratios

Key Ratio	Definitions
TOL/ATNW	(Long Term Debt + Short Term Debt + Current Liabilities + Provision + Deferred Tax Liabilities)/ (Tangible Net worth – Investment & Loan in Group and outside entities)
Total Debt/EBIDTA	(Long Term Debt + Short Term Debt)/ (Profit Before Tax + Interest + Finance Charges + Depreciation + Amortisation)
Current Ratio	Current Asset/Current Liabilities
Debt Service Coverage Ratio	(Net Cash Accrual + Interest + Finance Charges) / (Interest & Finance Charges + Current Year Long Term Debt Repayment)
Average Debt Service Coverage Ratio	DSCR over period of the loan

7. Decision Authority on Resolution Plan

All decision on such facility and Planning Process are to be taken in Credit Committee Meeting (CCM) where Risk & Collection are also to be there to vote their decision on the same.

7.1. Execution & Implementation

Credit team will review and prepare resolution plan. The same will be approved in CCM. Execution and Implementation will be a responsibility of sales/Credit/Collection depends on location & case to case basis.

Dealers can be communicated about such plan from VWFS by Sales/Credit Team whereas for NDC cases the same can be communicated by Collection team to help them out from the difficult situation they are in.

8. Post Implementation Performance

The compliance in regard to meeting the agreed ratios must be monitored as financial covenants on an ongoing basis, and during subsequent credit reviews. Any such breach not rectified within a reasonable period, in terms of the loan contract, will be considered as financial difficulty.

Monitoring period, for this purpose, is defined as the period starting from the date of implementation of the resolution plan till the borrower pays 10 percent of the residual debt, subject to a minimum 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.

Monitoring of Dealers will be the responsibility of credit team whereas for NDC cases responsibility with collection team.

If any time line is breached at any point of time, the resolution process ceases to apply immediately in respect of the borrower concerned and Prudential guideline will be applicable as if resolution process was never invoked.

9. Disclosure Requirements

The number of borrower accounts where modifications were sanctioned and implemented and the aggregate exposure of the lending institution to such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.

Lending institutions publishing quarterly financial statements shall make disclosures in financial statements as per the format prescribed in Format-X for the quarters ending September 30, 2021 and December 31, 2021.

10. Credit Reporting

The credit reporting by the lending institutions in respect of borrowers where the resolution plan is implemented under this facility shall reflect the "restructured due to COVID-19" status of the account if the resolution plan involves renegotiations that would be classified as restructuring under the Prudential Framework. The credit history of the borrowers shall consequently be governed by the respective policies of the credit information companies as applicable to accounts that are restructured.

11. Asset Quality & Provision

If a resolution plan is implemented in adherence to the provisions of this facility, 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 plan.

The subsequent asset classification for such exposures will be governed by the criteria laid out in the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015 or other relevant instructions as applicable to specific category of lending institutions ("extant IRAC norms").

On implementation of the resolution plan, the lending institution shall keep provisions from the date of implementation of the resolution plan as per the extant IRAC Norms immediately before implementation or 10% of the renegotiated debt exposure of the lending institution post implementation (residual debt). Residual debt, for this purpose, will also include the portion of non-fund based facilities that may have devolved into fund based facilities after the date of implementation.

Additional finance to borrowers in respect of whom the resolution plan has been invoked, if sanctioned even before implementation of the plan in order to meet the interim liquidity requirements of the borrower, may be classified as 'standard asset' till implementation of the plan regardless of the actual performance of the borrower with respect to such facilities 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 the additional finance or the rest of the credit facilities, whichever is worse.

The additional provisions maintained, if any, by lending institutions in terms of the circular DOR.No.BP.BC.63/21.04.048/2019-20 dated April 17, 2020 in respect of such borrowers, to the extent not already reversed, may be utilized for meeting the provision requirements in all case under this facility.

Any additional provisions maintained in terms of Paragraph 17 of the Prudential Framework (additional provision done for violation of timelines given in any other Resolution Plan), wherever applicable, may be reversed at the time of invocation of the resolution plan under this facility.

However, if the plan is not implemented within 90 days from invocation, provisions as per the Prudential Framework shall be required to be maintained, as if a resolution process was never invoked under this window.

12. Reversal of Provisions

In case of resolution of exposures, for the provisions maintained by lending institution - half of the above provisions may be written back upon the borrower paying at least 20 percent of the residual debt without slipping into NPA post implementation of the plan, and the remaining half may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently.

However, in respect of exposures other than personal loans, the provisions shall not be written back before 1 year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with the longest period of moratorium.

13. Customer Support

Customer Service department will be primarily responsible to handle any customer complaint / request pertaining to Resolution as per RBI Norms. Credit & Collection department will provide support to Customer service department & provide required information on timely basis to Customer Service department

Customer can reach Customer service department on
Customer Helpline number: +912239521212 or alternatively
email at CustomerCare.India@vwfs.com.
Escalation matrix is provided on company's website: www.vwfs.co.in