

XANDER FINANCE PRIVATE LIMITED

RESOLUTION FRAMEWORK FOR LOANS AND ADVANCES IMPACTED DUE TO COVID-19 RELATED STRESS

DATE OF REVIEW: REVIEWED BY THE BOARD OF DIRECTORS IN THE BOARD MEETING HELD ON MARCH 31, 2023

1. Background:

Xander Finance Private Limited ('XFPL' or 'Company') is registered with the Reserve Bank of India ('RBI') as a Systemically Important Non-Deposit Accepting Non-Banking Financial Company (NBFC-ND-SI). The Company provides debt capital to underserved credit segments in real estate, manufacturing and the service sector in India.

On June 7, 2019, the Reserve Bank of India ('RBI') vide DBR.No.BP.BC.45/21.04.048/2018-19 has introduced "The Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019" (hereinafter referred to as 'Directions'). These Directions were introduced by RBI to provide a framework for early recognition, reporting and time bound resolution of stressed assets. As indicated in the Directions, Lenders should put in place a Board approved policy for resolution of stressed assets, including the timelines for resolution. The Directions have further mandated lenders to report a credit information of borrowers including classification of a loan account as Special Mention Account ('SMA') to Central Repository of Information on Large Credits ('CRILC') having aggregate exposure of Rs.50 million and above. In accordance with the said Directions, the Company has formulated the Policy on Resolution of Stressed Asset.

Further, on account of the economic fallout due to COVID-19 pandemic, RBI had announced a resolution framework for COVID-19 related stress vide DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 (hereinafter referred to as 'Framework for COVID-19 related stress'). The financial parameters to be considered for such resolution framework were detailed vide DOR.No.BP.BC/13/ 21.04.048/2020-21 dated September 7, 2020.

The intent of the Framework for COVID-19 related stress is to provide a window to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, while classifying such exposures as standard, subject to certain specified conditions. The resolution facility is available only to eligible borrowers having stress on account of COVID-19 pandemic and the Company needs to assess the viability of the resolution plan subject to conditions as prescribed in the Framework for COVID-19 related stress. In accordance with the framework prescribed by RBI, this Policy has been formulated to prescribe a manner in which such assessment can be carried out by the Company.

2. Definitions:

2.a. Lending Institutions shall mean:

- All commercial Banks (including regional rural banks; small finance banks and local area banks);
- Co-operative Banks;
- All-India Financial Institutions and
- Non-Banking Financial Companies including Housing Finance Companies.

2.b. Financial Service Providers shall have the same meaning as in sub-section (17) of Section 3 of the Insolvency and Bankruptcy Act, 2016.

2.c. Monitoring period : Monitoring period is defined as the period starting from the date of implementation of the resolution plan till the borrower pays 10% of the residual debt, subject to a minimum 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.

All the other terms which have not been defined shall have the same meaning ascribed in the RBI circular on Prudential Framework for Resolution of Stressed Assets dated June 7, 2019 and Master Directions - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (as amended from time to time)

3. Exclusion of categories of borrowers / credit facilities that are not eligible for restructuring under the Framework for COVID-19 related stress:

The following categories of borrowers/ credit facilities are not eligible for resolution plan under this framework:

- a) MSME borrowers whose aggregate exposure to Lending Institutions collectively, is Rs.25 crore or less as on March 1, 2020.
- b) Farm credit as listed in Paragraph 6.1 of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as updated) or other relevant instructions as applicable to specific category of Lending Institutions.
- c) Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.
- d) Exposures of Lending Institutions to Financial Service Providers.
- e) Exposures of lending institutions to Central and State Governments; Local Government bodies (e.g. Municipal Corporations) and body corporates established by an Act of Parliament or State Legislature.
- f) Exposures of housing finance companies where the account has been rescheduled in terms

of para 2(1)(zc)(ii) of the Master Circular - The Housing Finance Companies (NHB) Directions, 2010 after March 1, 2020, unless a resolution plan under this framework has been invoked by other Lending Institutions. However, from the date of the Framework for COVID-19 related stress issued by RBI, any resolution necessitated on account of the economic fallout of COVID-19 pandemic, shall be undertaken only under this framework.

