Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

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J&K Bank
Serving To Empower

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Abbreviations/Acronyms

CWDL	COVID-19 Working Capital Demand Loan
DIFV	Diminution in Fair Value
ECLGS	Emergency Credit Line Guarantee Scheme
FITL	Funded Interest Term Loan
GECL	Guaranteed Emergency credit Facility
GST	Goods and Services Tax
IRAC	Income Recognition and Asset Classification
MIS	Management Information System
MSME	Micro Small and Medium Enterprises
NPA	Non-Performing Assets
RP	Resolution Plan
WCTL	Working Capital Term Loan

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1. Introduction:

The economic fallout on account of uncertainties created by the resurgence of the Covid-19 pandemic in India has led to significant financial stress for borrowers across the board.

Considering the above, with the intent to facilitate revival of Micro, Small and Medium Enterprises (MSMEs), RBI vide circular no DOR.STR.REC.12/21.04.048/2021-22 dated May 5, 2021 has decided to extend the facility of Restructuring of Advances for Micro, Small and Medium Enterprises (MSMEs) (previously circulated vide Circular No:-28-317 dated 21.08.2020 in line with RBI Circular no DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020) for restructuring existing MSME loans without a downgrade in the asset classification.

The lending institutions have been advised to frame Board approved policies pertaining to restructuring of MSME advances under these instructions for eligible borrowers, ensuring that the resolution under this facility is provided only to the borrowers having stress on account of COVID19. Accordingly, the policy document with respect to following has been framed in line with RBI directions.

2. Eligibility:

a) The resolution shall only be invoked by the operative levels after satisfying themselves that same is necessitated on account of the economic fallout from Covid-19.

b) MSME borrowers with aggregate exposure, including non-fund based facilities, from all lending institutions not exceeding ₹250 million (₹ 25 crore) as on March 31, 2021.

c) The borrower’s account was a ‘standard asset’ as on March 31, 2021.

d) 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. As per the notification, an enterprise shall be classified as a micro, small or medium enterprise on the basis of the following criteria, namely:-

i. **a micro enterprise**, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;

ii. **a small enterprise**, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and

iii. **a medium enterprise**, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

e) 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 on the basis of exemption limit obtaining as on March 31, 2021.

f) The borrower's account was not restructured in terms of the following circulars:

- Circular No:-28-317 Dated: 21.08.2020
- Circular No: 48-735 Dated:17.02.2020
- Circular No: 60-709 Dated: 28.02.2019

These circulars shall collectively be referred as ***MSME restructuring circulars****.*

(However, **Para 3(f)** above shall be applicable except to the extent permitted under **Para 10** of this policy.)

g) There is no diversion of funds, fraud or malfeasance, etc. on part of the borrower.

3. Invocation of package:

The restructuring of the borrower account must be 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 decisions on applications received by the Bank from the 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. The decision to invoke the restructuring under this facility shall be taken by the Bank having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.

In order to optimise the processing time, Bank has prepared a standardized template enclosed as **Annexure-1**, for resolution under this window.

4. Implementation of package:

The restructuring of the borrower account must be implemented within 90 days from the date of invocation. A restructuring would be treated as implemented if the following conditions are met:

- All related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities are completed by all lenders; and
- The new capital structure and / or changes in the terms and conditions of the existing loans get duly reflected in the books of all the lenders and the borrower. Post Implementation of the Resolution Plan, the borrower shall submit a certificate authenticated by chartered accountant declaring there in that new capital structure and / or changes in the terms and conditions of the existing loans has got duly reflected in the books of all the lenders.

