



## Utkarsh Small Finance Bank

### Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

### **Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)**

<b>BACKGROUND</b>	<ul style="list-style-type: none"><li>• The Reserve Bank of India vide its circular Ref. DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 on <b>“Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances”</b> had provided a window to enable lenders to implement a resolution plan in respect of viable MSME entities on account of the fallout of Covid-19 and to align these guidelines with the Resolution Framework for COVID-19 related Stress announced for other advances.</li><li>• In view of the uncertainties created by the resurgence of the Covid-19 pandemic in India, RBI vide circular Ref. DOR.STR.REC.12/21.04.048/2021-22 has extended the facility for restructuring existing loans without a downgrade in the asset classification subject to specified conditions.</li><li>• The RBI circular also states that the lending institutions shall put in place Board approved policy on restructuring of MSME advances under these instructions at the earliest, and in any case not later than a month from the date of aforesaid RBI circular dated May 5, 2021, ensuring that the restructuring is necessitated on account of the economic fallout from Covid-19.</li></ul>
<b>PURPOSE</b>	<ul style="list-style-type: none"><li>• The purpose of this policy document is to outline the guidelines pertaining to implementation of restructuring of viable MSME entities under “Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)” ensuring that the restructuring is necessitated on account of the economic fallout from Covid-19.</li></ul>
<b>SCOPE</b>	<ul style="list-style-type: none"><li>• The Scope of the policy is to ensure the implementation of guidelines of restructuring of viable MSME entities, eligibility of MSMEs in respect of whom Utkarsh Small Finance Bank Limited (“Bank” or “USFBL”) shall be willing to consider the restructuring, lay down the due diligence considerations to be followed by the Bank to establish the necessity of implementing restructuring in respect of the concerned MSMEs under “Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)” ensuring that the</li></ul>



## Utkarsh Small Finance Bank

### Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

	restructuring is necessitated on account of the economic fallout from Covid-19, making appropriate provisions under restructuring as per regulatory guidelines etc.
<b>POLICY GUIDELINES</b>	<p><b><u>Policy Guidelines:</u></b></p> <ul style="list-style-type: none"><li>▪ <u>The Policy guidelines are divided into 3 Parts as below:</u><ul style="list-style-type: none"><li>▪ Part A – Eligibility of Borrowers for restructuring of MSMEs.</li><li>▪ Part B – Norms for loans restructured previously.</li><li>▪ Part C – Disclosure requirements with respect to the restructuring plans implemented.</li></ul></li></ul> <p><b><u>Part A: Eligibility of Borrowers for restructuring of MSMEs.</u></b></p> <p><b><u>Eligible Borrowers:</u></b></p> <p>1. 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. The Broad guidelines of the notification are as below, however all the guidelines as per notification are applicable for classification of MSMEs:</p> <p><b><u>Classification of enterprises.</u></b>- An enterprise shall be classified as a micro, small or medium enterprise on the basis of the following criteria, namely:</p> <ul style="list-style-type: none"><li>▪ 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;</li><li>▪ 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</li><li>▪ 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.</li></ul>



## Utkarsh Small Finance Bank

### Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

#### **Becoming a micro, small or medium enterprise:**

- Any person who intends to establish a micro, small or medium enterprise may file Udyam Registration online in the Udyam Registration portal, based on self-declaration with no requirement to upload documents, papers, certificates or proof.
- On registration, an enterprise (referred to as “Udyam” in the Udyam Registration portal) will be assigned a permanent identity number to be known as “Udyam Registration Number”.
- An e-certificate, namely, “Udyam Registration Certificate” shall be issued on completion of the registration process.

#### **Composite criteria of investment and turnover for classification:**

- A composite criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.
- If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category, but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.
- All units with Goods and Services Tax Identification Number (GSTIN) listed against the same Permanent Account Number (PAN) shall be collectively treated as one enterprise and the turnover and investment figures for all of such entities shall be seen together and only the aggregate values will be considered for deciding the category as micro, small or medium enterprise.

2. 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.

3. The aggregate exposure, including non-fund-based facilities, of all lending institutions to the MSME borrower does not exceed ₹25 crore as on March 31, 2021.

4. The MSME borrower's account was a 'standard asset' as on March 31, 2021 in the



## Utkarsh Small Finance Bank

### Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

books of the Bank.

5. The MSME borrower's account was not restructured in terms of the circulars DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020; DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020; or DBR.No.BP.BC.18/21.04.048/2018-19 dated January 1, 2019 (collectively referred to as MSME restructuring circulars).

6. 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.

#### **Invocation of restructuring process:**

7. The last date for invocation of restructuring of the MSME borrower account permitted under this policy is September 30, 2021.

8. The restructuring shall be treated as invoked when the bank and the MSME borrower agree to proceed with the efforts towards finalising a restructuring plan to be implemented in respect of such borrower.

9. The decisions on applications received by the bank from its MSME borrowers for invoking restructuring under this policy shall be communicated in writing to the borrower by the bank within 30 days of receipt of such applications.

10. The decision to invoke the restructuring under this policy 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.

#### **Permitted features of restructuring and implementation:**

11. The restructuring implemented under this policy 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 restructuring plan for this purpose.

12. A) The restructuring of the MSME borrower account shall be implemented by the bank within 90 days from the date of invocation. The Restructuring shall be deemed to



## Utkarsh Small Finance Bank

### Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

be implemented only if all the conditions are met which are as below:

i). All related documentation, including execution of necessary agreements between USFBL and the borrower and collaterals provided, if any, are completed by USFBL in consonance with the restructuring being implemented.

ii). The changes in the terms of conditions of the loans should get duly reflected in the books of USFBL.

iii). Borrower is not in default with USFBL as per the revised terms.

