

Resolution Framework 2.0 for Covid-19 related stress



OXYZO Financial Services Private Limited

Version-1.0

Approved by Board- May 24, 2021

Dear Respected Borrower,

Greetings from the management team at OXYZO Financial Services Private Ltd. (OXYZO).

First and foremost, thanks for your business with OXYZO. We value the relationship beyond all hurdles that may come our way.

Secondly, these are unprecedented times amidst the toxic and contagious pandemic being caused by the spread of the COVID-19 virus. We hope this note finds you hale, hearty, safe and in good cheer.

Thirdly, this note overrides any prior communication made by OXYZO or its representatives to any borrower or any other party in any matter whatsoever with regards to the content covered in the note.

Background:

In view of the uncertainties created by the resurgence of the Covid-19 pandemic in India in recent weeks, RBI on May 05, 2021, vide RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 and RBI/2021-22/32 DOR.STR.REC.12/21.04.048/2021-22 and, has issued two circulars with respect to restructuring of existing loans without a downgrade in the asset classification:

1. Resolution of Covid-19 related stress of Individual and Small Business; and
2. Resolution of Covid-19 related stress of MSMEs

This Resolution framework is to highlight our planned response to the regulator's move. The direction suggested by the RBI will be honoured in letter and spirit.

Objective of the Plan:

Alleviating the potential stress to Micro, Small and Medium Enterprises (MSMEs) 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.

Eligibility of Borrowers:

1. For Micro, Small and Medium Enterprises (MSMEs):

- (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 having a GST registration on the date of implementation of the restructuring (will not apply to MSMEs that are exempted from GST registration).
- (iii) The aggregate exposure, including non-fund-based facilities 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 RBI circular dated Aug 06, 2020, Feb 11, 2020, or dated Jan 01, 2019 (collectively referred to as MSME restructuring circulars).
- (vi) The restructuring of the borrower account is invoked by September 30, 2021.

- (vii) The restructuring of the borrower account is implemented within 90 days from the date of invocation.
- (viii) 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.
- (ix) Upon implementation of the restructuring plan, the lending institutions shall keep provision of 10 percent of the residual debt of the borrower.

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.

In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars as a one-time measure and OXYZO can 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 September 30, 2021. The reassessed sanctioned limit / drawing power shall be subject to review by the lending institution 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.

The above measure shall be contingent on the OXYZO 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.

2. For Small Businesses:

- (i) 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 OXYZO have aggregate exposure of not more than Rs.25 crore as on March 31, 2021.
- (ii) the credit facilities / investment exposure to the borrower was classified as Standard by OXYZO as on March 31, 2021.
- (iii) the borrower accounts / credit facilities shall not belong to the categories listed in the Resolution Framework 1.0, except 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, OXYZO may use this window to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor subject to the caps in Clause 3 of Key Features of resolution plan below, 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.
- (iv) Borrowers belonging to such categories as specified by RBI through guidelines/FAQs.

Invocation of resolution process:

- (i) The resolution process under this window shall be treated as invoked when the OXYZO and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower. In respect of applications received by the OXYZO from their customers for invoking resolution process under this window, the assessment of eligibility for

resolution as per the instructions contained in this circular shall be completed, and the decision on the application shall be communicated in writing to the applicant by OXYZO within 30 days of receipt of such applications.

- (ii) The decision to invoke the resolution process under this window 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.
- (iii) The last date for invocation of resolution permitted under this window is September 30, 2021.

Key features of Resolution Plan:

1. 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.
2. Borrowers who have not availed or availed moratorium of less than two years and/or extension of residual tenor by a period of less than two years under Resolution Framework 1.0 or any borrower who approaches OXYZO for resolution under Resolution Framework 2.0 would be eligible for overall cap on extension of residual tenor, inclusive of moratorium period if any permitted to a maximum period of two years.
3. OXYZO has option to convert a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, wherever applicable.

The resolution plan should be finalized and implemented within 90 days from the date of invocation of this resolution process under this window and shall be deemed to be implemented only if all of the following conditions are met:

- a. all related documentation, including execution of necessary agreements between lending institutions and borrower and collaterals provided, if any, are completed by the lenders concerned in consonance with the resolution plan being implemented;
- b. the changes in the terms of conditions of the loans get duly reflected in the books of the lending institutions; and,
- c. borrower is not in default with the lending institution as per the revised terms.

Asset Classification and provisioning:

1. If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers' accounts classified as Standard may be retained as such upon implementation, whereas the borrowers' accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the resolution plan.
2. 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 as amended from time to time.
3. OXYZO 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% of the renegotiated

debt exposure of the OXYZO post implementation (residual debt). Residual debt, for this purpose, will also include the portion of non-fund-based facilities that may have devolved into fund-based facilities after the date of implementation.

4. In respect of borrowers where the resolution process has been invoked, OXYZO may 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 may 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.
5. Half of the above provisions may 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, 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.
6. 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.

Working Capital Support for small business where previous resolution plans were implemented:

As a one-time measure, OXYZO 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 September 30, 2021, with the margins and working capital limits being restored to the levels as per the resolution plan implemented under Resolution Framework – 1.0, by March 31, 2022.

Identification of Stress due to Covid-19:

1. The borrowers to approach OXYZO for availing resolution under above framework and should be able to demonstrate the financial stress being faced by them due to Covid-19.
2. OXYZO to check the eligibility criteria based on impact of covid-19 would be checked for the affected borrowers including the below:
 - Impact of Covid-19 on the sector in which the borrower operates
 - Decline in the income/profitability/cashflows, etc of the borrower
 - Increase in inventory/receivable position of the borrower
3. OXYZO may ask for the declaration from the borrower, that such borrower is affected due to Covid-19.
4. Working capital assessment would be based on criteria such as turnover, working capital cycle, margin, etc.
5. OXYZO to check track record of repayment behaviour pre Covid-19.
6. Financial Statement of Borrower as on March 31, 2021, stating overall exposure with all lending institutions.

7. Any other criteria as may be determined by the OXYZO from time to time in line with the RBI guidelines/circulars.

Disclosure and Credit Reporting:

1. OXYZO shall make the required disclosures in its Annual Financial Statement along with other prescribed disclosures.
2. The credit reporting by the OXYZO in respect of borrowers where the resolution plan is implemented under this window shall reflect the “restructured due to COVID- 19” status of the account. The credit history of the borrowers shall consequently be governed by the respective policies of the credit information companies as applicable to accounts that are restructured.

Borrower’s Grievance Redressal:

Borrowers may write to bod@oxyzo.in in case of any grievances related to the above Resolution Plan.