5. Viability Assessment parameters for Restructuring:

No account will be taken up for restructuring by the bank unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. Conclusion on financial viability shall be drawn on the basis of examination of the unit's past performance and projected financials, including cash flow statements, for the proposed repayment period and after ascertaining that the projected financials are realistic and achievable and that the outstanding debt can be serviced during the proposed repayment period. The units eligible for restructuring shall comply to following norms:-

a. The unit should become viable in 5 years and the repayment period of restructured advance including moratorium if any, shall not exceed 10 years.

b. The debt service coverage ratio should be greater than 1.25 within the 5 years period in which the unit become viable and on year to year basis the ratio should be minimum 1.10. The average debt service coverage ratio for 10 years repayment period should be at minimum level of 1.30.

c. The current ratio of the concern shall be at minimum of 1.25:1 for all limit of loans.

d. The Debt Equity ratio (Long Term debt/ equity) including existing as well as fresh loan shall be accepted upto 4:1.

e. The dues of the bank are fully secured. Fully secured means, when the amounts due to a bank (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues, the bank's dues are considered to be fully secured. While assessing the realisable value of security, primary as well as collateral securities would be reckoned.

f. Promoters' sacrifice and additional funds brought by them should be a minimum of 20 per cent of banks' sacrifice or 2 per cent of the restructured debt, whichever is higher. The promoters' sacrifice should invariably be brought upfront while extending the restructuring benefits to the borrowers. The term 'bank's sacrifice' means the amount of "erosion in the fair value of the advance".

g. As stipulating personal guarantee will ensure promoters' "skin and commitment" to the restructuring package, promoters' personal guarantee should be obtained in all cases of restructuring and corporate guarantee cannot be accepted as a substitute for personal guarantee. However, corporate guarantee can be accepted in those cases where the promoters of a company are not individuals but other corporate bodies or where the individual promoters cannot be clearly identified.

6. Resolution Plan (RP):

a) The resolution plans implemented under this window may inter alia include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, 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 may also provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, wherever applicable, and the same shall be governed in terms of following clauses:

- provided the amortisation schedule and the coupon carried by such debt securities are similar to the terms of the debt held on the books of the lending institutions, post implementation of the resolution plan. The holding of such instruments by the respective lending institutions shall be subject to the extant instructions on investments as applicable to them.
- The valuation of equity instruments issued, if any, shall be governed by the provisions of Paragraphs 19(c) and 19(d) of the Annex to the Prudential Framework whereas debt securities shall be valued as per the instructions compiled at Paragraph 3.7.1 of the Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks dated July 1, 2015 (as amended from time to time), or other relevant instructions as applicable to specific category of lending institutions.
- In case the bank converts any portion of the debt into any other security, the same shall collectively be valued at Re.1.

6.1 Extension of the residual tenor of the loan, with or without payment moratorium

Based on the assessment of cash flows, a borrower can be provided extension of the residual tenor of the loan, with or without moratorium by a period not more than two years.

If a borrower opts for extension of residual tenor without payment moratorium, the existing instalment/EMI shall be reworked in accordance with the residual tenor of loan, however, the repayment shall continue as per revised schedule of Instalments.

If the borrower opts for extension of residual tenor with payment moratorium, the interest accrued/to be accrued in the loan during the moratorium period shall be converted into fresh FITL facility.

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

6.2 Conversion of Interest into FITL

Working Capital Facilities:-

The interest accrued /to be accrued in the working capital facilities during the moratorium period subject to a maximum of up to **24 months** shall be funded through FITL account. The interest applicable on fresh FITL facility till commencement of repayment shall be capitalized and shall form a part of the overall limit of fresh FITL.

The FITL facility so created shall be repayable in maximum 24 Equated Monthly Installments (EMIs) exclusive of moratorium period.

Term Loans:-

If the borrower opts for extension of residual tenor with payment moratorium the interest accrued /to be accrued in the loan during the moratorium period shall be converted into fresh FITL facility which shall be repayable in maximum 24 months exclusive of moratorium period. The interest applicable on fresh FITL facility till commencement of repayment shall be capitalized and shall form a part of the overall limit of fresh FITL.

6.3 Sanctioning of additional credit facilities

Based on the financial assessment & establishment of viability, the resolution plan may also include sanctioning of additional credit facility in the shape of working capital term loan (WCTL) which shall not exceed 10% of existing fund based working capital limit as on March 31, 2021 to address the financial stress of the borrower on account of COVID-19 pandemic. The additional facility can be sanctioned even if there is no renegotiation of existing debt (borrower is not desirous of availing moratorium in respect of payment of interest/instalment& has requested for sanction of additional facility only).

