



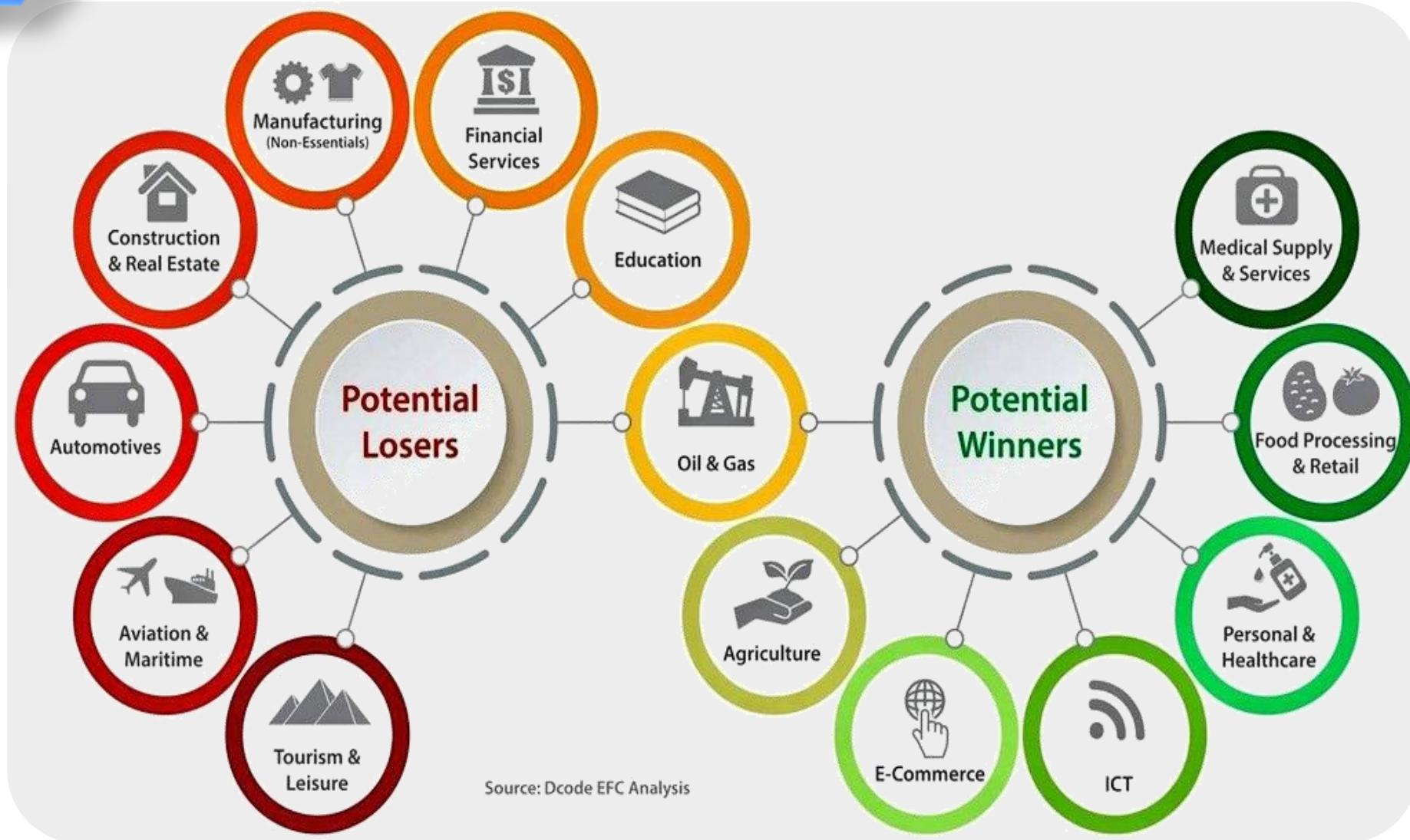
# COVID – ONE TIME RESTRUCTURING

## Loan Restructuring ≠ Loan Waiver



**Sunil Kumar Pandey**  
**CA CMA IIM-C**  
Founder, AV Capital

Sector  
Impacted



Source: Dcode EFC Analysis

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Guiding Factor

No Visibility on  
Future Cash  
Flow for next 1  
year

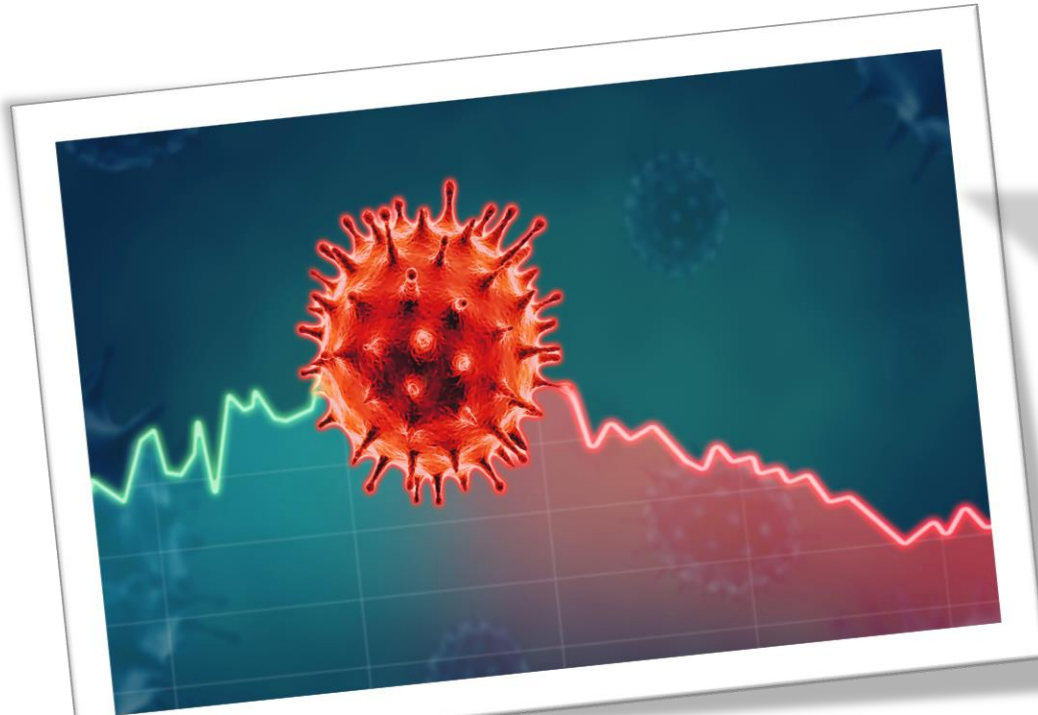
