



Policy - Resolution Plan: 2 - Covid 19 related stress of Individuals & Small Businesses

of

HDB FINANCIAL SERVICES LIMITED
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Policy - Resolution Plan: 2 - Covid 19 related stress of Individuals & Small Businesses

1. Introduction

RBI vide circular (RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22) dated May 05, 2021 has issued measures for offering resolution plan for alleviating the potential stress to individual borrowers and small businesses on account of Covid 19 related stress.

The lending institutions are permitted to offer a limited window to individual borrowers and small businesses to implement resolution plan in respect of their credit exposures, while classifying the same as Standard upon implementation of the resolution plan.

2. Objective

The objective of this policy is to implement viable resolution plans for eligible borrowers as per the Resolution Plan: 2 - Covid 19 related stress of Individual and small businesses, ensuring that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19.

3. Eligible Borrowers

The following category of borrowers shall be the eligible borrowers:

- a) Individuals who have availed of personal loans (Personal loans given to individuals and consist of (a) consumer credit, (b) education loan, (c) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.), excluding the credit facilities provided by the Company (HDB Financial Services Limited) to its own personnel / staff.
- b) Individuals who have availed of loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than Rs.25 crore as on March 31, 2021.
- c) 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 the lending institutions have aggregate exposure of not more than Rs. 25 crore as on March 31, 2021.

Provided that the borrower accounts / credit facilities should not belong to the categories listed in sub-clauses (a) to (e) of the Clause 2 of the Annex to the Resolution Framework 1.0, read with the response to Sl. No. 2 of FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020) i.e. the borrower accounts / credit facilities should not belong to the following categories:

- I) MSME borrowers whose aggregate exposure to lending institutions collectively, is Rs. 25 crore or less as on March 1, 2020.
- II) 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) i.e.:

A. Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans] and Proprietorship firms of farmers, directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. This will include:

- (i) Crop loans to farmers, which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.
- (ii) Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)
- (iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.
- (iv) Loans to farmers up to ₹50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.
- (v) Loans to distressed farmers indebted to non-institutional lenders.
- (vi) Loans to farmers under the Kisan Credit Card Scheme.
- (vii) Loans to small and marginal farmers for purchase of land for agricultural purposes.

B. Loans to corporate farmers, farmers' producer organizations/companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, viz. dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture up to an aggregate limit of ₹2 crore per borrower. This will include:

- (i) Crop loans to farmers which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.
- (ii) Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)
- (iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.
- (iv) Loans up to ₹50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

or other relevant instructions as applicable to specific category of lending institutions.

Explanation: All the farm credit exposures of all lending institutions, including NBFCs, of the nature listed in Paragraph 6.1 of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as updated), except for loans to allied activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture are excluded from the scope of the Resolution Framework. Subject to the above, loans given to farmer households would be eligible for resolution under the Resolution Framework if they do not meet any other conditions for exclusions listed in the Resolution Framework.

- III) Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.
- IV) Exposures of lending institutions to financial service providers.

- V) 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.

Provided further that the borrower accounts should not have availed of any resolution in terms of the Resolution Framework - 1.0 (i.e. in pursuance of RBI Circular No. RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21, dated August 06, 2020 on Resolution Framework for Covid 19 related Stress) subject to the special exemption mentioned at Clause 9 below.

Provided further that the credit facilities / investment exposure to the borrower was classified as Standard by the Company as on March 31, 2021.

Any resolution plan implemented in breach of the stipulations of this policy shall be governed by the Prudential Framework for Resolution of Stressed Assets issued on June 7, 2019 (“Prudential Framework”).

4. Due Diligence Considerations to establish necessity of implementing a Resolution Plan

- a) Borrower should be able to demonstrate that his / her / its cash flows have been adversely affected due to Covid 19 pandemic and that the borrower is unable to service the debt obligation.
- b) Individual borrower may produce the hospitalisation papers to demonstrate that he / she was hospitalised due to Covid 19 and hence was temporarily incapacitated from managing his financial affairs.
- c) Small Business owner may produce any written evidence that corroborates that the business was affected due to restrictions imposed by statutory authorities for prevention of spread of Covid 19 / curtailment of business hours imposed by statutory authorities, that has affected the cash flow of the business.

5. Application for Resolution Plan

The eligible borrower can make an application to the Company, in product level standardized application templates (Form). The assessment of eligibility shall be completed, and the decision on the application shall be communicated in writing to the applicant within 30 days of receipt of such application.

6. Grievance Redressal Process

The borrower who have applied for the resolution plan may file their grievance, if any, on the following link: <https://www.hdbfs.com/customer-support>

The borrower may also lodge their grievance on phone number [+91 44 4298 4541](tel:+914442984541) or write to the Company at:

Customer Service Cell

HDB Financial Services Ltd.

