

**RECOVERY & MONITORING POLICY OF STANDARD ASSETS**

**I. BASIC FRAMEWORK:**

The basic framework of the recovery and monitoring policy of Standard Assets is on the premise of proactive actions to be taken so as repayment of the financial assistance is ensured on the due date without fail alongwith interest and to prevent slippage of the asset into Non-Performing Asset (NPA) category by granting timely restructuring to the viable borrower companies facing temporary problem.

**II. RECOVERY POLICY FOR STANDARD ASSETS:**

The recovery from Standard Assets in TFCI is ensured by adopting the following mechanism:

- (i) Based on Loan Master data, demand notice is generated and issued one week in advance of the due date to the borrowers.
- (ii) Scanned copy and hard copy of demand notice is sent to the borrower and telephonic reminder is made for timely payment of dues.
- (iii) In case of habitual late payers, stringent follow-up (telephone call, visit to the borrower's office, meeting promoters/key officials, etc.) are made for recovery of dues.
- (iv) In case of non-receipt of payment on due date, PDCs if available are presented for recovery of dues. In case of bouncing of cheque, appropriate legal action is initiated under Negotiable Instrument Act..
- (v) In case of persistent defaults, inherent reasons for default are analyzed and appropriate action is taken urgently before the asset slips into non-performing category. The guidelines formulated by RBI vide Master Direction DNBR.PD.008/03.10.119/2016-17 dated 1<sup>st</sup> September 2016 (updated upto 23<sup>rd</sup> February 2018) shall also be followed in this regard.

**III. MONITORING OF STANDARD ASSETS:**

In order to ensure timely recovery of dues out of Standard Assets, the following post sanction monitoring is generally followed:

- (i) To verify that the Loan Master Data is as per the terms of sanction of the assistance.
- (ii) Compliance of the outstanding terms & conditions, if any;
- (iii) Examination of the status of substantive/collateral security and creation of the balance security, if any;
- (iv) Examination of the status of filing of records of all types of mortgages with Registrar of Companies (ROC) and Central Registry of Securitization Asset Reconstruction and the Security Interest of India (CERSAI).

- (v) In cases where security is by way of pledge of shares, the status of security cover is monitored on daily basis and in the event of requirement of top-up of shares/cash margin, the same is called for from the company immediately.
- (vi) In case of security by way of fixed assets, periodical assessment of the security value is made so that fixed asset cover does not fall below 1.5 times.
- (vii) To ensure that fixed assets (building, plant & machinery, equipment and misc. fixed assets) are adequately insured in the joint names of the borrower and TFCI. The insurance cover should cover loss from all perils including terrorism cover in case the project is located in disturbed areas.
- (viii) In case of project finance, project implementation is monitored through periodical visits, reports from the Project Management Committee/Lenders Engineers/Lenders Auditors/ Progress Report, further disbursement, if any, is to be made on proportionate basis based on the actual progress of the project and the funds brought in by the promoters/disbursement made by the other lenders.
- (ix) Appointment of Nominee Director as per the terms of sanction and review of the Nominee Directors Report is to be made to ascertain the status of the project implementation/operations of the company.
- (x) Periodical inspection, atleast once in a year, to ascertain the status of the project implementation/operations of the company.
- (xi) Discussions with the Managing Director/senior officials of the company. The primary objective of such discussions is to obtain feedback about the latest aspects of implementation and operations of the project and to ensure that the management takes adequate steps for smooth implementation/operations.
- (xii) To ensure that the project is adequately insured and the name of TFCI is included in the financiers details.
- (xiii) To keep track of the newspaper/media/web reports on a regular basis to ascertain the health of the borrower company and take proactive action.
- (xiv) To ensure that demand notice for due date is sent timely and follow-up with the company for payment on due date.
- (xv) To ensure that there is no short payment.
- (xvi) In case of delay in payment of dues or submission of information by the borrower company, to classify the account as 'Special Mention Account' in the following three sub-categories:

SMA Sub-categories	Basis of Classification
SMA-0	Principal or Interest payment not overdue for more than 30 days but borrower account showing signs of incipient stress
SMA-1	Principal or Interest payment overdue between 31-60 days
SMA-2	Principal or Interest payment overdue between 61-90 days

The signs of incipient stress can be gauged by failure to make timely payment of interest/principal installment dues, excessive leverage, failure to pay statutory liabilities, downward trend in production, sales & profits, erosion in profit margin, elongation of working capital cycle, excessive inventory build-up, significant delay in project implementation, downward migration of rating outlook, etc. and other non-financial early warning signals viz. resignation of independent directors, Key Managerial Personnel, Strike, Lock-out, etc.