No Further  
credit from  
Existing Banker



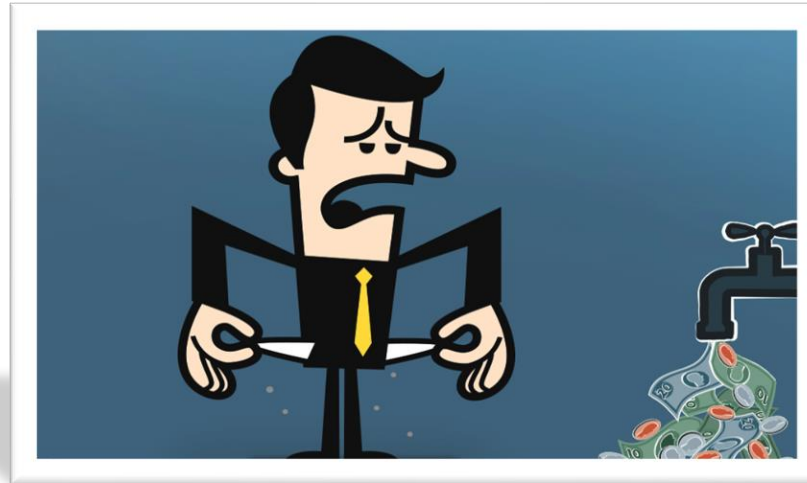
Fear of slipping  
under NPA  
category

No possibility  
of any further  
fund raising  
after one  
month

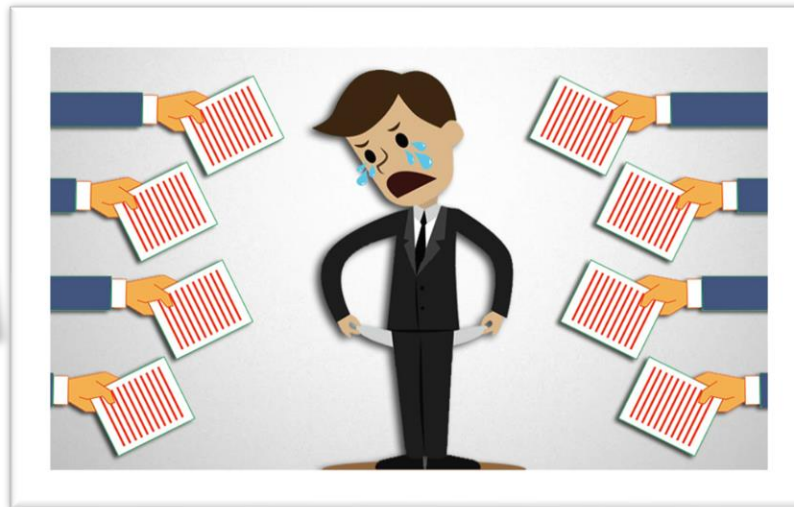
## PREAMBLE



Wide Spread Impact of COVID has impaired the entire recovery process, Posing significant financial stability risk