12. B) The Bank, in case of the borrower having multiple loan accounts, will extend restructuring only to such loan account(s) of the borrower for which the borrower has submitted the request application for the restructuring to the Bank.

13. All other instructions specified in the circular Ref. DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 shall remain applicable.

14. Further, accounts restructured under this policy shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from Covid-19.

#### **B. Assessment of Income, Conformity of stress due to Covid-19:**

15. The broad parameters to be considered to establish stress due to Covid-19 for the borrower is as below:

- For MSME units: Reduction in sales / turnover / profit Or shut down of business / impact on cash flows or income Or temporary shut-down of business due to State Govt / District Administration order etc.

A suitable documentary evidence to establish occurrence of any of the above events is required to be obtained from the borrower to establish Covid-19 related stress.

[However, in case of loans with outstanding amount of above Rs. 5 lakh as on the date of submitting the restructuring application to the bank by the borrower, documentary evidence either in form of Financial Documents / Bank statement or GST return shall be mandatory to establish stress due to Covid-19].



## Utkarsh Small Finance Bank

### Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

#### 16. Due Diligence Template for taking decision on Restructuring Application

##### Due Diligence Template for MSME (Go-No-Go Criteria for restructuring)

SN.	Particulars	Observation
1	Whether account was a 'standard asset' as on March 31, 2021, if yes, capture DPD days as of March 31 2021.	Yes/No  DPD Days as on 31/03/2021:
2	Whether total exposure, including non-fund based facilities, of all banks and NBFCs exceeds ₹25 crore as on March 31, 2021. If yes, restructuring application to be rejected.	Yes/No
3	If borrower is GST-registered, tick Yes (Proof required), if NO, select reason.  In case of 'No' – CA certificate as per Approved Process to be available.	Yes / No  If No, Select reason:  1. Exempted from GST registration.
4	Please mention the DPD days as on date of submission of the Credit Recommendation.	DPD Days as on -----



## Utkarsh Small Finance Bank

### Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

Other Parameters – MSME	
Whether business was/is shut down.  If yes, Reason for shut down	Yes/No  (i) State Govt order ----- (ii) Others ----- (please specify)  Pls also attach a copy of relevant order along with the due diligence template
Period during which Business was shut down.	
Sales/TO / Profit during Pre-COVID Period	
Sales/TO / Profit during Post-COVID Period	
Medical Expenses Incurred for self/family members	Yes/No  Amount of Medical Expenses
Any family members including self-fell sick due to Covid-19	Yes/No  Relationship of the family members who fell sick with the Borrower -
Capture collection team feedback	Recommended for Restructuring Recommended for Restructuring



## Utkarsh Small Finance Bank

### Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

#### **Details of Income /Sales**

Business Income Details	Turnover/Sales/Profit	
	Pre Covid	During Covid
Sales/Turnover / Profit (Amount in Lakh)		

#### **Projected Cash Flow (as declared by Borrower in Request cum application letter)**

Business Income Details	Turnover/Sales	Net Profit (NP)
Projected Monthly Sales/turnover (Amount in Lakh)	Sales in FY 2020-21 (Provisional / Actual) -  Projected Sales in FY 2021-22	NP in FY 2020-21 (Provisional / Actual) -  Projected NP in FY 2021-22
Justification for the Projection		

#### **Asset classification and provisioning:**

17. In respect of restructuring implemented as per Clause 1 above (mentioned in Part A under this policy), 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.

18. For the MSME accounts restructured under this policy framework, the Bank shall maintain additional provision of minimum 10% of the residual debt of the borrower, over and above the provision already held by the Bank at the time of implementation. Such additional provisioning requirement will be specific to only the restructured MSME account(s) of the borrower and not to all accounts of the borrower.





## Utkarsh Small Finance Bank

### Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

	<p><b><u>B. Norms for loans restructured previously:</u></b></p> <p>19. In respect of accounts of borrowers which were restructured by the bank in terms of the MSME restructuring circulars, the bank, as a one-time measure, shall 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.</p> <p>20. The decision with regard to above shall be taken by the bank by September 30, 2021.</p> <p>21. 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.</p> <p>22. 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.</p>
<b>APPLICABILITY</b>	<p>1) The policy would be applicable to MSMEs loans reported by the Bank under MSMEs segment as per the allowed definition as on March 31, 2021.</p> <p>2) The policy would also be applicable to all eligible MSME term loans and CC/OD loans granted under Non NBFC segment of WSL Lending.</p>
<b>REGULATORY CLAUSE REFERENCES</b>	<ul style="list-style-type: none"><li>• RBI vide circular Ref. RBI/2021-22/31, DOR.STR.REC.12/21.04.048/2021-22 dated May 5, 2021 on "Resolution Framework - 2.0: Resolution of COVID-19 related stress of Micro, Small and Medium Enterprises (MSMEs)".</li><li>• Ref. DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 on "Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances".</li><li>• Govt. of India Gazette Notification S.O. 2119 (E) dated June 26, 2020 on classification of Micro, Small and Medium Enterprises.</li></ul>
	-----*****-----



**Utkarsh Small Finance Bank**

Resolution Framework Policy- 2.0: Resolution of COVID-19  
related stress of Micro, Small and Medium Enterprises  
(MSMEs)

---

PROPRIETARY