The credit information of the SMAs shall be reported to the Competent Authority on fortnightly basis and to RBI's Central Repository of Information on Large Credits (CRILC) for exposure of Rs.5 crore and above on quarterly basis.

- (xvii) In case of an account getting classified as SMA-0 or SMA-1, the borrower company would be asked to clear the default so that it comes out of SMA status. The borrower company would also be required to furnish reasons for such delay in payment alongwith information on its business/financials. If the delay in payment is intentional/habitual, vigorous follow-up shall be taken up to ensure timely payments. If the borrower company is facing genuine liquidity issues and is unable to regularize the account, the possibility of getting some other equity/strategic investment/loans to the company may be explored as part of the rectification process.
- (xviii) In case of an account getting classified as SMA-2, the borrower company's working and financial position including cash-flow shall be examined in detail to evaluate its financial health and reasons for financial crunch. If the borrower company fails to provide information required to ascertain its financial health even after two reminders or it does not comply with the certain other terms of sanction within stipulated timeframe or is hostile/indifferent or resorts to vexatious tactics to thwart timely resolution, it shall be given 30 days' notice to clarify their stand before its name is reported as 'non-cooperative borrower' to CRILC. In the event the borrower company is assisted under multiple/consortium arrangement, joint lenders' forum should be formed with the highest exposure lender serving as its convener/leader.
- (xix) In case the SMA-2 borrower company is facing temporary problems, on detail appraisal, if the company is found viable, restructuring of the debt may be considered. The restructuring package should normally be on the lines of RBI Master Direction DNBR.PD.008/03.10.119/2016-17 dated 1<sup>st</sup> September 2016 (updated upto 23<sup>rd</sup> February 2018). The substantive security created by the borrower should be valued from Government approved valuer/external agency to ascertain adequacy of asset cover for the debt. The restructuring scheme/package should be approved by the Executive Committee of Directors.
- (xx) In case of willful default, necessary action should be initiated so that the company's name appears in RBI's 'Willful Default List'.
- (xxi) In case borrower company's operations are found unviable due to reasons beyond its control, exit from the company shall be pursued.
- (xxii) The loan shall be recalled and legal action shall be initiated by way of filing of recovery suit with DRT/Court and/or recovery as per the provisions of SARFAESI Act and/or insolvency petition under Insolvency & Bankruptcy Code 2016.
- (xxiii) The valuation of the property/security shall also be obtained from Government approved valuer as soon as the account becomes NPA.

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**RESTRUCTURING OF STANDARD & SUB-STANDARD ASSETS**

**I. BACKGROUND:**

When a potentially viable assisted concern faces short term marketing/financial/technical/other problems, directly or indirectly affecting its profitability and cash flows, and as such is not in a position to amortize the dues as per the agreed schedule, in such cases TFCI considers granting need-based reliefs and concessions to the concern by way of waiver of penal interest/liquidated damages, waiver/funding of interest and/or rescheduling of principal, etc. The restructuring should be in line with the extant RBI guidelines. By this process, the concern gets adequate time to consolidate/rectify its operations to enable itself to service the renegotiated liabilities as per the agreed revised schedule.

**II. OBJECTIVE:**

The objective of granting a package of restructuring to the borrower is based on sustainable debt and to facilitate it repaying debt considering its future cash flows besides keeping the sacrifices from TFCI at the minimum.

**III. ELIGIBILITY CRITERIA:**

3.1 The borrower's operations should be potentially viable with minimum sacrifices from TFCI.

3.2 In cases where recovery suit is filed before DRT/Court the restructuring will be subject to the company agreeing to file consent terms before DRT/Court.

3.3 In National Company Law Tribunal (NCLT) referred cases under IBC 2016 restructuring may be granted for revival of the project borrower company, subject to 75% financial creditors approving the resolution plan.

3.5 Borrowers indulging in frauds and malfeasance are ineligible for restructuring.

**IV. FINANCIAL VIABILITY AND PROMOTERS' CONTRIBUTION:**

4.1 The computation of sustainable debt and assumptions underlying the estimates of profitability and projections of Profitability, Cashflow and Balance Sheet would be prepared for the next 10 years (15 years for infrastructure projects) or atleast upto the period of repayment of dues of TFCI/ other lenders.