FINANCIAL  
STRESS



DIS-  
PROPORTIONATE  
DEBT BURDEN

**RBI Guidelines**

**Exposure  
< Rs 25  
Cr**

Relief for MSME Borrowers registered under Goods and Services Tax (GST)	Feb 7, 2018
Encouraging formalization of MSME sector	June 6, 2018
Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances	Jan 1, 2019
Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances	Feb 11, 2020
Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances	August 6, 2020

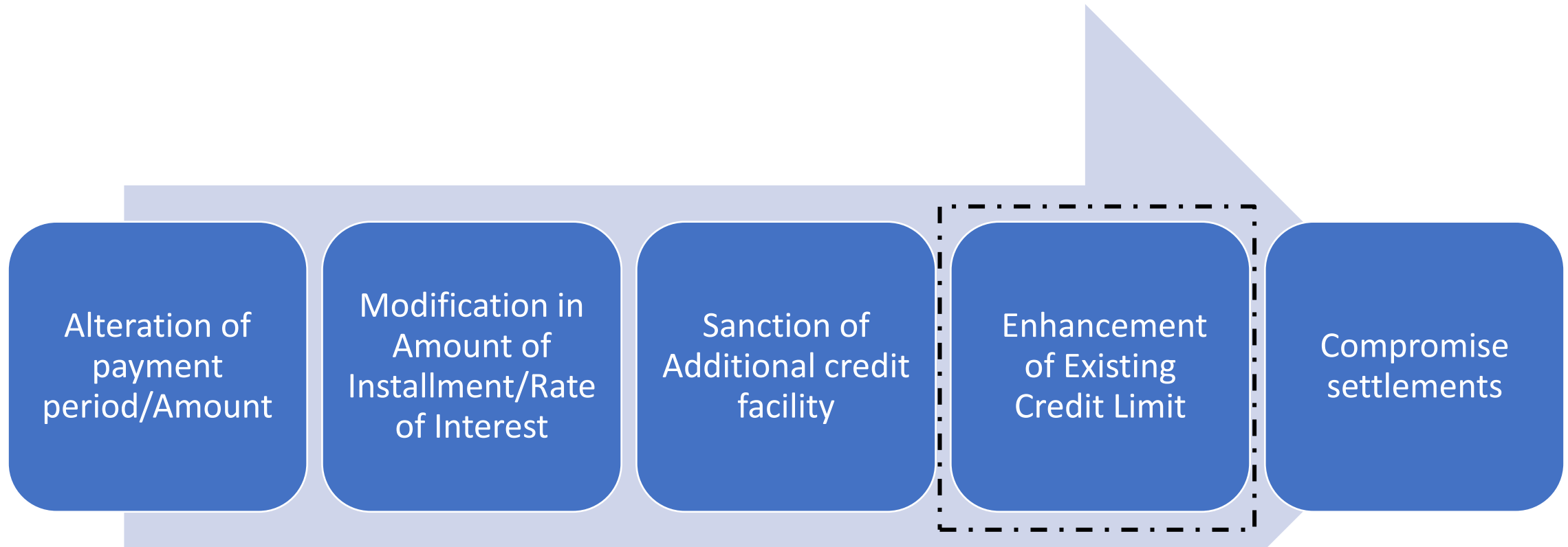
**Exposure  
>Rs 25 Cr**

Resolution Framework for COVID-19-related Stress	August 6, 2020
Resolution Framework for COVID-19-related Stress – Financial Parameters	September 7, 2020

**Prudential  
Framework for  
Resolution of  
Stressed Assets  
June 7, 2019**

## Restructuring

Act by lender, granting concession on economic or legal basis relating to borrower's financial difficulty



## Real Benefits of RP



**OTR has the potential of solving the liquidity issues**

### Deferment of Loan

- This shall bring liquidity in terms of managing day to day operation
- Will give headroom to prepare company for future cash flow

### Interest

- Interest under Resolution plan will be of great relief for companies operating in Difficult segment
- This can be understood as Indirect financing

### Fresh Financing and Finance Discipline

- Fresh Financing is also possible if there is any turnaround and RP is being Adhered
- RP condition precedent and subsequent to make sure adherence to Restructuring rules shall be bringing Financial Discipline

### Not to be downgraded and Saving business

- Account will not be classified as "NPA" Or further Downgraded for default on account due to Direct impact of COVID
- If framework is adhered, Business shall be saved and will help smooth sailing of toughest time

