



IndoStar Capital Finance Limited
COVID - 19 MORATORIUM POLICY II
June 1, 2020

Introduction

The Reserve Bank of India (RBI) announced a series of regulatory measures on March 27, 2020 and on April 17, 2020 in the wake of the disruptions on account of COVID-19 pandemic and the consequent asset classification and provisioning norms. In line with these measures, the Board of Directors of IndoStar Capital Finance Limited (ICF), approved moratorium policy for its borrowers on April 6, 2020. In terms of the approved policy, ICF provided repayment moratorium to all eligible borrowers from March 1, 2020 to May 31, 2020.

On May 22, 2020, RBI further noted that the intensification of COVID-19 disruptions has imparted priority to relaxing repayment pressures and improving access to working capital by mitigating the burden of debt servicing, prevent the transmission of financial stress to the real economy, and ensure the continuity of viable businesses and households. As such, RBI permitted lending institutions to extend the repayment moratorium by another three months, from June 1, 2020 to August 31, 2020.

Reserve Bank of India circular RBI/2019-20/244 DOR.No.BP.BC.71/21.04.048/2019-20 dated May 23, 2020 (“RBI Circular”) detailing the extension of moratorium is provided in **Annexure 1**. In terms of the RBI Circular, RBI has directed lending institutions including NBFCs to frame Board approved policies for providing the reliefs mentioned in the RBI Circular to all eligible borrowers.

While the lockdown across the country persists, many sectors of the economy including manufacturing, transportation and services have seen gradual relaxation/opening over the past 30-45 days. ICF has observed improvement in its collection of overdues from customers across businesses and geographies in the month of May 2020 compared to collections in the month of April 2020. ICF has also opened close to 100 branches by May 31, 2020 and is expected to have 150 operational branches by June 5, 2020. As such, overall economic climate as well as the ability of the customers to pay is likely to improve over the next 60-90 days. In view of this, ICF proposes to offer moratorium to its customers in line with their ability to pay as against blanket moratorium offered during March-May 2020.

Policy for retail (CV Financing and SME) customers

Eligibility: All borrower accounts of ICF across SME finance and Commercial Vehicle Financing classified as Standard as on February 29, 2020.

Lending Product: While the RBI Circular provides for reliefs to term loan borrowers as well as working capital borrowers, all the facilities granted by ICF to its borrowers are term loans and as such only those reliefs proposed in respect of term loans will be applicable.

Key Features:

- A. Grant a moratorium on payment of instalments (Instalments will include the following payments falling due during June 1, 2020 to August 31, 2020: (i) principal and/or interest components; (ii) bullet repayments; (iii) equated monthly instalments). However, ICF will continue to collect repayments from customers on scheduled dates and thereafter every month. In the event the customer demonstrates inability to pay in any month/period consequent to economic fallout of COVID-19, ICF will grant moratorium to the customer for that month/period.

- B. The repayment schedule for such term loans will be shifted by one to three months depending on the moratorium period and residual tenor of such term loans will be accordingly increased. ICF shall revise the repayment schedule by setting new instalments to account for the additional one to three months of tenor to maintain the same Internal rate of Return (IRR) on such term loans.
- C. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period and shall be adjusted/ recovered in the revised instalments of such term loan.
- D. Several borrowers of ICF paid their instalments during March 2020 before RBI's announcement of the proposed reliefs. In ICF's earlier moratorium policy, it was proposed to apply such payments towards June 2020 instalments of those borrowers who did not have any overdues as on February 29, 2020. The Policy shall be effective from June 01, 2020.
- E. In the event a borrower writes/reaches out to ICF through its branches/customer service channels and seeks moratorium, ICF will offer moratorium on case to case basis. In case the borrowers wish to make any further payments from June 1, 2020 towards their loan obligations, ICF would appropriate these payments either towards partial prepayment of outstanding principal of their loans or towards future instalments of their loans in case of SME business. In case of CV financing business, ICF would appropriate such additional payments towards future instalments of customer loans.

Policy for Corporate Lending Business (including Commercial Real Estate Lending):

Eligibility: All borrower accounts of ICF pertaining to Corporate Lending Business (including Commercial Real Estate lending), which are classified as Standard Assets as on February 29, 2020 would be eligible for Moratorium. Only Stage III/ NPA accounts would not be eligible for moratorium.

Lending Product: The RBI March 2020 Circular and RBI May 2020 Circular (together referred to as "RBI Circulars") provide for reliefs to term loan borrowers as well as working capital borrowers. However, as all the facilities granted by ICF under Corporate Lending Business to its borrowers are in the nature of term loans, only those reliefs proposed in respect of term loans will be applicable.

Moratorium: Would constitute deferment of payment of the Moratorium Amount falling due during the Moratorium Period.