- 4.2 The cases of restructuring would be subject to the following viability parameters:
- (i) The period of implementation of rehabilitation/restructuring should not normally exceed 10 years (15 years for infrastructure projects).
  - (ii) Debt Service Coverage Ratio: The normal average DSCR for the period of profitability projections should be around 1.33:1 and on year-to-year basis DSCR should be above 1:1 for all the years. However, in exceptional circumstances average DSCR may be relaxed.
  - (iii) Return on capital employed should be at least equivalent to 5 year Government security yield plus 2 per cent.
  - (iv) The benchmark gap between internal rate of return and cost of capital should be at least 1 per cent.
  - (v) Operating and cash break even points should be comparable with the industry.
  - (vi) EBIDTA margin in projections should be comparable with the industry.
  - (vii) Loan life ratio (LLR) should give a cushion of 40% to the amount of loan to be serviced.
  - (viii) In case acquisition of additional fixed assets is involved, the same would be financed out of the funds to be brought in by the promoters.
  - (ix) The promoters shall bring in their contribution stipulated in the package within the specified time frame in line. Additionally, or wherever this is not applicable, promoters may undertake suitable sacrifices.

**V. CONVERSION OF A PART OF DEBT INTO EQUITY/OTHER INSTRUMENTS:**

The acceptance of the terms of restructuring package including conversion into equity/other instruments shall be as per SEBI guidelines/regulatory guidelines or mutually agreed terms.

**VI. RIGHT OF RECOMPENSE:**

Right of Recompense is to be stipulated in all restructuring cases clearly mentioning the waivers/NPV loss of interest differential, etc. if the profitability of the company (EBIDTA) improves vis-à-vis projections. The time-frame for payment of the recompense amount may be specifically given in LOI. No-dues certificate may not be issued unless the issue regarding Right of Recompense is settled.

**VII. PERSONAL/CORPORATE GUARANTEES:**

Before granting a restructuring package an evaluation of the personal/corporate guarantees would be made and a suitable undertaking be obtained in this regard. Wherever feasible, an enhancement in the value of the personal/corporate guarantees would be

obtained through (i) additional personal/corporate guarantees (ii) pledge of shares of promoters/guarantors; and (iii) creation of additional unencumbered personal assets.

#### **VIII. GENERAL POLICIES FOR RESTRUCTURING:**

Some of the general conditions that may be considered for stipulation while granting a Restructuring Package are given hereunder:

- (i) The borrower shall obtain approval from other lenders on similar terms for the proposed restructuring.
- (ii) The letter of approval shall be accepted by the borrower as also by the guarantors.
- (iii) The borrower shall open trust and retention account for the purpose of repayment of dues of lenders or the company shall deposit post-dated cheques (PDCs) for the payment of interest/instalments of principal for every year in advance, wherever feasible.
- (iv) The borrower shall not declare or pay any dividend on any of the equity/preference shares without prior approval of TFCI during the currency of the repayments under restructuring.
- (v) The borrower shall not escrow its future cash flows or create any charge or lien or interest thereon of whatsoever nature except with the prior written approval of TFCI.
- (vi) The borrower shall not undertake any further projects/investments as well as raise any fresh loans/debts without specific prior written approval of TFCI.
- (vii) TFCI shall have right to appoint concurrent auditors to carry out a concurrent audit of the accounts of the company. All costs, charges and expenses of the concurrent audit shall be incurred, met, paid by the company. The auditors would continue for such duration as may be deemed necessary by TFCI.
- (viii) TFCI shall have the right to accelerate the repayment schedules of all or any of loans.
- (ix) The borrower shall not sell any of its fixed assets/investments, save and except permitted under the package or except where specific written permission of TFCI has been obtained/and or provided in the restructuring scheme.
- (x) The promoters shall furnish an undertaking to bring in additional funds by way of debt/equity/preference capital or any other instrument for meeting any cash flow shortage to service lenders' debt/interest required by TFCI.
- (xi) TFCI shall have right to convert entire/part of defaulted interest and entire/part of defaulted principal into equity, at par, as per covenants of loan documents/terms of restructuring of debt.
- (xii) The interest rate on the restructured advance shall not be less than TFCI's base rate/marginal cost lending rate, whichever applicable.
- (xiii) TFCI shall have right to review interest rate after 1 year (or shorter period depending on the interest rates scenario), on its sole discretion.