4th floor Loyal Towers,

68/1, Greams Road, M N Office Complex

Chennai 600006

The grievance Redressal process of the Company is available on the website at <https://www.hdbfs.com/customer-support>

7. Features of Resolution Plans and Implementation

a) The resolution plans implemented under this window may *inter alia* include:

- (i) rescheduling of payments,
- (ii) conversion of any interest accrued or to be accrued into another credit facility,
- (iii) revisions in working capital sanctions,
- (iv) Granting of moratorium etc. based on an assessment of income streams of the borrower.

Compromise settlements are not permitted as a resolution plan for this purpose.

b) The moratorium period, if granted, may be for a maximum of two years, and shall come into force immediately upon implementation of the resolution plan. The extension of the residual tenor of the loan facilities may also be granted to borrowers, with or without payment moratorium. The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years.

c) The resolution plan may also provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, wherever applicable, and the same shall be governed in terms of Paragraphs 30-32 of the Annex to the Resolution Framework - 1.0 (i.e. RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21, dated August 06, 2020 on Resolution Framework for Covid 19 related Stress).

- d) The regulatory instructions contained in the circular DOR.No.BP.BC/13/21.04.048/2020-21 dated September 7, 2020 on “Resolution Framework for COVID-19-related Stress - Financial Parameters” shall not be applicable to resolution plans implemented under this window.
- e) The resolution plan shall be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. The resolution plan shall be deemed to be implemented only if all the conditions in Paragraph 10 of the Annex to the Resolution Framework - 1.0 (i.e. Resolution Plan in pursuance of RBI Circular No RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21, dated August 06, 2020 on Resolution Framework for Covid 19 related Stress) are met.

8. Asset classification and provisioning

- a) If a resolution plan is implemented in adherence to the provisions of this policy, 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.
- b) 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 dated July 1, 2015 or other relevant instructions as applicable to specific category of lending institutions (“extant IRAC norms”).
- c) In respect of borrowers where the resolution process has been invoked, the Company can 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.
- d) The Company shall keep provisions from the date of implementation which is higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 percent of the renegotiated debt exposure of the Company 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.

- e) 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 other than personal loans, 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.

- f) 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.

9. Convergence of the norms for loans resolved previously

- a) In cases of loans of borrowers specified in Clause 3 above where resolution plans had been implemented in terms of the Resolution Framework - 1.0 (i.e. in pursuance of RBI Circular No. RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21, dated August 06, 2020 on Resolution Framework for Covid 19 related Stress), and 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, the Company can 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 7 (b) above, 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.*
- b) This modification shall also follow the timelines specified in RBI Circular (RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22) dated May 05, 2021 on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses. For loans where modifications are implemented in line with Clause 9 (a), the asset classification and provisioning shall continue to be as per the Resolution Framework - 1.0.

10. Working Capital Support for Small Businesses where Resolution Plans were implemented previously

- a) In respect of borrowers specified at sub-clauses (b) and (c) of Clause 3 above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, the Company may, as a one-time measure, 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 the Company 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.
- b) The above measures shall be contingent on the Company satisfying itself that the same is necessitated on account of the economic fallout from COVID-19. Further, the accounts provided relief under this policy shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.

11. Disclosures and Credit Reporting

- a) The Company shall, make disclosures in prescribed format in its financial statements for the quarters ending September 30, 2021 and December 31, 2021. The resolution plans implemented in terms of Part A of RBI Circular (RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22) dated May 05, 2021 on Resolution Framework - 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses shall also be included in the continuous disclosures required as per Format-B prescribed in the Resolution Framework - 1.0.
- b) The number of borrower accounts where modifications were sanctioned and implemented in terms of Clause 9 above, and the aggregate exposure of the Company to such borrowers shall also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.
- c) The credit reporting by the Company in respect of borrowers where the resolution plan is implemented under Part A of RBI Circular (RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22) dated May 05, 2021 on Resolution Framework - 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses 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.

Format – X

Format for disclosures to be made in the quarters ending September 30, 2021 and December 31, 2021

Sl. No.	Description	Individual Borrowers		Small businesses
		Personal Loans	Business Loans	
(A)	Number of requests received for invoking resolution process under Part A			
(B)	Number of accounts where resolution plan has been implemented under this window			
(C)	Exposure to accounts mentioned at (B) before implementation of the plan			
(D)	Of (C), aggregate amount of debt that was converted into other securities			
(E)	Additional funding sanctioned, if any, including between invocation of the plan and implementation			
(F)	Increase in provisions on account of the implementation of the resolution plan			

To be noted by:

Name	Signature
Ms. Dipti Khandelwal, Company Secretary	