RP Ecosystem

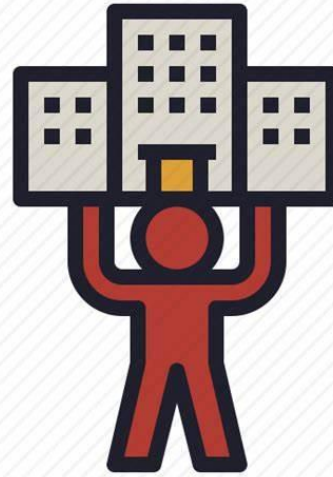
- Internal Team getting exposure for 1<sup>st</sup> time
- CFO busy in Routine Job

SME  
Internal  
Team



SME  
External  
Team

- Statutory Auditor
- Rating Agency
- Valuation Expert

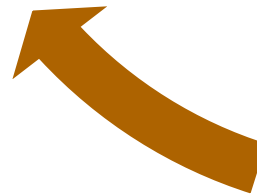


Bank

- Individual Banking Guidelines ( Pre Condition and Subsequent
- Escrow A/c Mechanism
- Inter Credit Agreement

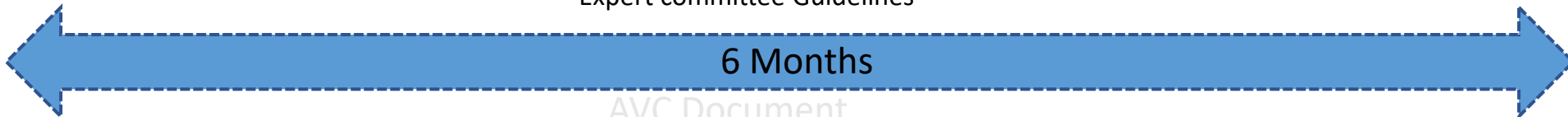
- Preliminary Checklist
- Document Preparation
- Bank Iterative Negotiation

Finance  
Advisor/  
Expert



RBI

- Prudential Framework for Stressed Asset
- Expert committee Guidelines





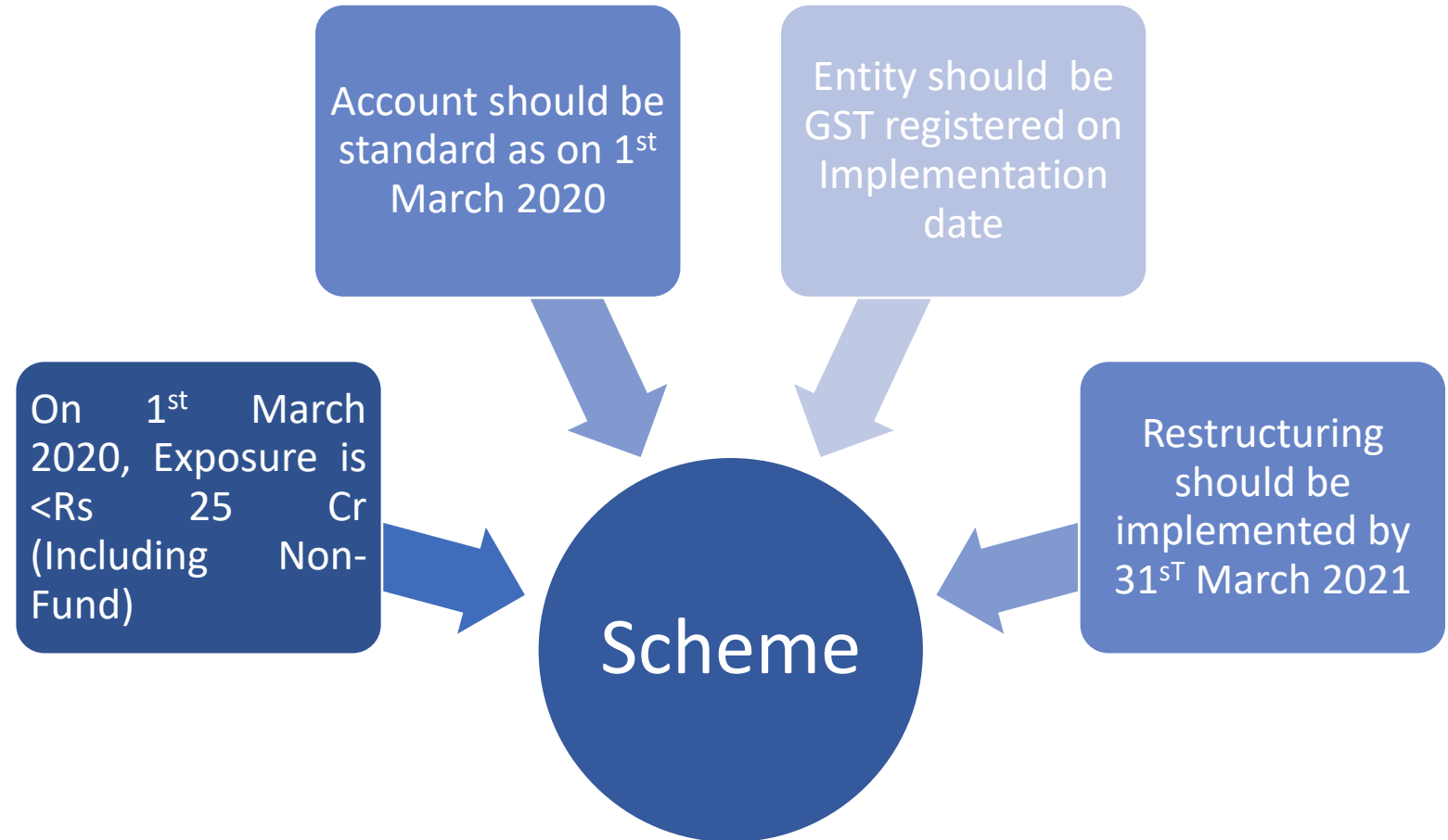
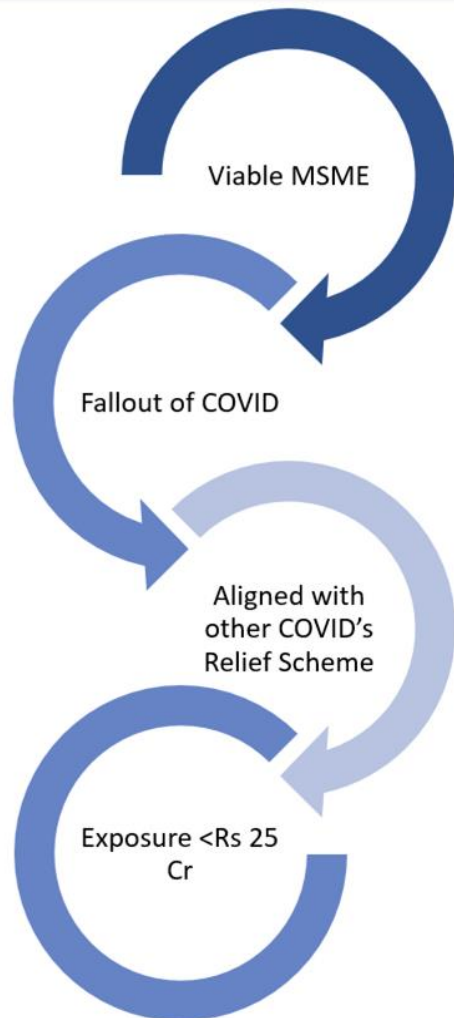


