



RBI Resolution Framework for COVID-19 Stress

Brief background of RBI resolution framework

During the times of any economic distress, the Reserve Bank of India generally issues a principle-based resolution framework to address the crisis situation. Accordingly, the banks implement resolution plan implemented as per the guidelines of “Prudential Framework”. This resolution plan allows granting a few concessions on account of the financial crisis of a borrower. Often these concessions result in the depreciation of the loan asset classification i.e. an increase in NPA.

As we know that the ongoing global catastrophe of COVID-19 has severely impacted the economy, particularly the banking sector. The economic depression on account of the COVID-19 pandemic has led to great financial stress for the borrowers all over India.

Brief background of RBI resolution framework

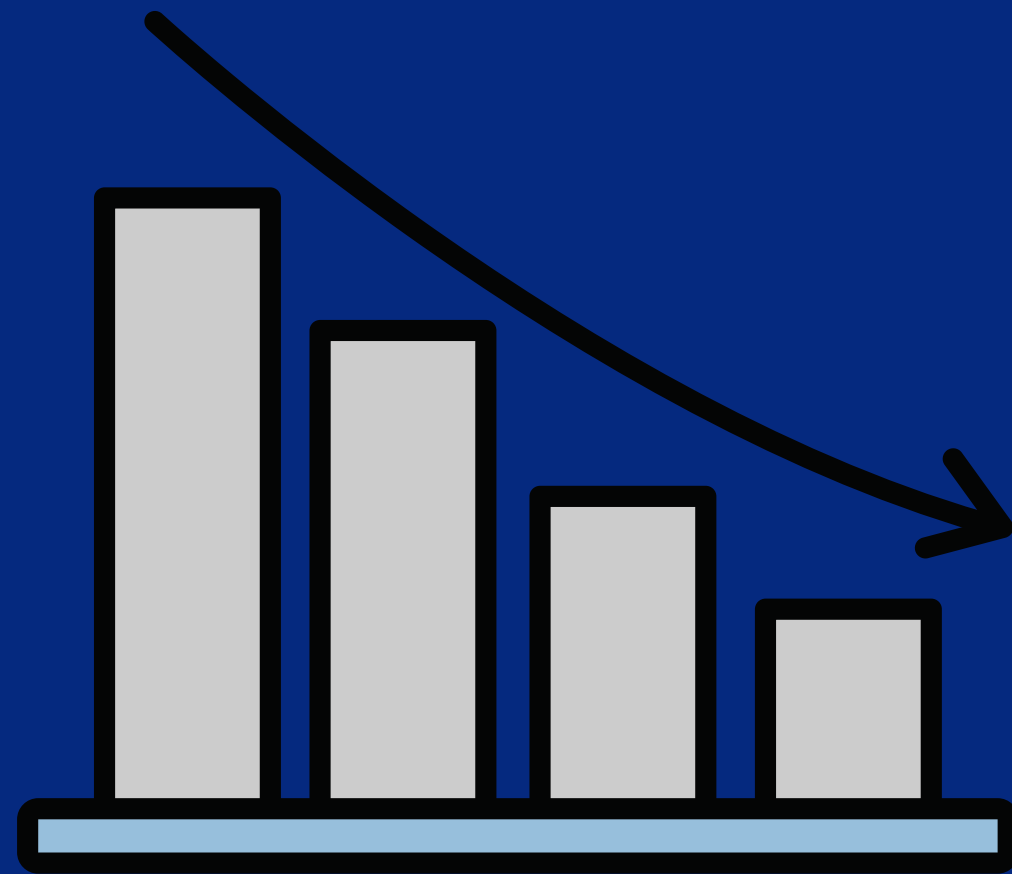
The resultant stress has certain long-term impacts such as adverse impacts on the profitability of many firms. This is because their debt burden becomes disproportionate as compared to their projected cash flows. This long-term impact mitigates very slowly. This poses threat to the financial solvency of the firms.



With a view to revive the banking sector and mitigate the adverse impact of COVID-19 on the borrowers, RBI has decided to facilitate a window under the Prudential Framework as to allow the banks to implement a resolution plan for the borrower entities.

