IREDA's Policy for the Resolution for COVID – 19 related Stress as permitted under RBI Circulars dated 06.08.2020 and 07.09.2020

Introduction

To mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic and to ensure the continuity of viable businesses, The Reserve Bank of India as part of its Statement on Developmental and Regulatory Policies released along with the Monetary Policy Statement on August 6, 2020, a 'Resolution Framework for Covid-19 related Stress', vide Circular RBI/2020-21/16 DOR.No.BP.BC/3/21. 04.048/2020-21 dated August 6, 2020 as a special window under the Prudential Framework on Resolution of Stressed Assets issued on June 7, 2019.

The framework enables all lending institutions including NBFCs, which are an essential part of the lenders' pool under this Framework, to implement a Resolution Plan (RP) in respect of eligible corporate exposure even without change in ownership while classifying such exposure as Standard, subject to specified conditions.

IREDA lending is classified into following four categories:

a) Consortium financing where IREDA is not a lead financing institution.
b) Consortium financing where IREDA is a lead financing institution.
c) Co-financing where IREDA share securities on pari-passu with other lenders.
d) Sole Lending by IREDA.

In the cases where IREDA is not a lead financing institution and Co-financing cases where IREDA share securities on pari-passu with other lenders, having less than 75 per cent by value of total outstanding to the company, IREDA shall follow the procedures of Lead Lenders. However, in cases, Consortium financing where IREDA is a lead financing institution with minimum 75% share in loan outstanding and sole lending projects, IREDA shall follow the following policy.

1. RBI Circular dated 06.08.2020:

a) Eligibility:

- Resolution under this Framework is extended only to borrowers having stress on account of Covid-19.

- Only those borrowers who were classified as standard and with arrears less than 30 days as at March 1, 2020 are eligible under the Framework.

b) Non – Eligibility:

- MSME borrowers whose aggregate exposure to lending institutions collectively is Rs. 25 Crores or less as on 01.03.2020.

- Exposures of lending institutions to financial service providers.
- Exposures of lending institutions to Central and State Governments, Local Government bodies (eg., Municipal Corporations) and body corporates established by an act of Parliament or State Legislature.

c) Invocation Date and implementation:

- Resolution Framework may be invoked not later than December 31, 2020.
- Resolution Plan needs to be implemented within 180 days from the date of invocation.

d) Signing of Inter Credit Agreement (ICA) and provision requirements:

- Resolution process shall be treated as invoked once lenders representing 75% by value and 60% by number (Majority Lenders) agree to invoke the same.
- ICA to be signed by all lenders within 30 days of invocation.
- Lenders who have signed ICA, to make provision, higher of 10% or Income Recognition and Assets Classification (IRAC) norms.
- Lenders who have not signed ICA, to make a provision higher of 20% or as per IRAC norms, upon expiry of 30 days from invocation.

Note: The additional provisions maintained, if any, by Lending Institutions in terms of RBI Circular dated 17.04.2020 in respect of such borrowers, to the extent not already reversed, may be utilized for meeting the provision requirements in all cases.

e) General Guidelines:

- The residual tenor of the loan may be extended by maximum 2 years with or without payment moratorium. The moratorium period, if granted, shall come into force immediately upon implementation of the RP.
- The asset classification may be maintained as standard or upgraded to standard subject to the RP being implemented as per the Framework.
- For aggregate exposures greater than Rs. 100 crore, an Independent Credit Evaluation (ICE) to be obtained from any one Credit Rating Agency authorized by RBI.
- The resolution plan shall be deemed to be implemented only if all of the following conditions are met:
    - ✓ all related documentation, including execution of necessary agreements between lending institutions and borrower and collaterals provided, if any, are completed by the lenders concerned in consonance with the resolution

plan being implemented;

- ✓ the changes in the terms of conditions of the loans get duly reflected in the books of the lending institutions; and,
- ✓ Borrower is not in default with the lending institution as per the revised terms.

f) Conversion of Loans into Securities and Valuation:

- RP to include restructuring / regularization / change in ownership, if any, sanction of additional facilities.

- RP may provide for conversion of debt into equity or other marketable non-convertible debt securities provided amortization and coupon are similar to terms of debt.

- Equity to be valued as per lower of breakup value or DCF value (for unlisted companies) and market price (for listed companies).

- Any other instrument to be valued at Re.1.

g) Post Implementation Performance:

- In respect of exposures, 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.

- **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 all lending institutions, including those who did not sign the ICA, shall be downgraded to NPA from the date of implementation of the RP or the date from which the borrower had been classified as NPA before implementation of the plan, whichever is earlier.**

- In all cases, further upgradation shall be subject to implementation of a fresh restructuring under the Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

- Upon completion of the monitoring period without being classified as NPA, the asset classification norms will revert to 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.

2. RBI Circular dated 07.09.2020:

a) The key ratios while finalizing the resolution plans is as under:

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 amortization.
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.

b) RBI has fixed the sector specific thresholds for each of the above key ratios that should be considered by the lending institutions in the resolution assumptions.

IREDA funded projects are classified as under:

(i) Grid connected projects which involves Power Generation and Transmission.
(ii) Off –Grid connected projects including short term loans, Energy Efficiency, Waste to Energy, Roof Top PV projects.
(iii) Manufacturing (RE and EEC).

(i) For Grid connected projects, following thresholds ratios will applied:

Sectors	**TOL / ATNW**	**Total Debt/ EBITDA**	**Current Ratio**	**Average DSCR**	**DSCR**
- Power Generation	<=4.00	<=6.00	>=1.00	>=1.20	>=1.00
- Transmission	<=4.00	<=6.00	>=1.00	>=1.20	>=1.00

(ii) Off –Grid connected projects, following thresholds ratios will applied:

Sectors	TOL / ATNW	Total Debt/ EBITDA	Current Ratio	Average DSCR	DSCR
- Power Generation / Non Power Generation	<=5.00	<=6.00	>=1.00	>=1.20	>=1.00

(iii) Manufacturing (RE and EEC) , following thresholds ratios will applied:

Sectors	TOL / ATNW	Total Debt/ EBITDA	Current Ratio	Average DSCR	DSCR
Manufacturing (RE and EEC)	<=5.00	<=6.00	>=1.00	>=1.20	>=1.00

- IREDA will also follow other financial parameters, as applicable and presently being followed.

- The resolution plans shall take into account the pre-covid-19 operating and financial performance of the borrower and impact of covid-19 on its operating (like delay in generation of invoice, delay in meter reading, etc.) and financial performance at the time of finalizing the resolution plan, to assess the cashflows in subsequent years, while stipulating appropriate ratios in each case.

- To ensure compliance to TOL/ATNW agreed as per resolution plan at the time of implementation and all ratios to be maintained as per the resolution plan by 31.03.2022 and on an ongoing basis thereafter.

- In case of equity infusion as resolution plan, the same may be suitably phased in over this period.

- The various requirements of the resolution framework including ICA, wherever applicable and maintenance of an escrow account after implementation of a resolution plan shall be applicable at the borrower account level.