shop local  
**Small BUSINESS**  
support  
community  
main street  
stores mom and pop  
brick and mortar  
shops  
buy local  
neighborhood merchants  
downtown markets

OTR for  
Exposure < Rs 25 Cr

## RBI Guidelines for Exposure <Rs 25 Cr

### Main Test



Exposure <Rs 25 Cr



Bank Shall be create Additional Provision  
of 5% over and Above the existing  
Provision

## Reversal of Provision

*Subject to*

1<sup>st</sup>. Satisfactory Performance

2<sup>nd</sup> Within Specified Time Period



OTR for  
Exposure > Rs 25 Cr

Exposure > Rs  
25 Cr



#### Applicability

- All Commercial Bank,
- Small Finance Bank,
- Co-operative Banks,
- All India Financial Institutions &
- NBFCs and HFC

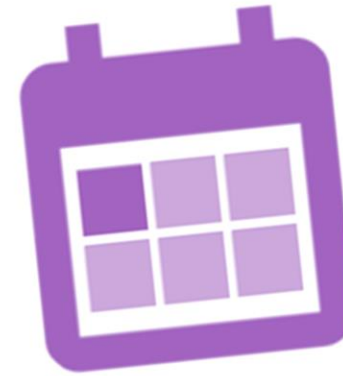
#### Eligibility

- Accounts should be Standard/Overdue should be less than 30 Days past due (SMA 0 Classification)
- Should Continue to remain standard till date of Invocation
- Eligible to borrowers having stress due to direct impact of COVID ( MSME > Rs 25 Cr)
- Other cases (Refer Circular June 7, 2019) Circular

## Invocation Date and Timelines

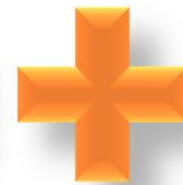
Date on which Borrower and Lending Institution have agreed to proceed with a Resolution Plan

For Sole Borrower



For Multiple  
Borrower

75% of  
lenders in  
terms of  
total  
outstanding  
amount



60% in  
terms of  
total no's of  
lenders



Resolution  
Plan

*Inter Credit Agreement should be sign within 30 Days from the date of Invocation*