4. Default by borrowers due to COVID-19 related stress:

The business operations and financial performance of the borrowers of the Company might be impacted by the disruptions caused due to COVID-19 pandemic. Such borrowers may face stress and may be unable to service the debt obligations. In order to mitigate the impact of COVID-19 on such borrowers, the Company may take all such measures as may be prescribed in the Framework for COVID-19 related stress subject to following:

A. Implementation Conditions:

1. Following borrowers shall be eligible for resolution under the Framework for COVID-19 related stress:
 - a) Only those borrower accounts shall be eligible for resolution under the Framework for COVID-19 related stress which were classified as standard, but not in default for more than 30 days with the Company or any of the Lending Institutions as on March 1, 2020;
 - b) The borrower accounts should continue to remain standard till the date of invocation of resolution process. For this purpose, the date of invocation shall be the date on which both the borrower and the Company have agreed to proceed with a resolution plan. The Company should consider the actual outstanding debt of the eligible borrower as on the date of the invocation of the resolution process;
 - c) The ability of the borrower to service the debt obligations of the Company should be severely impacted by the pandemic.
 - d) The borrower is unable to carry on its daily business operations and is unable to generate income/ funds on a regular basis due to financial stress caused by the pandemic;
 - e) Limited collection in the escrow account of the customers / borrowers due to market slowdown and impact of pandemic on its business;
 - f) The borrower is unable to generate collections from the current projects and is unable to launch new projects due to the pandemic;
 - g) Sources of income of the borrower have been severely impacted by the pandemic that may result in non-servicing of debt obligations of the Company;
 - h) Administrative / operational issues on part of the customers / borrowers due to

complete lockdown of the businesses.

Explanation: It is hereby clarified that in order to avail restructuring benefits under the Framework for COVID-19 related stress, the borrower has to mandatorily comply with conditions as stated under clause 4.A.1.a) and 4.A.1.b). In addition to this, the borrower may satisfy any of the conditions as mentioned under clause 4.A.1.c) to clause 4.A.1.h) of this Framework.

2. In case where the Company is the sole lender to the borrower, the decision regarding the request for resolution by the borrower shall be taken by the Company after assessing the eligibility of the borrower and other requirements given under this section. In other cases, where there are multiple Lending Institutions to the borrower, the Company after assessing the eligibility of the borrower shall grant necessary approvals for execution of inter-creditor agreement.
3. A borrower who proposes to avail resolution under the Framework for COVID-19 related stress should make a request in writing to the Company.
4. In case there are multiple Lending Institutions other than the Company having exposure to the borrower, the resolution process shall be treated as invoked in respect of any borrower if the Lending Institutions representing 75% by value of the total outstanding credit facilities (fund based as well non-fund based) and not less than 60% of Lending Institutions by number agree to invoke the resolution process. In such cases, ICA needs to be mandatorily signed by all Lending Institutions within 30 days from the date of invocation of the resolution process. The invocation will be treated as lapsed if ICA is not signed by all Lending Institutions within the stipulated 30 days and the resolution process cannot be invoked again for such borrower under the Framework for COVID-19 related stress.
5. The Company should ensure that the ICA contains a dispute redressal mechanism that clearly lays down the recourse available to a signatory to the ICA who wants to raise a dispute. The Company should ensure that ICA provides for suitable mechanisms for information sharing amongst Lending Institutions during and after implementation of the resolution plan.
6. Resolution under this framework should not be invoked later than December 31, 2020 and must be implemented within 180 days from the date of invocation of resolution process.
7. If any of the timelines for invocation of resolution process; execution of ICA and implementation of resolution plan are breached at any point, the resolution process ceases to apply immediately in respect of the borrower. In all such cases, the Company may still proceed with the resolution framework as prescribed under Policy for Resolution of Stressed Assets as applicable to the borrower, as if the resolution process under this Policy was never invoked.
8. In respect of accounts where the aggregate exposure of the Company at the time of

invocation of the resolution process is Rs.100 crore and above, the Company needs to obtain an Independent Credit Evaluation ('ICE') from any one credit rating agency ('CRA') duly authorized under the Directions issued by RBI. Resolution plans that receive a credit opinion of RP4 or better for the residual debt from a Credit Rating Agency ('CRA') should be considered for implementation under the Framework for COVID-19 related stress. In case credit opinion is obtained from more than one CRA, all such credit opinions must be RP4 or better.

9. The resolution plan should further provide for borrower accounts involving consortium or multiple banking arrangements, all receipts / repayments / additional disbursements to be routed through an existing escrow account maintained with the Company or with one of the Lending Institutions. In case of exposure of eligible borrowers to multiple Lending Institutions, additional separate escrow accounts at each project level may be arranged if the Lenders desire to. To ensure this, the Company / Lending Institutions should enter into a formal agreement with the escrow manager detailing the duties and responsibilities of the escrow manager and the Lending Institutions and the enforcement mechanism contractually available to them.