RBI resolution framework for COVID-19 stress

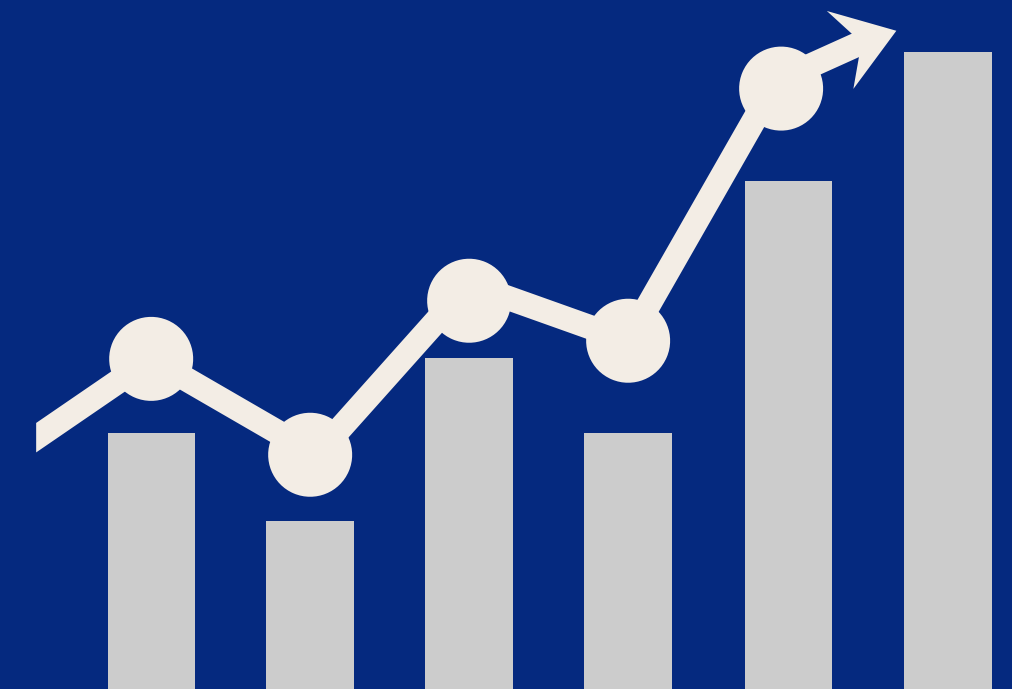
As per the recent RBI resolution framework for the COVID-19 stress, the eligible borrowers shall be covered in this plan without change in the ownership and personal loans. Loans to such borrowers shall be classified as Standard Assets, subject to some specified conditions.



Loans



Enterslice



NPAs

Eligibility Criteria for

COVID-19 resolution framework

As per the RBI COVID-19 resolution framework, here are the categories of those borrowers and the credit facilities that are not be eligible for a bank resolution plan:

- MSME borrowers with collective aggregate exposure to banks, upto ₹25 crore as on 1st March 2020.
- Farm credit (loans to farmers).
- Following Agricultural Loans given to:-
 - Primary Agricultural Credit Societies (PACS);
 - Farmers' Service Societies (FSS); and
 - Large-sized Adivasi Multi-Purpose Societies (LAMPS).
- Bank loans to the following authorities:-
 - Central & State Governments;
 - Local-Self Government bodies (e.g., Panchayats and Municipal Corporations); and
 - Statutory corporations. The
 - housing finance companies where the loan has been rescheduled.



DETAILED ANALYSIS

RBI COVID-19 Resolution Framework

Outstanding Debt Reference Date

Reference date for outstanding amount of debt is mentioned in general as 1st March 2020. Here, following conditions shall apply:

- Only the borrowers categorized as SMA-0, i.e. those standard assets which are not in default beyond 30 days with any banks as on 1st March 2020.
- The actual debt considered for the resolution shall be the outstanding debt as on the date of loan sanction.



Farm credit:

All the forms of farm credits, i.e. credit to the farmers, their SHGs and Joint-Liability Groups (JLGs) by banks & all NBFCs are excluded from resolution framework, except for the following loans to allied activities:

- Dairy,
- Fishery,
- Animal husbandry,
- Poultry,
- Apiculture (bee-keeping) and
- Sericulture