- (xiv) TFCI shall have the right to publish the name of the borrower in case of default to RBI and or Credit Information Bureau (India) Ltd. (CIBIL) and any other agency authorized in this behalf by RBI.
- (xv) The company shall not effect any change in management set-up without prior approval from TFCI.
- (xvi) TFCI shall retain the right to revoke the package, without any reference to the borrower, in case the company does not meet its commitments as stipulated in the package.

**IX. COMPETENT AUTHORITY:**

All restructuring proposal should be referred to Executive Committee of Directors for approval, as per extant delegation of powers.

**X. REVOCATION OF PACKAGE:**

The restructuring package may be considered for revocation in the following circumstances:

- (i) Borrower does not comply with the standard conditions;
- (ii) Borrower has not allotted shares to TFCI in the event of TFCI exercising conversion option;
- (iii) There is persistent default in payment of dues as per package and non-compliance of other terms and conditions, etc.
- (iv) In case of any adverse findings by regulatory authorities and/or any adverse feature in respect of the values of certain critical project/financial parameters of borrower comes to the notice of TFCI.

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**RESTRUCTURING OF PROJECTS UNDER IMPLEMENTATION ON ACCOUNT OF CHANGE IN DCCO AND INCREASE IN SCOPE OF THE PROJECT**

**I. INFRASTRUCTURE PROJECTS:**

- (a) A loan for an infrastructure project which is regular as per record of recovery if it fails to commence commercial operations within two years from the original DCCO can be restructured and retained as 'standard asset' as per RBI guidelines on the following terms:
- (i) The borrower applies for restructuring before the expiry period of two years from the original DCCO and the account is standard as per record of recovery.
  - (ii) The fresh DCCO is fixed upto another 1 year (beyond the existing extended period of 2 years i.e. total extension of 3 years) in case the project is delayed for other reasons beyond the control of promoters.
  - (iii) The fresh DCCO is fixed upto another 2 years (beyond the existing extended period of 2 years i.e. total extension of 4 years) in case the reason for extension of DCCO is arbitration proceedings or a court case.
  - (iv) The repayment period can be consequently shifted by equal or shorter duration, including the start date and end date.
  - (v) The cost overrun, which may arise on account of extension of DCCO within the time limit quoted above, can be funded, comprising of additional interest during implementation and 10% of original project cost (excluding interest during implementation) subject to the D:E ratio as envisaged at the time of initial financial closure remains unchanged or improves in favour of TFCI/lender.
  - (vi) Disbursement of loan for cost overrun shall start only after the borrower company/promoters bring in their share of funding of the cost overrun.
  - (vii) The other terms & conditions of sanction shall remain unchanged or enhanced in favour of TFCI/lenders.
  - (viii) The delegated power, for approval of change in DCCO alongwith consequent shift in repayment schedule, shall be with the Managing Director.
  - (ix) The delegated power for approval of funding of cost overrun and consequent shifting of repayment schedule shall rest with the Executive Committee of Directors.
- (b) A loan for an infrastructure project stalled primarily due to inadequacies of the current promoter(s) can be restructured and retained as standard asset on the above terms if a change in ownership takes place before or after envisaged DOCCO provided TFCI/lenders shall establish that new promoter have sufficient expertise in the business line, project completion is possible within the extended period, project is viable and revised



repayment schedule does not extend beyond 85% of the economic life/concession period of the project. The facility shall be available to the project only once and shall not be available for any subsequent change in ownership.

## **II. NON-INFRASTRUCTURE PROJECTS:**

(a) A loan for a non-infrastructure project which is regular as per record of recovery if it fails to commence commercial operations within one year from the original DCCO can be restructured and retained as 'standard asset' as per RBI guidelines on the following terms:

- (i) The borrower applies for restructuring before the expiry period of one year from the original DCCO and the account is standard as per record of recovery.
- (ii) The fresh DCCO is fixed upto another 1 year (beyond the existing extended period of 1 year i.e. total extension of 2 years).
- (iii) The repayment period can be consequently shifted by equal or shorter duration, including the start date and end date.
- (iv) The cost overrun, which may arise on account of extension of DCCO within the time limit quoted above, can be funded, comprising of additional interest during implementation and 10% of original project cost (excluding interest during implementation) subject to the D:E ratio as envisaged at the time of initial financial closure remains unchanged or improves in favour of TFCI/lender.
- (v) Disbursement of loan for cost overrun shall start only after the borrower company/promoters bring in their share of funding of the cost overrun.
- (vi) The other terms & conditions of sanction shall remain unchanged or enhanced in favour of TFCI/lenders.
- (vii) The delegated power, for approval of change in DCCO alongwith consequent shift in repayment schedule, shall be with the Managing Director.
- (viii) The delegated power for approval of funding of cost overrun and consequent shifting of repayment schedule shall rest with the Executive Committee of Directors.

