KOGTA FINANCIAL (INDIA) LIMITED

POLICY ON RESTRUCTURING OF ADVANCES FOR COVID-19 RELATED STRESS 2.0

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1) Introduction

Kogta Financial (India) Limited ('the Company') is a Non-Banking Financial Company ('NBFC') having valid Certificate of Registration with Reserve Bank of India ('RBI') vide registration no. B.10.00086 dated May 27, 2016 under current RBI classification as NBFC - Investment and Credit Company (NBFC-ICC) – Non Deposit taking Systemically Important ('ICC-ND-SI') with more than 20 years of experience in asset finance business.

It is focused on offering financing of all kind of commercial vehicles (HCV, LCV, MUV, SCV), Cars, Tractors, Two-wheelers and MSME & Loan against property segment.

2) Preamble

The resurgence of Covid-19 pandemic in India in the recent weeks and the consequent containment measures by central & state governments to check the spread of the pandemic may impact the recovery process and create new uncertainties. With the objective of alleviating the potential stress to individual borrowers, small businesses and MSME borrowers, a set of measures are being announced by Reserve Bank of India. These set of measures are broadly in line with the contours of the Resolution Framework - 1.0, with suitable modifications.

3) Regulatory Measures

The Reserve Bank of India vide its circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on "Resolution Framework for COVID-19-related Stress" ("Resolution Framework – 1.0") and circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 on restructuring of advances to the MSME borrowers had provided a window to enable lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions.

4) Policy Outlines by Kogta Financial

The company had earlier laid down one-time restructuring policy for eligible borrowers in terms of the RBI circulars mentioned herein above.

Part A of this policy pertains to requirements specific to resolution of MSME including Commercial Vehicle loans and Part B pertains to resolution of other eligible borrowers/exposures while Part C lists the disclosure and credit reporting requirements for the company with respect to the resolution plans implemented under this framework 2.0.

Detailed instructions of the policy are as follows:

<u>Part A: MSME Loans</u>
(guided by RBI circular no. RBI/2021-22/32 DOR.STR.REC.12/21.04.048/2021-22 dated May 05, 2021)

Eligible borrowers

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 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.
iii) The aggregate exposure, including non-fund based facilities, of all lending institutions 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 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).

Permitted features of the resolution plan

The resolution plan may be offered through any one or in combination of the following modes after proper assessment of future cash flows/income, exposure risk on the account and corresponding EMI repayment capabilities:

i) EMI reduction by way of increasing the residual tenure
ii) Ballooning of EMI structure as per the assessment of revised cash flows
iii) Providing EMI holiday or moratorium of repayment up to 6 months
iv) Sanctioning of additional credit facilities or providing additional finance

Asset classification and provisioning

In respect of restructuring plans implemented 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.

Upon implementation of the restructuring plan, the company shall keep provision of 10 percent of the residual debt of the borrower.

Delegation of Authority

Customer shall approach the sales team for the restructuring request which shall be forwarded to the restructuring committee comprising of National Credit Manager (Vehicle & MSME), National Collection Manager, Chief Operating Officer & Chief Executive Officer of the company.

Part B: Other Eligible Borrowers/Exposures
(guided by RBI circular no. RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 dated May 05, 2021)

Eligible borrowers

i) Eligible borrower/exposures of company under this policy refers to personal loan (as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on "XBRL Returns – Harmonization of Banking Statistics") availed by Individuals, excluding the credit facilities provided by lending institutions to their own personnel/staff.
ii) 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.
iii) 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 shall 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).

Provided further that the borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0 subject to the special exemption mentioned in the clause 22 of circular.

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

Permitted features of the resolution plan

The resolution plan may be offered through any one or in combination of the following modes after proper assessment of future cash flows/income, exposure risk on the account and corresponding EMI repayment capabilities:

i) EMI reduction by way of increasing the residual tenure
ii) Ballooning of EMI structure as per the assessment of revised cash flows
iii) Providing EMI holiday or moratorium of repayment up to 6 months
iv) Sanctioning of additional credit facilities or providing additional finance

Further, the company will be required to assess the viability of the resolution plan and monitor the same at frequency defined in the plan. The resolution plans may inter alia include rescheduling of payments, conversion of any interest accrued, or to be accrued, into another credit facility, or, granting of moratorium, based on an assessment of income streams of the borrower, subject to a maximum of two years. 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.

Asset classification and provisioning

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.

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").

In respect of borrowers where the resolution process has been invoked, the company is permitted to 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.

The company is required to 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 percent of the renegotiated debt exposure of the lending institution post implementation (residual debt).

Reversal of Provisions

In case of other Eligible Borrowers/Exposures resolved under this policy, 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.

Delegation of Authority

Customer shall approach the sales team for the restructuring request which shall be forwarded to the restructuring committee comprising of National Credit Manager (Vehicle & MSME), National Collection Manager, Chief Operating Officer & Chief Executive Officer of the company.

Part C: Disclosures and Credit Reporting

The company shall make appropriate disclosures in their financial statements, under ‘Notes on Accounts’, relating to the MSME accounts restructured under these instructions as per the format prescribed by RBI in the relevant circular.

The company publishing quarterly or annual financial statements (as applicable) shall, at the minimum, make disclosures as per the format prescribed by RBI in the relevant circular in their financial statements.

The credit reporting by the lending institutions in respect of borrowers where the resolution plan is implemented under this policy 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.

5) Communication to Employees

The senior management of the company shall ensure that the policy is properly communicated down the line to their respective team members.

6) Validity of the policy

For MSME borrowers

The restructuring of the borrower account is to be invoked by September 30, 2021. For this purpose, the restructuring shall be treated as invoked when the company and the borrower agree to proceed with the efforts towards finalising a restructuring plan to be implemented in respect of such borrower. The restructuring of the borrower account is to be implemented within 90 days from the date of invocation.

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.

All other instructions specified in the circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 for restructuring of MSME borrowers shall remain applicable.

For other eligible borrowers/exposures

Resolution under this framework should be invoked not later than September 30, 2021 (or any other further date extended by RBI in this regard) and must be implemented within 90 days from the date of invocation.

The decisions on applications received by the company from their customers for invoking restructuring under this policy shall be communicated in writing to the applicant by the company within 30 days of receipt of such applications. The decision to invoke the restructuring under this facility shall be taken by each lending institution having exposure to a borrower independent of invocation decisions taken by other company, if any, having exposure to the same borrower.

MD & CEO is authorized to approve any operational procedures/guidelines as may be required to implement the policy and make any changes to the policy in line with the directions/guidelines issued by RBI from time to time. Any such changes implemented shall be reported to the Board for their Noting.

7) Review

The Company's CEO, CFO and COO have been entrusted with the responsibility of enforcement of this policy. They are hereby given absolute power to jointly or severely, make necessary changes, amendments or additions or removals for the operational aspects of the policy within the overall spirit and guidance from time to time for reasons like technology or process upgradation, regulatory changes or responding to changes in market or risk environment, etc. This is required to ensure full operational freedom to the senior management and make the management team more adaptive to rapid changing external environment. All changes so made shall be noted to the policy approving authority during the next policy review.

The CEO, CFO and COO can decide on delegation of authority and can design / redesign MIS systems and reporting as they see fit to improve the responsibility and accountability within the team hierarchy.