However, additional finance shall not be extended to the borrowers who have availed additional funding after March 01, 2020 under ECLGS/GECL, CWDL Scheme, J&K Bank Business Support Loan Scheme or through normal enhancement.

Further, the WCTL facility shall have a moratorium on payment of interest & principal up to a maximum of **24 months**. The interest on WCTL during the moratorium period shall served from a separate FITL account and such portion of interest served from FITL shall be capitalized. The WCTL facility along with the related FITL account shall be repayable in maximum 24 Equated Monthly Installments (EMIs) after expiry of moratorium period.

Any additional finance should be matched by contribution by the promoters in appropriate proportion, and this should not be less than the proportion at the time of original sanction of loans. Additional funding provided under restructuring will have priority in repayment over repayment of existing debts. Therefore, instalments of the additional funding which fall due for repayment will have priority over the repayment obligations of the existing debt.

If the existing promoters are not in a position to bring in additional funds the Bank may allow the enterprise to raise secured or unsecured loans.

7. Identification of Stress and Assessment of Viability of Resolution Plan:

In order to ascertain stress on account of COVID-19 and to ascertain viability of the resolution plan, following documents shall be obtained from the applicant:

i. Board Resolution (in case of companies) or an undertaking (in case of other applicants) stating that the operations of the concern are under stress on account of COVID-19,
ii. Copy of MSME Registration (Udyam Registration Certificate), wherever applicable,
iii. Borrower to provide documents evidencing stress due to COVID pandemic which may include GST Returns (wherever applicable for Pre-COVID period and Post-COVID outbreak period i.e. before March 2020 and after March 2020 indicating comparative loss/drop in sales/revenue) , stocks and book debt statements, monthly sales of pre & post COVID period certified by Chartered Accountant (*for borrowers not required to have GST Registration*)
iv. Projected Profit and Loss Statement, Balance Sheet, Fund Flow/Cash Flow Statement duly certified by a Chartered Accountant covering the entire tenure of restructured/rescheduled/additional credit facility and indicating certainty of repayment,
v. Techno Economic Viability and Feasibility Report, wherever applicable.

In addition to the above, wherever applicable, the following reports/documents are also required to be obtained:

i. Stock & Receivables statement duly authenticated by chartered accountant in order to validate the working capital irregularity and carving out Working Capital Term Loan (WCTL).

8. Categorisation of Stress:

The Bank shall make an assessment of pre & post COVID operating & financial performance of the borrower & accordingly classify the impact of COVID 19 as Mild, Moderate & Severe. To complete the task & prescribe appropriate resolution plan, simplified restructuring for mild & moderate stress may be adopted, whereas, severe stress cases would require comprehensive restructuring.
The categorisation shall be based on decline in Sales/Revenue **and/ or** erosion in Net worth and shall be as follows:

Decline in Sales or Erosion in Net Worth (Pre-COVID vs Post COVID)	**Category**	**Resolution Plan**
Upto 10%	Mild	All available relaxations in Resolution Plan (RP) in any one or combined form shall be provided i.e. rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, granting of moratorium etc. based on an assessment of income streams of the borrower.
From 11% to 20%	Moderate	
Above 20%	Severe	In addition to above (i.e. for Mild & Moderate), the borrowers may be facilitated through sanction of Additional Credit Facilities (Para 6.3 above).

9. Moratorium Period:

Primary Term Loan / Primary Working Capital Limit/ FITL/ WCTL shall have a maximum moratorium period of **24 months.**

10. Borrower Accounts already restructured in terms of the MSME restructuring circulars:

In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, the Bank, as a one-time measure, may 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 with regard to 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. The annual renewal/reassessment shall be expected to suitably modulate the limits as per the then-prevailing business conditions.

11. Security:

The additional/fresh credit exposure as a result of sanction of fresh FITL under resolution framework shall be secured by way of extension of charge on existing securities (Primary and collateral). However, if the resolution plan includes sanction of additional finance (other than FITL) operative levels shall ensure that the borrower provides additional tangible collateral security to cover the same.