(b) A loan for a non-infrastructure project stalled primarily due to inadequacies of the current promoter(s) can be restructured and retained as standard asset on the above terms if a change in ownership takes place before or after envisaged DCCO provided TFCI/lenders shall establish that new promoter have sufficient expertise in the business line, project completion is possible within the extended period, project is viable and revised repayment schedule does not extend beyond 85% of the economic life/concession period of the project. The facility shall be available to the project only once and shall not be available for any subsequent change in ownership.

### **III. COMMERCIAL REAL-ESTATE PROJECTS:**

A loan for a commercial real-estate project which is regular as per record of recovery if it fails to commence commercial operations within the original DCCO can be restructured and retained as standard asset as per RBI guidelines on the following terms:

- (i) The fresh DCCO is fixed within a period of one year from the original DCCO.
- (ii) The repayment period can be consequently shifted by equal or shorter duration, including the start date and end date.
- (iii) All other terms and conditions of sanction shall remain unchanged.
- (iv) The delegated power for approval of change in DCCO alongwith consequent shift in repayment schedule shall be Managing Director.

### **IV. INCREASE IN SCOPE OF PROJECT:**

The repayment schedule of a project loan, which is regular as per record of recovery, can also be changed without affecting its standard asset classification if there is an increase in project outlay as follows:

- (i) The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.
- (ii) The rise in cost excluding any cost overrun in respect of the original project is 25% or more of the original outlay.
- (iii) The viability of the expanded project is established.
- (iv) The new rating of the project is not below the previous rating by more than one notch.
- (v) The scheme is approved by the Competent Authority of TFCI.

**V.** Any restructuring on account of change in DCCO and scope of project beyond the above stipulations (I-IV) can also be considered subject to downgrading of the loan to sub-standard asset category. In such an event, the restructuring of loan would be based on the concept of useful life of the assets, its revenue generation capacity, DSCR as detailed in Annexure-II.

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**POLICY FOR ONE-TIME SETTLEMENT/NEGOTIATED SETTLEMENT OF DUES**

**I. INTRODUCTION:**

With a view to recovering outstanding dues in impaired assets One-Time Settlement (OTS) or Negotiated Settlement (NS) of dues will be agreed to by TFCI in cases where recovery is doubtful even after granting of reliefs and concessions and restructuring of debt.

**II. OBJECTIVE:**

The objective is to make recovery of dues possible where the prospects of recovery in the normal course or even after restructuring are rather remote and recovery through the legal route is likely to be unduly long drawn, with the 'time value of recovery' as the crucial determinant.

**III. ONE TIME SETTLEMENT (OTS):**

**3.1 Eligibility and circumstances criteria for OTS:**

In order that a borrower's account could be considered as a fit case for OTS, it must satisfy one or more of the following factors:

- The borrower is in default or is likely to be in default in future due to low profitability/non-viability.
- The project/unit is lying closed and chances of its revival are remote.
- The company is under purview of official liquidator and liquidator is going to take a long time.
- Recovery Suit is filed against the borrower company in DRT/Court.
- The project/unit has been taken under SRFA&ESI Act, 2002 but the proceedings are stalled/likely to take a long time/bids are likely to be low.
- The company has been referred to NCLT under IBC 2016 but yet to be admitted.
- Other lending institutions/banks have agreed to enter into OTS with the borrower.

**3.2** Considering the "Time Value of Recovery" and likely erosion of the value of security over a period, OTS should be explored as early as possible on happening of any of the following events:

- The asset has been downgraded to sub-standard category and prospects of upgradation through restructuring route are remote.
- The net worth has been eroded by more than 50% and the borrower is likely to become a sick industrial company.
- The rehabilitation/revival of the unit/borrower is not in sight.

- The product/industry has become/is becoming obsolete and the project does not have the inherent capability to switch over to substitutes except otherwise through substantial investment and/or the debt servicing ability of the borrower has become/likely to become permanently impaired.
- The product/industry has become un-competitive due to fragmented capacities, change in duty structure/tariffs and unfavourable market conditions.
- The project/unit is closed due to long term problems.