B. Permitted features of the resolution plan:

1. The resolution plan may involve any action / plan / re-organization including, but not limited to, regularisation of the account by payment of all overdues by the borrower, sale of Company's exposures to other entities / investors, change in ownership and restructuring. The resolution plan should be clearly documented by the Company and other concerned Lending Institutions in case there are multiple Lenders Institutions.
2. The Company may allow extension of the residual tenor of the loan, by upto a maximum of 2 years.
3. The Company may grant a moratorium of upto 2 years for repayment of loan instalments. The moratorium period shall come into force immediately upon implementation of the resolution plan.
4. Restructuring in respect of projects under implementation involving deferment of date of commencement of commercial operations ('DCCO') are excluded from the scope of the Framework related to COVID-19 stress. In order to grant DCCO extension, the Company should comply with the guidelines prescribed by RBI under its circular no: DOR.No.BP.BC.33/21.04.048/2019-20 Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances – Projects under Implementation dated February 07, 2020 and Master Directions. The Company is permitted to revise the DCCO and consequential shift in repayment schedule of the borrowers without being treated as restructuring subject to a maximum of four years in case of infrastructure projects and a maximum of two years in case of non- infrastructure projects (including commercial real estate exposures). DCCO of projects may be extended by a further two years in case of change in ownership subject to the conditions specified in the above guidelines.

5. While approving resolution of borrower’s loan accounts under the Framework for resolution of stressed assets related to COVID-19, the Company should consider the following indicative parameters for assessing the viability of the resolution plan:
 - Business projections and cash flows of the borrower;
 - Liquidity / asset monetization plans if any to support the sustainability of borrower;
 - Any fund-raising plans in near future either in the form of additional debt or equity subject to prescribed financial parameters.
6. The Company as it may deem fit charge an additional one-time processing fee upto 2% of the outstanding loan amount in cases where resolution plan involving restructuring of loan accounts of the borrowers of the Company is approved.
7. The borrowers may have to furnish such additional security as may be stipulated by the Company in case the restructuring of the loan account is approved under this framework.
8. Considering the resolution framework, it is upon the sole discretion of the Company to increase the applicable rate of interest on the outstanding portion of the loan amount of the eligible borrower.

C. Mandatory Key Ratios and other financial parameters:

1. The Company should mandatorily consider the following key ratios while finalizing the resolution plans in respect of the eligible borrowers:

Key Ratio	Definition
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 amortisation
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

2. The thresholds (ceilings or floors, as the case may be) for each of the above key ratios to be considered by the Company in the resolution assumptions with respect to an eligible borrower in below sector are as follows:

Sectors	TOL / ATNW	Total Debt/ EBITDA	Current Ratio	Average DSCR	DSCR
Real Estate					
- Residential	<=7.00	<=9.00	>=1.00	>=1.20	>=1.00
- Commercial	<=10.00	<=12.00	>=1.00	>=1.20	>=1.00

3. In addition to the above key ratios, the Company may at its discretion also consider 1) Project level cash flow cover over Principal and Interest during the tenor of the loan to be restructured; 2) Net Present Value of future cashflows and 3) external valuation of the project based on future expected cashflows by a third party valuer.
4. In respect of borrowers belonging to real estate sector, and having both residential and commercial real estate business, the above-mentioned financial parameters may be applied at the project level.
5. In case of borrowers pertaining to other sectors, the Company should ensure compliance with the applicable financial parameters stipulated by RBI vide DOR.No.BP.BC / 13 / 21.04.048 / 2020-21 dated September 7, 2020. In respect of the sectors where sector-specific thresholds have not been specified, the Company should make its own internal assessments of TOL/ATNW and Total Debt/EBITDA. However, the current ratio and DSCR in all such cases should be 1.0 and above and ADSCR should be 1.2 and above.
6. On a case to case basis, the Company may also stipulate certain other financial parameters while finalizing the resolution assumptions in respect of eligible borrowers in addition to the mandatory key ratios / thresholds prescribed as above.
7. While finalizing the resolution plan, the Company should consider the pre- COVID-19 operating and financial performance and impact of COVID-19 on operating and financial performance of the eligible borrower. This is essential to assess the cashflows of the eligible borrowers in the subsequent years.
8. The Company should also assess the differential impact of the pandemic on the borrower and on a need basis, adopt a graded approach depending on the severity of the impact on the borrowers, while preparing or implementing the resolution plan.

Such graded approach should entail classification of the impact on the borrowers into mild, moderate and severe, as recommended by the Expert Committee constituted by RBI.

9. The Company should ensure compliance to TOL/ATNW agreed as per the resolution

plan at the time of implementation itself. In case the resolution plan envisages equity infusion, the same may be suitably phased-in over this period. All other key ratios shall have to be maintained as per the resolution plan by March 31, 2022 and on an ongoing basis thereafter. The Company should monitor these key ratios as financial covenants on an ongoing basis, and during subsequent credit reviews. Any breach of the financial covenants by the borrower which is not rectified within a reasonable period in terms of the loan contract shall be considered as financial difficulty.