12. Prudential Norms on Asset Classification and Provisioning:

Under Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs), 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.

However a provision of 10% of residual debt, shall be made in respect of accounts restructured under these instructions. The Bank will, however, have the option of reversing such provisions at the end of the specified period, subject to the account demonstrating satisfactory performance during the specified period as defined below.

'**Specified Period'** means a period 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 under the terms of restructuring package. 'Satisfactory Performance' means no payment (interest and/or principal) shall remain overdue for a period of more than 30 days. In case of cash credit / overdraft account, satisfactory performance means that the outstanding in the account shall not be more than the sanctioned limit or drawing power, whichever is lower, for a period of more than 30 days.

Post-restructuring, NPA classification of these accounts shall be as per the extant IRAC norms.

13. Disclosures and Credit Reporting:

Bank shall make appropriate disclosures in the 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)

14. Income Recognition:

As per extant IRAC Norms.
In case of Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments, the income, if any, generated by these instruments may be recognised on accrual basis, if these instruments are classified as 'standard', and on cash basis in the cases where these have been classified as a non-performing asset.

The unrealised income represented by FITL / Debt or equity instrument should have a corresponding credit in an account styled as "Sundry Liabilities Account (Interest Capitalization)".

(The accounting procedure in line with regulatory norms shall be devised by MIS/ Finacle in consultation with the relevant departments.)

15. Documentation:

All the security documents shall be vetted by the Law Deptt concerned.

16. Delegation of Loaning Powers:

The powers to sanction/ approve the restructuring package as defined above at **Para 6** (*including FITL/ Additional finance under the resolution plan*) shall vest with the sanctioning authority in whose powers the sanction of basic limit falls. Security dilution on account of sanction of FITL vis a vis existing security coverage ratio shall not be considered as security dilution for the purpose of delegation of powers.

17. Rate of Interest on Fresh FITL:

The Rate of Interest on Fresh FITL shall be pegged at 9.25% p.a. (Fixed) with monthly rests. However, interest applicable on Fresh FITL during moratorium i.e. till commencement of repayment, shall be capitalized and shall form a part of the overall limit of fresh FITL.

18. Regular Monitoring of the accounts:

Bank has in place a specialized team for monitoring of Restructured accounts within Credit Monitoring Department, CBO Vertical CHQ. The department shall be responsible for maintaining record of restructurings approved, close & regular monitoring of the restructured portfolio including accounts restructured under these instructions. The department shall work in close coordination with Zonal Offices/Business Units till the accounts come out of the restructuring. Further the department shall be also responsible for recomputation of DIFV, preparing consolidated information on restructurings approved and submitting review or any other reports/information to Higher Authorities/ external agencies.

19. Other Terms and Conditions:

a) The above measures shall be contingent on the Operative Levels 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.
b) All other instructions specified in the circular no dated DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 shall remain applicable.

c) 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.

20. IT Customization:

IT Customization necessitated on account of extension of resolution plan has been devised by Service Operations/ MIS, CHQ and is enclosed as **Annexure-C** to the circular.

21. Powers for Procedural/Operational Changes:

Any amendments/ modifications in the policy document consequent to change in RBI guidelines or any operational/ procedural change in the framework shall be vested within the powers of the Chairman and Managing Director subject to the condition that the same are in line with RBI guidelines on the framework. However, any amendments / modifications effected to this Board-approved policy, the Board of directors shall be kept informed of such changes at its meeting immediately ensuing such amendments.

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Annexures

Annexure-1 Standardized Template

Annexure-1

Application for Restructuring of Loan Accounts under RBI's Resolution Framework 2.0 – Resolution of Covid-19 related stress of MSMEs.

Date:_ _ /_ _ /_ _ _ _

The Branch Head,

B/u:_________________.

Sub: Restructuring of Loan Accounts (Term Loan/ Working Capital) under Resolution Framework – 2.0 of RBI.