## Other Features

### Deadline of Resolution Plan

- RP must be invoked till 31<sup>st</sup> December
- RP must be implemented within 180 Days from the date of Invocation ie 30<sup>th</sup> June 2021

### Approved Policy by Lender

Lending Institution has to put Board Approved policy detailing

- Manner in which evaluation may be done
- Criteria that may be applied while considering the RP

### Expert Committee

Headed by Mr KV Kamath, Committee shall be recommending on following things

- Financial Parameters
- Sector Specific benchmark

#### For aggregate exposures >Rs100 crores,

Resolution plans shall require an independent credit evaluation (ICE) by any one credit rating agency (CRA).

#### For aggregate exposures >Rs1,500 crores,

Resolution plans shall require an independent credit evaluation (ICE) by any one credit rating agency (CRA) and Expert Committee constituted by RBI

# OTR Process

**Start with your Internal team** to assess the

- Current Loan Status
- Future Cash Flow Projection
- Preliminary review of data

Prepare & Assess

**Brainstorming with Expert/Advisor**

- To Understand and prepare Resolution Plan as per the Banking Policy/Guidelines
- Close Co-ordination with Bank representative Team

Evaluation of RP

**Once RP is approved as per the Banking Policy.**

- Prepare Compliance Chart
- Ensure adherence to terms and condition as mentioned in the RP

Prepare & Assess

Prepare & Assess

Brainstorming with Expert/Advisor

Evaluation of RP

Once RP is approved as per the Banking Policy.

**Co-ordination with External Stakeholder**

- Statutory Auditor
- Credit Rating Agency
- Valuation Agency
- Appoint Expert/Advisor