D. Asset classification and provisioning:

1. Upon implementation of resolution plan, the Company should retain the asset classification of eligible borrowers as 'Standard'. The borrowers accounts which may have slipped into NPA between invocation and implementation date should be upgraded as Standard, on the date of implementation of the resolution plan.
2. In cases, where the Company has signed the ICA within 30 days of invocation, the Company should maintain 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 total debt (including the debt securities issued and held by the ICA signatories post-implementation of the plan i.e. residual debt).
3. In case of a borrower with multiple lenders, where the ICA could not be signed within 30 days of invocation, the Company should immediately upon the expiry of 30 days, maintain provision of 20% of the debt on Company's books as on the expiry date (carrying debt), or the provisions required as per extant IRAC norms, whichever is higher. Even in cases where the invocation lapses on account of the thresholds for ICA signing not being met, the Company should maintain 20% provision on its carrying debt. It is hereby clarified that in case of multiple lenders, if the Company signs the ICA, provision at 10% of the outstanding loan amount of the borrower should be maintained. In case where the Company does not sign or is not a party to the ICA, it shall be obligated to maintain a provision at 20% of the outstanding loan amount of the borrower.
4. Any additional provisions maintained by the Company under Policy on Resolution of Stressed Assets may be reversed at the time of invocation of the resolution plan. If the plan is not implemented within 180 days from invocation, provisioning requirements as mentioned under Policy on Resolution of Stressed Assets shall be required to be maintained by the Company, as if a resolution process was never invoked.
5. In case of resolution, half of the provisions may be written back by the Company upon the borrower paying at least 20% of the residual debt without slipping into NPA, post implementation of the plan. The remaining half may be written back upon the borrower paying another 10% of the residual debt without slipping into NPA subsequently. In respect of the non-ICA signatories, while half of the provisions may be reversed upon repayment of 20% of the carrying debt, the other half may be reversed upon repayment of another 10% of the carrying debt, subject to the required IRAC provisions being maintained.

E. Accounting treatment of restructured loans:

1. In case, where the residual tenor of the loan is extended for a period upto 2 years, the repayment schedule should be extended by 2 years from the original repayment dates.
2. In case, where Interest moratorium is extended to the borrower, the interest on the outstanding portion of the loan shall continue to accrue during such moratorium period and shall be capitalized to the outstanding loan amount and the same shall be collected during the remaining tenor of the loan as per the revised repayment schedule.
3. For computation of Expected Credit Losses as required under Indian Accounting Standard (Ind-AS), the Company should continue to comply with the provisions of the Policy on Expected Credit Loss.

F. Post Implementation Performance:

1. Any default by the borrower with any of the signatories to the ICA during the monitoring period shall trigger a review period of 30 days.
2. If the borrower is in default with any of the signatories to the ICA at the end of the review period, the asset classification of the borrower with the Company, shall be downgraded to NPA from the date of implementation of the resolution plan or the date from which the borrower had been classified as NPA before implementation of the plan, whichever is earlier.
3. In all other cases, further upgradation should be subject to implementation of fresh restructuring under the Directions.
4. The provisions required to be maintained under this resolution framework, to the extent not already reversed, shall be available for: (i) the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA; as well as, (ii) the additional provisioning requirements maintained as per Policy on Resolution of Stressed Assets, shall be applicable as and when the account of the borrower invokes resolution under the Directions.

G. Disclosures and Credit Reporting:

1. The Company should make disclosures in its annual financial statements in the format prescribed in Format-B under RBI Guidelines. The Company to make such disclosures until exposure of eligible borrower is extinguished or the loan account completely slips into NPA whichever is earlier.
2. The Company should ensure that credit reporting in respect of borrowers where the resolution plan is implemented shall reflect the “restructured” status of the account if the resolution plan involves re-negotiations that would be classified as restructuring under the Directions.

5. Restructuring of loans advanced to Micro, Small and Medium Enterprises ('MSMEs'):

In case of restructuring of loan advanced to MSMEs, the Company shall follow the restructuring guidelines as prescribed by RBI vide circular no. DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020; circular no. DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 and circular no. DOR.STR.REC.12/21.04.048/2021-22 dated May 5, 2021.

6. Review:

This policy needs to be reviewed by the Board of Directors on an annual basis. Considering that the regulatory guidelines in relation to resolution of stressed assets are evolving, this policy needs to be updated based on the revisions introduced by RBI.



XANDER FINANCE PRIVATE LIMITED

Particulars	Date of adoption/ review/ revision
Adoption	November 11, 2020
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