Dear Sir/ Madam,

1. We/ I have been availing following credit facilities from your Bank.

Details of Loan accounts: (Amount in Lacs)

S. No	Account Number	Type of Loan Account (Term Loan CC/SOD/PCL/PSL/PCFC/PSCFC/Bill Discounting/LC/BG etc. (mention the type of loan account type)	Sanction Limit	BOS as on 31.03.2021	Date of sanction
1					
2					
3					

2. I have been regular in servicing of the installments/ interest on the above said loan accounts., however, due the adverse impact on business on account of COVID-19 pandemic I have not/ will not be able to continue servicing of installments/ interest as per the existing prescribed schedule. Therefore, I seek relief in terms of Resolution Framework 2.0 – Resolution of Covid-19 related stress of MSMEs announced by RBI vide their circular dated May 05, 2021 and request the bank to restructure my above listed loan account (s). Accordingly, I hereby submit the following resolution plan for restructuring of the said loan accounts (Tick mark whichever is applicable):

a) Grant/ Extension of moratorium for a period of ----- months (maximum 24 months) in term loan account number ……….and grant of FITL facility for moratorium period.
b) Extension in repayment tenor of loan of the term loan account number………… by a period of ----- months (maximum 24 months) without moratorium.
c) Grant of moratorium for a period of ----- months (maximum 24 months) in working capital account (CC/SOD/PCL/PSL) account number ……….and grant of FITL facility for moratorium period.
d) Conversion of existing working capital (CC/SOD/PCL/PSL/bill discounting) account number………..into WCTL with a repayment period of ----- months (maximum 24 months) .
e) Grant of Additional Working Capital facility to the tune of Rs.______lacs.
f) Conversion of Devolved LCs /Invoked BG into term loan with repayment period of ----- months (maximum 24 months).
g) Conversion of portion of the debt into equity or other marketable, non-convertible debt securities as per applicable norms.

3. I hereby submit following documents as an evidence in support of my restructuring proposal (please mention the name of documents below):

i)

ii)

iii)

4. Details of Additional Security (if any) offered by the borrower:

5. Declaration:

I hereby declare that:

a) I am not a wilful defaulter with any bank and I am not involved in any fraud, malpractice or diversion of funds.

b) I am not a staff member of the bank.

c) The information and data furnished by me to the bank is true and correct.

6. I/ We hereby agree:

a) that banks decision will be final and binding.

b) to provide/ execute all the documents as may be required by the bank within stipulated timeline.

c) Comply all terms and conditions/covenants stipulated by the bank for restructuring of my loan accounts.

Yours Sincerely,

For_______________________

Applicant Borrower __________________

List of documents:

vi. Board Resolution (in case of companies) or an undertaking (in case of other applicants) stating that the operations of the concern are under stress on account of COVID-19,

vii. Borrower to provide documents evidencing stress due to COVID pandemic which may include GST Returns (wherever applicable for Pre-COVID period and Post-COVID outbreak period i.e. before March 2020 and after March 2020 indicating comparative loss/drop in sales/revenue) , stocks and book debt statements, monthly sales of pre & post COVID period certified by Chartered Accountant (for borrowers not required to have GST Registration)

viii. Projected Profit and Loss Statement, Balance Sheet, Fund Flow/Cash Flow Statement duly certified by a Chartered Accountant covering the entire tenure of restructured/rescheduled/additional credit facility and indicating certainty of repayment,

ix. Techno Economic Viability and Feasibility Report.

In addition to the above, wherever applicable, the following reports/documents are also required to be obtained:

- Valuation Reports from one/two valuers for arriving at liquidation value

for payout to dissenting creditors.
- Stock & Receivables Audit in order to validate the working capital irregularity and carving out Working Capital Term Loan (WCTL).
- Any other document as may be required by the bank on case to case basis.

Acknowledgement of Application for Invocation under Resolution Framework (RF - 2.0):

We here by acknowledge your application for invocation of Resolution under RF - 2.0.

Please note that the bank is in-principle agreeable for your proposal for invocation of Resolution Plan 2.0, however this should not be construed as final sanction for Resolution. The final sanction shall be subject to following:

a) Submission of evidence that the business has been hit by COVID-19 pandemic.

b) Bank is satisfied that the borrower requires treatment under RF – 2.0.

c) Other Documents required under the framework.

Branch Head

B/U ________________

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