

Suryoday Small Finance Bank Limited

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

Version: FY: 21-22/1.0

Policy Version Control:

Version	Board Approval Date	Author	Maintained by
FY 21-22/1.0	27 th May 2021	Yogesh Dixit	Risk & Policy

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1. Background

- i. RBI issued Circular No RBI/2021-22/32 DOR.STR.REC.12/21.04.048/2021-22 dated May 5, 2021 on Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs) (**Annexure I**) and advised lending institutions to put in place a Board approved policy for restructuring of MSME advances under the aforementioned instructions at the earliest, and in any case not later than a month from the date of the circular.
- ii. It may be recalled that during FY 2020 21, the Bank had already put in place a Board approved policy for restructuring of MSME advances without a downgrade in the asset classification subject to certain conditions mentioned in RBI Circular No RBI/2020-21/17 DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 on 'Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances' (**Annexure II**). Bank restructured accounts of eligible and deserving MSME borrowers under the policy. As per the RBI Circular and the Bank's policy the last date of implementation of the borrower account was March 31, 2021.
- iii. In view of the uncertainties created by the resurgence of the Covid-19 pandemic in India, RBI decided to extend the facility for restructuring existing loans without a downgrade in the asset classification subject to the eligibility conditions mentioned below.

2. Eligibility and other terms

- 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 based on 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 ₹25 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).
- vi. The restructuring of the borrower account is invoked by September 30, 2021. For this purpose, the restructuring shall be treated as invoked when the Bank and the borrower agree to proceed with the efforts towards finalising a restructuring plan to be implemented in respect of such borrower. The decision to invoke the restructuring under this facility shall be taken by each lending institution having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.

- vii. The decisions on applications received by the Bank from customers for invoking restructuring under this facility shall be communicated in writing to the applicant by the Bank within 30 days of receipt of such applications.
- viii. The restructuring of the borrower account is implemented within 90 days from the date of invocation.
- ix. 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.
- x. The restructuring measures shall be contingent on the Bank satisfying themselves that the same is necessitated on account of the economic fallout from Covid-19.
- xi. The Bank shall ensure that the resolution under this facility is extended only to borrowers having stress on account of Covid19.
- xii. All other instructions specified in the circular DOR.No.BP.BC.4/21.04.048/2020-21 dated August 6, 2020 shall remain applicable (**Annexure III**).

3. Identification of borrowers for coverage under the Policy

- i. Coverage of borrowers under the Resolution Framework will be decided based on the detailed guidelines mentioned above and the linkage of stress caused by COVID-19 pandemic.
- ii. Identification of Stress:
 - a) By Bank: Before a borrower account turns into Non-Performing Asset (NPA), Bank shall identify incipient stress based on various indicators, delay in repayment of EMIs/dues and continuing overdue in special mention account (SMA) i.e., SMA 0, SMA 1 and SMA 2. Based on the account specific condition, the Credit team shall consider the stressed accounts for restructuring. As mentioned in para 5 (ii) below 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. Hence, eligible NPA accounts (which were standard as on March 31, 2021) with viable business proposition may be considered for restructuring.
 - b) By borrowing entity: Any borrower may voluntarily approach the Bank and its other lenders and initiate discussion under this resolution framework if the enterprise reasonably apprehends failure of its business or its inability or likely inability to pay debts.

4. Credit Assessment and other terms

- i. 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 repayment period / repayable amount / the amount of instalments / rate of interest / rollover of credit facilities / sanction of additional credit facility / enhancement of existing credit limits / compromise settlements.

- ii. The business operations should be prima facie viable, and the borrower should not be fraudulent or a wilful defaulter, i.e., there should not be any diversion of funds, fraud, or malfeasance, etc.
- iii. In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, Bank is 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 about above shall be taken by the Bank by September 30, 2021. The reassessed sanctioned limit / drawing power shall be subject to review by the Bank at least on a half yearly basis and the renewal / reassessment at least on an annual basis.
- iv. The above measures shall be contingent on the Bank 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 about their justifiability on account of the economic fallout from Covid-19.

Personal Guarantee and Declaration

Commitment from borrowers/promoters to be obtained for extending their personal guarantee along with CA Certified / self-declared net worth statement as provided in the product note approved by Product Approval Committee.

- (i) In case the borrower/promoters are reluctant to offer personal guarantee, the matter will be examined and decided appropriately keeping in view whether personal guarantees have been offered in the past/ proposed to be offered under the resolution plan, to other lenders and /or any other factor which hinders the borrowers/promoters from offering such guarantee.
- (ii) Borrowers to undertake (through Agreement or declaration) that the borrower would not undertake any transaction that would alienate assets without the permission of the Bank.

5. Prudential Norms on Asset Classification and Provisioning

- i. Upon implementation of the restructuring plan, the Bank shall keep provision of 10 percent of the residual debt of the borrower.
- ii. In respect of restructuring plans implemented, 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.

6. Disclosures and Credit Reporting

Banks shall make appropriate disclosures in their 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)

7. Credit Approval and Monitoring

- i. All cases to be reviewed and recommended by Executive Credit Committee (ECC) for approval by MD&CEO or Credit Committee of the Board as per the Delegation of Powers (DOP) based on restructured debt exposure.
- ii. The restructured accounts shall be monitored closely by the credit monitoring team and the performance of the accounts will be reviewed by ECC on quarterly basis.
- iii. The accounts provided relief under the afore-mentioned circular shall be subject to concurrent audit to ensure the required processes are followed and documentation is in place in accordance with the regulatory guidelines.

8. Modifications in the scheme

On recommendation of ECC, Executive Committee (EXECOM) will have the authority to modify the provisions of the policy subject to the modifications being in conformity with the regulatory guidelines.

Any change or modification announced by the regulator in the above mentioned circular / relevant regulatory guidelines shall be deemed to be included in this policy without any further approval.



Annexure-1
Resolution of COVID



Annexure II- MSME
Sector Restructuring