Co-ordination

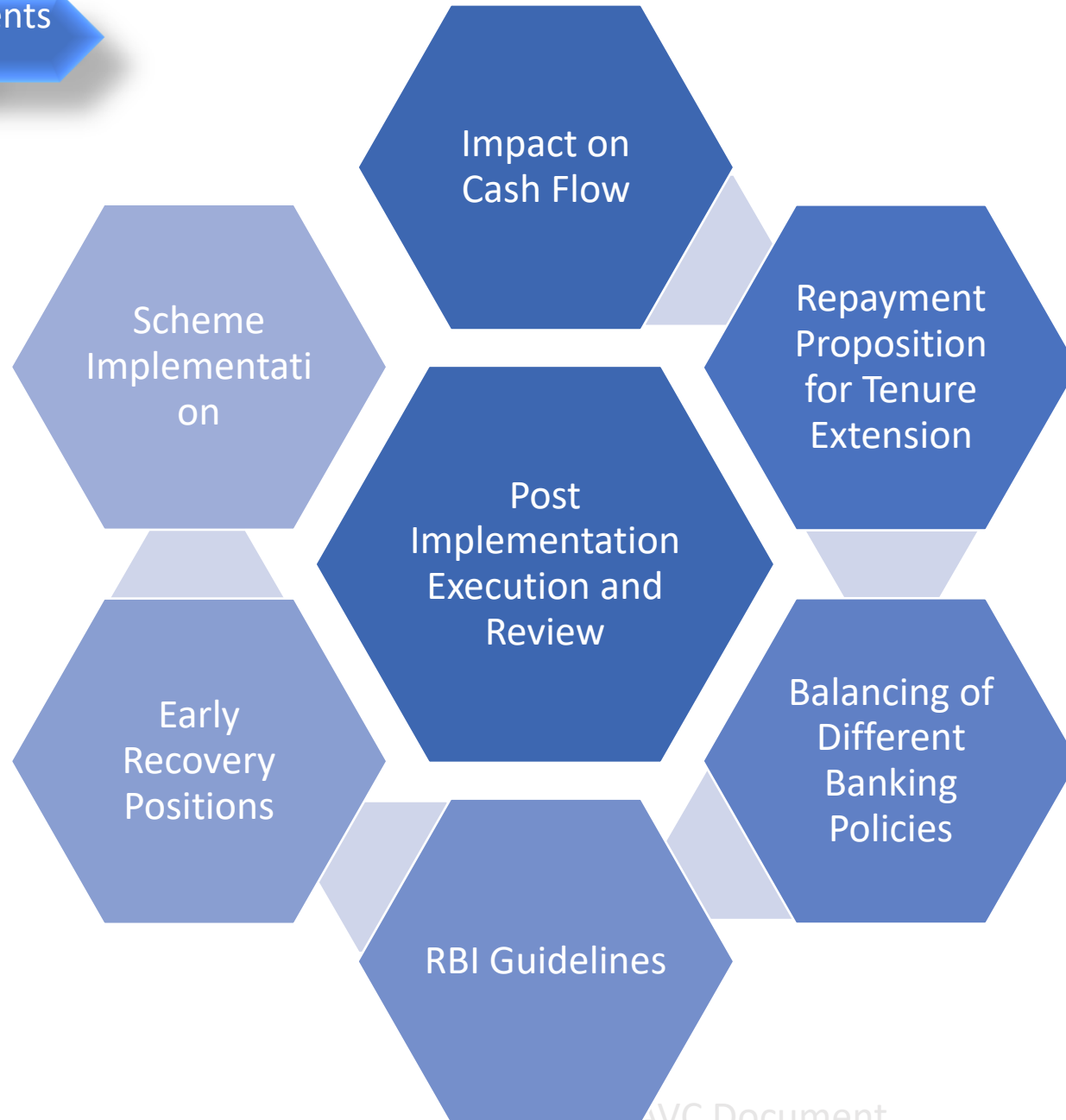
**Co-ordination Banking Team**

- (a) To understand their evaluation criteria of our Resolution Plan
- (B) Ensure Weekly Co-ordination for effective communication in case of changes in RP

Post Approval



Main Contents  
of RP



## Approach



Restructuring is not a Blanket Permission, Promoters have to demonstrate intent and Skin in the game

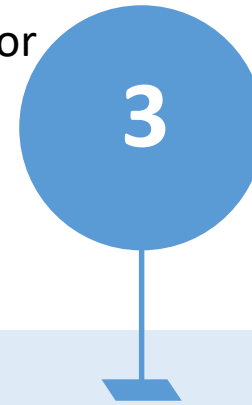
Prepare Classic restructuring plan and ensure adherence to condition precedent and Subsequent

Identifying concession that can be ask from Bank in restructuring of existing and fresh limit if any

Identify and Adopting strategies in Business vis-à-vis Books of Accounts to ensure adherence to Key Sector Specific Ratio

Prepare Realistic Cash Flow Projection for next 5 years  
*Segment Wise /Geography Wise/Department Wise*

- Pre Covid Financials
- Audited March 20 numbers
- Year to Date Financials
- Updated Compliance pattern



Evaluation  
Criteria for RP



- 1 **TOL/ATNW**
- 2 Total Debt/EBITDA
- 3 Current Ratio
- 4 DSCR
- 5 ADSCR

Sector Specific  
Parameters

Sector Specific thresholds (ceiling/floors) has been specified and lenders need to ensure that the same are meet /Maintained by **31<sup>st</sup> March 2022** and thereafter

Other Financial  
Parameters

Lender are free to consider other parameters while finalizing the resolution assumption apart from the Sector specific parameters in respect of eligible borrower

Graded  
Approach

Covid Impact had been different on various segments, Lender shall be adopting Graded approach depending upon the severity of Impact. RP need to be classified into **MILD, MODERATE, SEVERE**

Agreed ratio shall be monitored for compliance in subsequent credit reviews, Non Adherence to the same shall considered as Breach and if not rectified, it shall be considered as Financial Difficulty

- Also In case of any sector's limit/parameter is not specified, Lenders are free to make own internal assessment for 1<sup>st</sup> and 2<sup>nd</sup> Ratio, 3<sup>rd</sup> and 4<sup>th</sup> Ratio should be  $\geq 1$  and ADSCR should be  $\geq 1.2$

## Broad Framework

### Moratorium

- Maximum Extension of residual tenor of the loan not more than 2 years
- Moratorium, If any, shall be part of overall tenor with 2 years maximum limit

### Fresh Facilities

- Fresh Facilities can be sanctioned as part of the resolution Package
- New Facilities, Including funded interest term loan shall carry the same classification as other facilities

### Debt conversion into Security

- Conversion of Debt into Equity or other marketable, NCD issued by borrower, Provided amortization schedule and the coupon rate are similar to the terms of the debt held on lender books
- Conversion of Debt into equity shall be done at collective valuation of Rs 1. Valuation shall be governed as per previous norms

### Escrow Account

- In case of Multiple Banks , All receipts and Re-payment and additional disbursement shall be routed through an Escrow account maintained by one of the lending institution

## Asset Classification and Provisioning

NPA Cases	Additional Finance	What if RP is not implemented	What if RP is implemented
<p>Even if Accounts slip into NPA between Invocation and Implementation, It can be upgraded to “Standard” on Implementation Date</p>	<p>If Additional Finance is disbursed before the implementation date, It shall be classified as “Standard” till Implementation regardless of the actual performance</p>	<p>The asset classification of the additional finance shall be as per the actual performance of the borrower w.r.t additional finance or the rest of the credit facilities, whichever is worse</p>	<p>The institution who have signed ICA shall create provision higher of</p> <ul style="list-style-type: none"> <li>A) 10% of Total Debt</li> <li>B) Provision as per IRAC Norms</li> </ul> <p>The Institution who didn't sign ICA shall create provision higher of</p> <ul style="list-style-type: none"> <li>A) 20% of Total Debt</li> <li>B) Provision as per IRAC Norms</li> </ul>