Moratorium Period: This would include (a) the moratorium period of three months permitted under the RBI March 2020 Circular from March 1, 2020 to May 31, 2020 and the moratorium policy approved by ICF Board in April 2020 and (b) the moratorium period of additional three months June 1, 2020 to August 31, 2020 permitted under the RBI May 2020 Circular and being approved by ICF Board under this amendment to moratorium policy, the **moratorium period** pursuant to this amended moratorium policy will be maximum Period of six months from March 1, 2020 to August 31, 2020 (both days inclusive)

Moratorium Amount: Will include all payments falling due within Moratorium Period on any Loan as per the original repayment schedule provided in the loan agreements executed by ICF with the

borrowers – such payments would include: (i) principal and/or interest components; (ii) bullet repayments; (iii) equated monthly instalments

Key Features:

- A. ICF would give all borrowers of Corporate Lending (including Commercial Real Estate lending), whose loan accounts are Standard as on February 29, 2020 the option to seek Moratorium in line with the RBI Circulars. The borrowers whose loan accounts are classified as Stage III/NPA as on February 29, 2020, would not be eligible to seek Moratorium from ICF.
- B. The borrowers who wish to opt for the Moratorium shall apply to ICF for the same
 - i. For borrowers who apply for Moratorium, ICF would consider such applications on a case to case basis.
 - ii. For borrowers who apply for the Moratorium and are granted the same, there would be no scheduled payments to be made during the Moratorium Period. Accordingly, for all the borrowers who are granted Moratorium, the next scheduled payment on their loan will be on or after September 1, 2020.
 - iii. As a result of the Moratorium, the repayment schedule for the loan would effectively be shifted by further three months. All payments falling due during the Moratorium Period would be repayable by the borrower in 6 (six) monthly instalments (including the 3 months provided under the first moratorium policy). These 6 instalments would be added to the loan after the end of the originally approved repayment schedule i.e. final maturity of the loan would be extended by a period of 6 months.
- C. If a borrower does not wish to opt for the Moratorium and prefers to continue servicing the loans as per the original approved repayment schedule, such borrower would continue to service the loans without any change in original approved repayment schedule.
- D. Interest shall continue to accrue on the loan at the existing document rate as per the executed loan agreement on the entire outstanding portion of the term loans (including on the Moratorium Amounts) during the entire tenor of the loan (including during the Moratorium Period) and shall be recovered in line with the revised repayment schedule
- E. Further, in case of borrowers who have been granted Moratorium, any amounts already received till date by ICF from them and any payments which may be received by ICF from borrower from the date of this Policy till August 31, 2020, which are in excess of payments falling due up to February 29, 2020, shall be adjusted towards principal instalments on the loans falling due after the Moratorium Period i.e. from September 1, 2020 on FIFO basis. This is being done so that borrowers who have paid amounts over and above their dues till February 29, 2020 are not penalised and effectively all borrowers who opt for the Moratorium would get the benefit of full 6 months Moratorium as per the RBI Circulars.
- F. All other terms and conditions of the existing loan agreement and other documents executed by the borrower and security providers shall remain unchanged. Any escrow arrangements, cash sweep mechanisms and resulting mandatory prepayments which are

part of the loan documents would continue without any change for the full revised tenor of the loan including during the Moratorium Period.

Asset Classification

Since the moratorium is being provided specifically to enable the borrowers to tide over economic fallout from COVID-19, the same will not be treated as concession or change in terms and conditions of loan agreements due to financial difficulty of the borrower under paragraph 2 of the Annex to the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 dated June 7, 2019 (“Prudential Framework”). Consequently, such a measure, by itself, shall not result in asset classification downgrade for the purposes of RBI reporting as well as Stage III classification under Indian Accounting Standards (IndAS) for the purposes of Expected Credit Loss (ECL) provisioning applicable to NBFCs. The asset classification of term loans which are granted relief as per this Policy shall be determined on the basis of revised due dates and the revised repayment schedule.

Supervisory and Credit Bureau Reporting

The rescheduling of payments including interest, will not qualify as a default for the purposes of supervisory reporting and reporting to Credit Information Companies (CICs) by ICF in line with RBI guidance. CICs are also expected to ensure that the actions taken by lending institutions pursuant to the above announcements do not adversely impact the credit history of the beneficiaries.

Approach towards borrowers whose loans are assigned/secured

ICF has securitised/assigned its loan receivables to SPVs/Banks/institutions and it has been appointed as collection and servicing agent for collection of instalments from the borrowers and remittance of the same to SPVs/Banks/institutions. As such, ICF has sought consent from these SPVs/Banks/institutions for granting moratorium for the instalments falling due between March 1, 2020 and May 31, 2020 as well as from June 1, 2020 to August 31, 2020 from the eligible borrowers involved in these transactions. Effectively, this Policy will be applicable to these borrowers as well subject to receiving consent from respective SPVs/Banks/institutions.