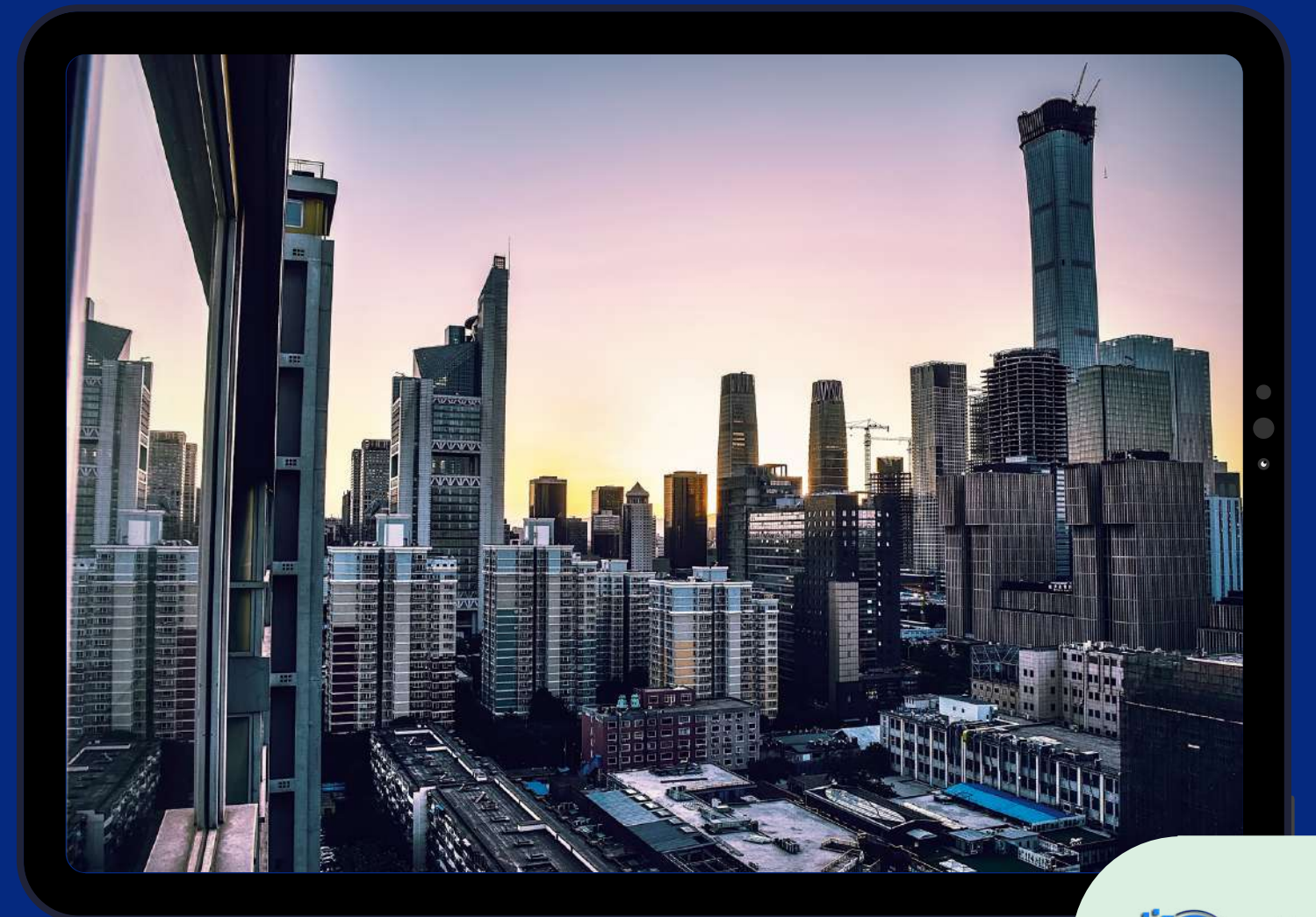


Applicability of ICA:

In case of real estate and other infrastructural sectors, entities finance their numerous projects through various instruments.

Hence, there is a provision to form an Inter-Creditor Agreement (ICA) between the entity and the lender, as per this Resolution Framework.

These provisions are flexible for the lenders so that they can frame the ICA specifying certain requirements for each of their borrowers as per their case. Besides, the ICA can mention different resolution plans for different types of projects undertaken by a single borrower.



Escrow accounts:

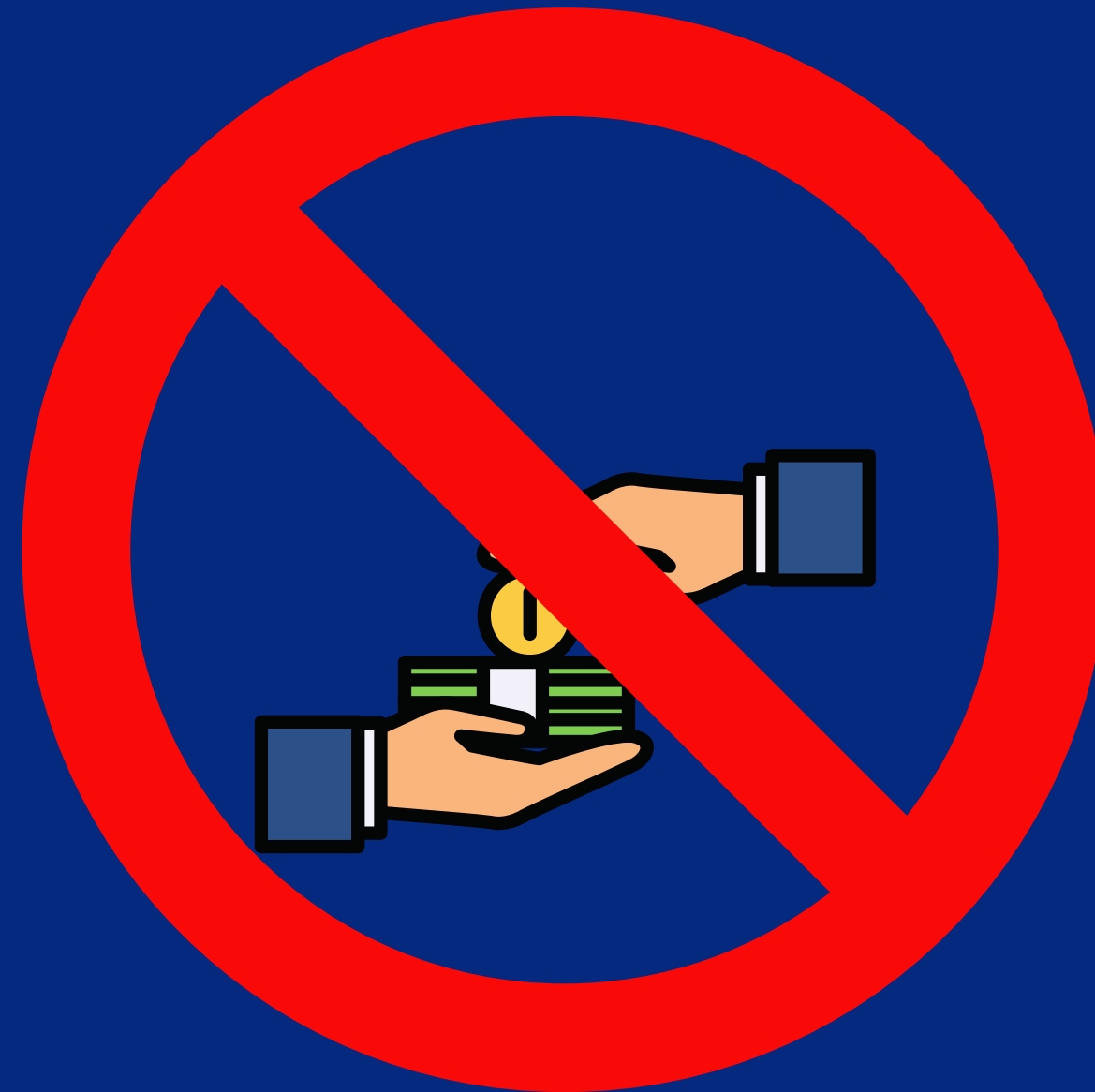
Multiple and separate escrow accounts can be also be opened by the business entities at each level of their project. However, for the real estate entities having both residential & commercial projects, there shall be prescribed thresholds for the financial required.



