

RESOLUTION FRAMEWORK - 2.0: RESOLUTION OF COVID- 19 RELATED STRESS OF INDIVIDUALS AND SMALL BUSINESSES

FINOVA CAPITAL PRIVATE LIMITED

CIN: U65993RJ2015PTC048340

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Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses

1. Introduction:

Finova Capital Private Limited (“herein referred as “Company”) is a Non-Banking Financial Company - Systemically Important- Non Deposit taking company (NBFC-ND-SI) registered with Reserve Bank of India (RBI).

The RBI on May 05, 2021, vide its circular no. RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 has released guidelines on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses.

Earlier, The Reserve Bank of India vide its circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on “Resolution Framework for COVID-19-related Stress” (“Resolution Framework – 1.0”) had provided a window to enable 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, in consonance with which, the Company in its Board Meeting held on 19th February, 2021, approved and adopted “Re-structuring Policy”.

The resurgence of Covid-19 pandemic 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 individual borrowers and small businesses, the following set of measures are being announced. These set of measures are broadly in line with the contours of the Resolution Framework - 1.0, with suitable modifications.

2. Objective of the Policy:

The objective of the Policy is to facilitate the overall revival of COVID -19 Impacted customer in the long run, and to save their businesses from having an impact on its financial stability risks due to its debt burden becoming disproportionate relative to its cash flow generation abilities by implementing resolution plans for the eligible borrowers.

3. Eligible Borrower/s:

For the purpose of resolution plan under this Policy, eligible borrower shall mean:

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- 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.25 crore as on March 31, 2021.

Provided that the borrower accounts / credit facilities shall not belong to the categories listed in sub-clauses (a) to (e) of the Clause 2 of the Annex to the Resolution Framework 1.0, issued by RBI vide letter no DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 read with the response to Sl. No. 2 of FAQs on Resolution Framework for Covid-19 related stress issued by RBI(Revised on December 12, 2020).

Provided further that the borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0 subject to the special exemption mentioned at Clause 8 below.

Provided further that the credit facilities / investment exposure to the borrower was classified as Standard by the lending institution as on March 31, 2021 and their cash flow is impacted & having stress on account of COVID -19 Only.

4. Invocation of resolution process:

- a. The resolution process under this window shall be treated as invoked when Company and the borrower agree to proceed with the efforts towards finalizing a resolution plan to be implemented in respect of such borrower.
- b. In respect of applications received by the Company from its customers for invoking resolution process under this window the decision on the application shall be communicated in writing to the applicant by the company within 30 days of receipt of such applications.
- c. The last date for invocation of resolution permitted under this window is September 30, 2021

5. Permitted features of resolution plans and implementation:

- a. The resolution plans implemented under this window may inter alia include
 - i. rescheduling of payments,

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- ii. conversion of any interest accrued or to be accrued into another credit facility, ,
- iii. 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.

- b. The moratorium period, if granted, may be for a maximum of two years, and shall come into force immediately upon implementation of the resolution plan. The extension of the residual tenor of the loan facilities may also be granted to borrowers, with or without payment moratorium. The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years.
- c. The resolution plan should be finalized and implemented within 90 days from the date of invocation of the resolution process under this window. The resolution plan shall be deemed to be implemented only if
 - i. all related documentation, including execution of necessary agreements with borrower and collaterals provided, if any, are completed in consonance with the resolution plan being implemented;
 - ii. the changes in the terms of conditions of the loans get duly reflected in the books of the company; and,
 - iii. borrower is not in default as per the revised terms.

6. Process for Implementation:

- a. Customer shall approach company for restructuring and submit written application seeking resolution plan / restructuring of the loan.
- b. Company shall examine & evaluate the application by way of assessment of the cash flow and shall communicate resolution plan if any within 30 days from the date of application.
- c. Resolution plan if any communicated to customer should be accepted by customer and on acceptance of resolution plan, company shall implement the same within 90 days.
- d. Documents required for implementing Resolution Plan shall be as under:
 - i. Application letter from customer seeking resolution plan.
 - ii. Income related documents if any.
 - iii. Supplementary loan agreement
 - iv. Accepted Sanction letter and repayment schedule.

7. Asset classification and provisioning:

- a. The asset classification of borrowers' accounts classified as Standard shall be retained as such upon implementation of resolution plan as per guidelines , whereas the

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borrowers' accounts which may have slipped into NPA between invocation and implementation shall be upgraded as Standard, as on the date of implementation of the resolution plan.

- b. 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").
- c. In respect of borrowers where the resolution process has been invoked, company is permitted to sanction additional finance even before implementation of the plan in order to meet the interim liquidity requirements of the borrower. This facility of additional finance shall be classified as 'Standard' till implementation of the plan regardless of the actual performance of the borrower 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 such additional finance or performance of the rest of the credit facilities, whichever is worse.
- d. Company shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 percent of the renegotiated debt exposure of the company post implementation.
- e. Half of the above provisions can be written back upon the borrower paying at least 20 per cent 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. Provided that in respect of exposures other than personal loans, the above provisions shall not be written back before 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.
- f. The provisions required to be maintained under this window, to the extent not already reversed, shall be available for the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA.

8. Convergence of the norms for loans resolved previously:

- a. In cases of loans of borrowers , where resolution plans had been implemented in terms of the Resolution Framework – 1.0, 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, company shall use this window to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor

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subject to the caps and the consequent changes necessary in the terms of the loan for implementing such extension. 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.

- b. This modification shall also follow the timelines specified in invocation & implementation process, mention in the policy. For loans where modifications are implemented in line with above clause, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0.

9. Disclosures and Credit Reporting

Company shall make necessary disclosure in compliance with the RBI Circular “RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 dated May 05, 2021.

10. Miscellaneous

- a. The Policy shall be reviewed as and when required by the applicable rules and regulations.
- b. While Policy outlines the broad internal guidance that the Company will follow to take decisions regarding this restructuring of stressed assets/loan, the Company reserves the right to amend the Policy within the framework of RBI guidelines
- c. The MD & CEO is authorised to approve any operational procedures/guidelines/ Structural changes/ or case specific decisions, as may be required to implement the policy and make any changes to the policy in line with the directions/guidelines/clarification issued by RBI from time to time if required.
- d. All restructuring accounts will have to be approved by Chief Operating Officer/ VP Sales/ VP Credit/ VP policy and/ or above.

References:

- a. Relevant Circular issued by RBI as follows: RBI circular no. RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 dated May 05, 2021 - https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12085
- b. RBI Circular No DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 - <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11941&Mode=0>
- c. FAQ Resolution Framework for Covid-19 related stress <https://www.rbi.org.in/Scripts/FAQView.aspx?Id=137>

This policy has been approved and adopted at the Board meeting held on June 01, 2021.

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Version No.	Version Date	Types of changes	Prepared & Verified By	Date of Approval
V.3	June 05, 2021	Revised document	Rakesh Tailor and Ravi Sharma	June 08, 2021

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**This resolution framework 2.0 has been modified as on June 08, 2021 in consonance with the RBI circular on “Resolution Framework - 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses – Revision in the threshold for aggregate exposure” (RBI Circular DOR.STR.REC.20/21.04.048/2021-22) dated June 04, 2021.*

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