MIS pertaining to reliefs granted under this policy

Wherever the exposure of ICF to any borrower is Rs. 5 crore or above as on March 1, 2020, ICF shall develop an MIS on the reliefs provided to its borrowers covered under this Policy which shall *inter alia* include borrower-wise and credit-facility wise information regarding the nature and amount of relief granted.

Implementation Plan

A four-member working group be formed with immediate effect comprising Head- Corporate Lending and Markets, Chief Risk Officer, Chief Operating Officer and Chief Financial Officer. Members of the working group shall be severally authorised to oversee the implementation of this Policy including but not limited to approving grant of moratorium on case to case basis, communication of the Policy within and outside the organisation, issuing instructions to ICF staff, borrower communication, related changes in Loan Management Systems, development of MIS, clarifications/decisions pertaining to asset classification etc.



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2019-20/244

DOR.No.BP.BC.71/21.04.048/2019-20

May 23, 2020

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)
All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks
All All-India Financial Institutions
All Non-Banking Financial Companies (including Housing Finance Companies)

Madam/Dear Sir,

COVID-19 – Regulatory Package

Please refer to the [Circular DOR.No.BP.BC.47/21.04.048/2019-20 dated March 27, 2020](#) and [Circular DOR.No.BP.BC.63/21.04.048/2019-20 dated April 17, 2020](#) announcing certain regulatory measures in the wake of the disruptions on account of COVID-19 pandemic and the consequent asset classification and provisioning norms. As announced in the [Governor's Statement of May 22, 2020](#), the intensification of COVID-19 disruptions has imparted priority to relaxing repayment pressures and improving access to working capital by mitigating the burden of debt servicing, prevent the transmission of financial stress to the real economy, and ensure the continuity of viable businesses and households. Consequently, the detailed instructions in this regard are as follows:

(i) Rescheduling of Payments – Term Loans and Working Capital Facilities

2. In view of the extension of lockdown and continuing disruption on account of COVID-19, 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) ("lending institutions") are permitted to extend the moratorium by another three months i.e. from June 1, 2020 to August 31, 2020 on payment of all instalments in respect of term loans (including agricultural term loans, retail and crop loans). Accordingly, the repayment schedule for such loans as also the residual tenor, will be shifted across the board. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

3. In respect of working capital facilities sanctioned in the form of cash credit/overdraft (“CC/OD”), lending institutions are permitted to allow a deferment of another three months, from June 1, 2020 to August 31, 2020, on recovery of interest applied in respect of all such facilities. Lending institutions are permitted, at their discretion, to convert the accumulated interest for the deferment period up to August 31, 2020, into a funded interest term loan (FITL) which shall be repayable not later than March 31, 2021.

(ii) Easing of Working Capital Financing

4. In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the pandemic, lending institutions may, as a one-time measure,

(i) recalculate the ‘drawing power’ by reducing the margins till August 31, 2020. However, in all such cases where such a temporary enhancement in drawing power is considered, the margins shall be restored to the original levels by March 31, 2021; and/or,

(ii) review the working capital sanctioned limits upto March 31, 2021, based on a reassessment of the working capital cycle.

5. The above measures shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19. 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.

6. Lending institutions may, accordingly, put in place a Board approved policy to implement the above measures.

Asset Classification

7. The conversion of accumulated interest into FITL, as permitted in terms of paragraph 3 above, and the changes in the credit terms permitted to the borrowers to specifically tide over economic fallout from COVID-19 in terms of paragraph 4 above, will not be treated as concessions granted due to financial difficulty of the borrower, under Paragraph 2 of the Annex to the [Reserve Bank of India \(Prudential Framework for Resolution of Stressed Assets\) Directions, 2019 dated June 7, 2019](#) (‘Prudential Framework’), and consequently, will not result in asset classification downgrade.

8. In respect of accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted in respect of term loans, shall be excluded by the lending

institutions from the number of days past-due for the purpose of asset classification under the IRAC norms. The asset classification for such accounts shall be determined on the basis of revised due dates and the revised repayment schedule.

9. Similarly, in respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), where the account is classified as standard, including SMA, as on February 29, 2020, the deferment period, wherever granted in terms of paragraph 3 above shall be excluded for the determination of out of order status.

10. All other provisions of [circulars dated March 27, 2020](#) and [April 17, 2020](#) shall remain applicable *mutatis mutandis*.

Yours faithfully,

(Saurav Sinha)

Chief General Manager-in-Charge