

L&T FINANCE LIMITED

Covid-19 Stress Resolution Policy Frame work 2.0 for MSME

May 2021

Version Control:

Version	Date of Adoption	Description	Owner	Approving Authority
0		Framing of the policy for implementation of Covid-19 stress resolution framework 2.0 facility for MSME as per RBI notification dated May 5, 2021	Risk Management Department	Board of L&T Finance Limited

BACKGROUND

The Reserve Bank of India ("RBI") vide its circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 on "Resolution Framework for COVID-19-related Stress" ("Resolution Framework – 1.0") had extended the scheme for one-time restructuring of MSME advances while classifying such exposures as standard, subject to specified conditions.

In view of the uncertainties created by the resurgence of the Covid-19 pandemic in India, RBI has vide its circular 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 (MSME)" ("Resolution Framework 2.0") has decided to extend the facility for restructuring the existing loans to MSME borrowers without downgrade in the asset classification subject to following condition:

- The lending institutions shall put in place Board approved policy on restructuring of MSME advances within one month of the said circular regarding Resolution Framework 2.0 and publicize the policy on its website.
- The borrower should be classified as a MSME as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020.
- The borrowing entity is GST-registered on the date of implementation of the restructuring. (except the MSMEs that are exempt from GST-registration).
- 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.
- The borrower's account was a 'standard asset' as on March 31, 2021.
- The borrower's account was not restructured as per the RBI previous circulars of MSME restructuring (RBI circulars dt January 01, 2019, February 22, 2020 and August 6, 2020)

- The restructuring of the borrower account is invoked by September 30, 2021.
- The restructuring of the borrower account to be implemented within 90 days from the date of invocation.
- The decisions on applications received from customers for invoking restructuring under this facility shall be communicated in writing to the applicant within 30 days of receipt of such applications.
- 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.
- 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.
- Upon implementation of the restructuring plan, the lending institutions shall keep provision of 10 percent of the residual debt of the borrower.
- Banks and NBFCs shall make appropriate disclosures in their financial statements, under 'Notes on Accounts', relating to the MSME accounts restructured under these instruction

2 OBJECTIVE

The RBI circular requires the Company to frame Board approved policy on restructuring of MSME advances as per the provisions Resolution Framework 2.0 covering the following aspects:

- The manner in which evaluation of eligibility of the borrowers may be done to ensure that the resolution under the Resolution Framework 2.0 is extended only to borrowers having stress on account of Covid19;
- The objective criteria to be applied and the due diligence considerations to be followed in order to assess the necessity of a resolution plan for the concerned borrower.
- Accordingly, the Company has framed Covid-19 stress resolution policy ("**Policy**") to incorporate the abovementioned considerations.
- The Risk department will be the owner of the Policy. In the event any guidance on the RBI regulations / guidelines is required; the same would be referred to the Regulatory Compliance Department for its final views on the same. Any

subsequent guidelines/modifications issued by RBI with respect to the Resolution Framework 2.0 will be automatically included in the Policy.

3 COVID-19 STRESS RESOLUTION FACILITY BY THE COMPANY

3.1 Considerations for eligibility and necessity of resolution

- Any borrower falling under the following categories shall be eligible for resolution under the Covid-19 framework 2 for MSME
 - a. The borrower should be classified as a MSME as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020.
 - b. The borrowing entity is GST-registered on the date of implementation of the restructuring. (except the MSMEs that are exempt from GST-registration).
 - c. 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.
 - d. The borrower's account was a 'standard asset' as on March 31, 2021.
 - e. The borrower's account was not restructured under earlier MSME restructuring circulars.

Following type of loans from the Company will be eligible for resolution under this Policy

- Business loans, Loan against Property, Farm Equipment dealer loans Two Wheeler dealer loan etc) classified as a MSME as on March 31, 2021.

3.2 Invocation of resolution process, features of resolution plans and implementation

- Reassessment of individual borrowers would be difficult and hence in these cases, restructuring may be extended based on pre-defined structures and eligibility criteria.
- The decision to invoke the resolution process under the Resolution Framework 2.0 and this Policy will be at the sole discretion of the Company.
- In respect of applications received by the Company for invoking resolution process under this Policy, the decision on the application shall be communicated in writing to the application within 30 days of receipt of such application.

3.3 Delegation of power for Approval of resolution plans for MSME loans

The COD and CRO of the Company are hereby authorised to approve the Operational Guidelines and amendments thereto. The COD and CRO are further authorised to delegate the process of approval and implementation of the Resolution Plan with respect to the eligible borrowers to such officials of the Company as they deem fit.

4 REVIEW

This Policy shall be reviewed as and when deemed necessary and submitted for approval to the Board. Any subsequent modifications in the RBI guidelines on this matter shall automatically be included under this policy and the same shall not require fresh approval of the Board.