### Reversal of Provision

- 50% may be reversed on Paying 20% of the debt without slipping into NPA post Implementation
- Balance 50% On Paying 10% of the debt without slipping into NPA

## Default Post RP Implementation

### Default Phase 1

Any default with any signatory to the ICA during the Monitoring Period

Shall Trigger a **Review period** of 30 Days

### Default Phase 2

Any default towards the end of the review period, Asset classification will be downgraded to NPA

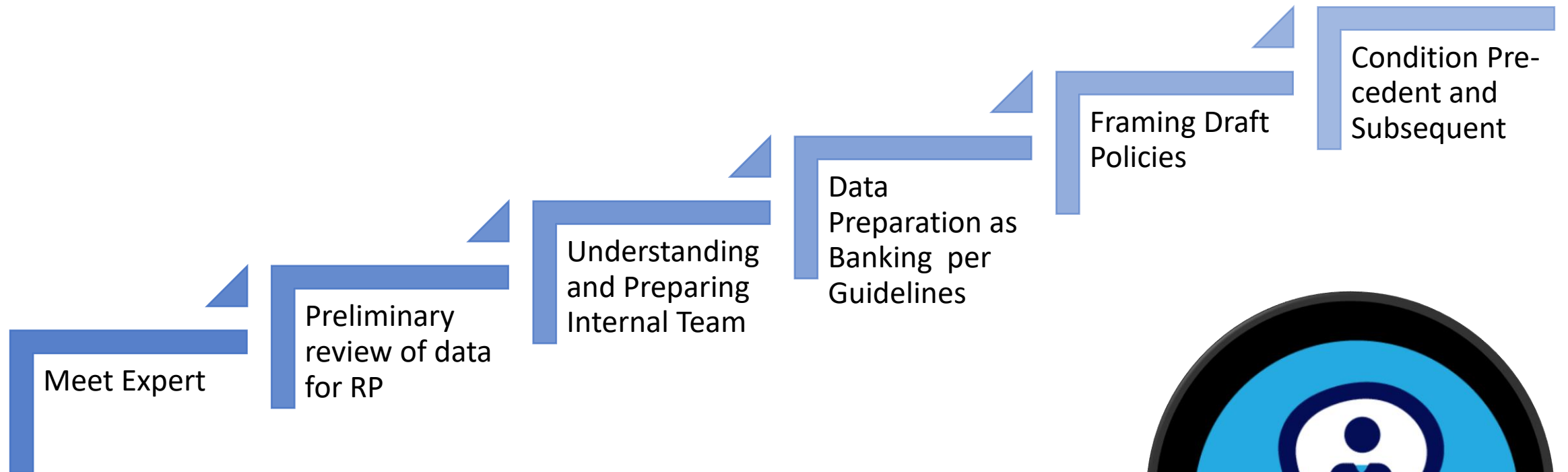
Downgrade will be accounted irrespective of the fact whether lender has agreed to ICA or not

**Downgrade** shall be considered from earlier of below 2 events

**1<sup>st</sup> Event** – Date of Implementation of RP

**2<sup>nd</sup> Event** – Date on which A/c has been classified as “NPA” before RP implementation

Actionable



## Observation

Sr.no	Particular	Exposure > Rs 25 Cr	Exposure < Rs 25 Cr
1	Extension	Maximum Extension of residual tenor of the loan not more than 2 years	Circular is silent on Moratorium Extension
2	Approval from Lender/s	Lender representing 75% of the Total O/s Amt and 60% of the total Number of Lender shall agree to the RP	Circular is silent on % Lender agreeing to RP
3	NPA	if Accounts slip into NPA between Invocation (<31 <sup>st</sup> December 2020) and Implementation (<30 <sup>th</sup> June 2021), It can be upgraded to “Standard” on Implementation Date	If Accounts slip into NPA between 2 <sup>nd</sup> March 2020 and Implementation date (<31 <sup>st</sup> March 2021) , it can be upgraded to “Standard” on Implementation date
4	Account Category	As on 1st March 2020 account should be standard and should not be SMA-1 or SMA-2.	As on 1st March 2020 account should be standard. This means, it can be SMA-0 or SMA-1 or SMA-2 at the end of February 2019



Entity Exposure Vs  
Group Exposure



Action Plan



Talk to Your  
Clients for OTR

Talk to us for  
Handholding on  
OTR



# Thank you



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