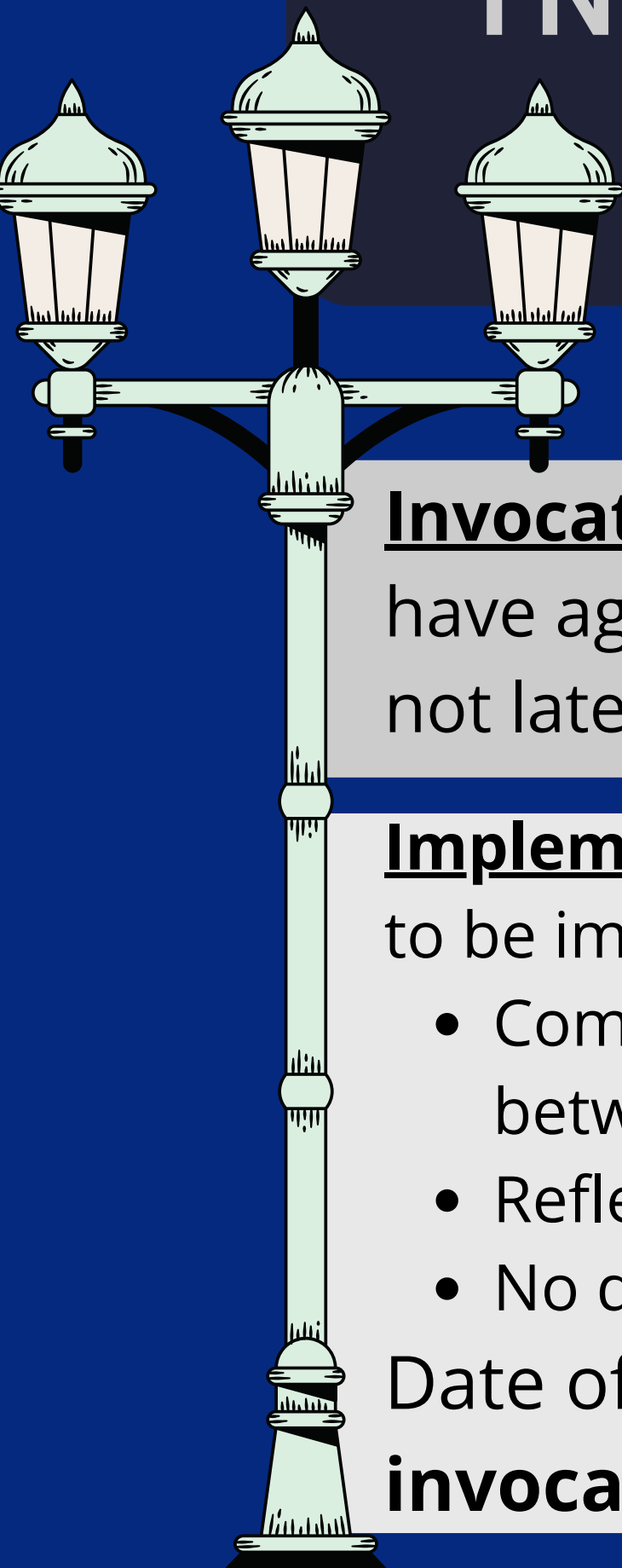
Escrow Account

Borrowers Ineligible for this Resolution Framework

All other borrowers who are not eligible under this Resolution Framework shall be required to follow the instructions that are otherwise applicable to them. However, the extent of this Resolution Framework is only to resolve stress arising out of the COVID-19 pandemic, of only those entities which are eligible to be resolved.



INVOCATION & IMPLEMENTATION of the Resolution Framework



Invocation: Date of invocation shall be the date when both the borrower & lender have agreed to opt for a resolution plan. Date of invocation of this framework shall not later than **31st December 2020**.

Implementation: Between the borrower & lender, a resolution plan shall be deemed to be implemented, only upon fulfilment of the following conditions:

- Completion of all documentation by the lenders, incl. all necessary agreements between borrower & lenders;
- Reflections of the changes in the T&C of the loans in the books of the lenders; and
- No default from the Borrower's end, with the lending institution.

Date of implementation of this framework is till **90 days from the date of invocation**.

ADDITIONAL PROVISIONS of the Resolution Framework

All additional provisions mentioned in the Resolution Framework shall be treated as specific provisions.

These shall be maintained with respect to each and every credit exposure under consideration.

-(RBI Report)

RBI Resolution Framework

Key ratios in case of other exposures

Total Outside Liabilities / Adjusted Tangible Net Worth (TOL/ATNW)

Addition of long-term debt, short term debt, current liabilities and provisions along with deferred tax liability divided by tangible net worth net of the investments and loans in the group and outside entities.

Total Debt / EBITDA

Addition of short term and long-term debt divided by addition of profit before tax, interest and finance charges along with depreciation and amortization.

Current Ratio

Current assets divided by current liabilities.

Debt Service Coverage Ratio (DSCR)

For the relevant year addition of net cash accruals along with interest and finance charges divided by addition of current portion of long-term debt with interest and finance charges

Average Debt Service Coverage Ratio (ADSCR)

Over the period of the loan addition of net cash accruals along with interest and finance charges divided by addition of current portion of long-term debt with interest and finance charges.

MULTIPLE LENDERS

In case there are multiple lending institutions having credit exposure to a borrower whose resolution is undertaken in terms of Part B of the Annex to the Resolution Framework, all lending institutions having exposure to such borrower are required to enter into ICA.



Bank 1

Bank 2



DEFINITION OF MSMEs

Preferred
definition
of

MSMEs

The definition of MSME was changed by the Government vide Gazette notification dated 26th June 2020. As per the new definition, MSMEs are classified as per their turnover.

Since, the reference date for the COVID Resolution Framework is 1st March 2020, for the purpose of eligibility criteria for the resolution plan under the Framework, the old definition of MSMEs would be applicable, which is the one that existed as on 1st March 2020. As per this definition, MSMEs are classified as per their investment in plant & equipment

THANK YOU!