### **3.3 Quantum under OTS:**

- The objective should be to maximize recovery keeping in view the outstanding amount as well as principal amount due from the company. The amount to be recovered under OTS shall be decided on a case-to-case basis and the settlement amount would take into account the realizable value of the underlying physical assets and the worth of the personal/corporate guarantors after considering deductible statutory liabilities and the time required for realization of security. In case of unit under operation, business valuation may also be carried out. However, OTS amount will be based on higher of the two valuations.
- Attempt should be made to fully recover the other debits like legal expenses, watch & ward expenses, insurance expenses, etc.

Further, the settlement amount shall be decided after taking into consideration the factors like status of the project, working results & financial position of the company, legal status, value of security (saleable/realizable value of assets and worth of personal/corporate guarantors), availability and quality of other collateral security, resourcefulness of promoters (net-worth of promoters etc.), industry status, market/ product consideration and technology, etc.

Valuation of assets is a significant factor and as far as possible relationship manager should get associated with the valuation and visit the project.

Acquisition of physical assets e.g. land, building, etc. by swapping with outstanding loans of a borrower or the inclusion of such swaps in OTS cases would be considered on case to case basis. At the time of such acquisition, a valuation of the physical assets would be got done by approved valuer and valuation should also be assessed by the officials of TFCI after carrying out the visit.

### **3.4 Payment Terms:**

In the normal course, an OTS would be negotiated so as to be payable upfront, but the payment period may not exceed 1 year. Wherever possible, interest preferably at TFCI's Base Rate (TBR) might be charged for the balance payments made after 3 months from the date of letter of approval. Payment of at least 25% of the settlement amount may be within

3 months of the date of issue of letter of approval and remaining payments may be received in 12 months from the date of letter of approval.

Interest would be levied at base rate plus liquidated damages in case of delayed payments from the date the payment has fallen due in terms of the letter of approval.

Where payment as per the approved OTS has not been received by the scheduled date, a show cause notice (SCN) for revocation would be issued by TCI to the borrower. In case of persistent default for 3 months after the due date, the OTS may be revoked with the approval of MD.

#### **IV. NEGOTIATED SETTLEMENTS (NS):**

Negotiated Settlements (NS) may be considered if OTS is not found feasible in cases where company/promoters seek more than 12months' time for the payment of settlement amount.

In these cases, payment should normally be within 3 years, but in any case not exceeding 5 years except some instruments of longer duration, viz., long-dated bonds/instruments, equity, etc. to be obtained from the company as a part of NS. The down payment may preferably be for a minimum of 10% of settlement amount, within three months from date of issue of letter of approval (LOA). Interest may be levied preferably at TBR on the amount remaining outstanding after upfront payment. Additionally interest would be levied at TMCLR + 2% in case of delayed payments from the date the payment has fallen due.

#### **V. FLEXIBILITY IN OTS/NS TERMS:**

Some flexibility in the above payment terms for OTS/NS could be provided, where the above payment terms are not feasible/accepted by the borrower or persistent negotiation and other lenders have agreed to similar settlement.

Wherever TFCI has a shareholding in the assisted concern, a buy-back of shares on appropriate terms would be negotiated alongside the OTS/NS and the proposal on the buy-back of equity would be an essential part of the OTS/NS.

In OTS/NS, in exceptional cases, long dated zero coupon instruments may be accepted as part of the OTS/NS preferably convertible into equity at the option of TFCI. The conversion to equity would normally be as per SEBI formula/prevalent regulations and should become an integral part of OTS/NS letter and wherever applicable, part of consent taken at DRT. Attempt may be made to have such instruments to be a small a part of the total settlement as possible (unless it is convertible and conversion is beneficial to TFCI).

The borrower would be granted the option to prepay the long dated zero coupon debt at PV discounted at bank rate (maximum).

**VI. DELEGATION OF POWERS FOR DECIDING OTS/NS:**

- All the proposals for OTS shall be vetted by the Settlement Committee comprising of independent professionals.
- All the proposals for OTS/NS of dues shall be placed before the Executive Committee of Directors for approval, as per extant delegation of powers.

**VII. RIGHT TO RECOMPENSE:**

- (i) In OTS case where payment is proposed to be received within one year, the Right to Recompense shall not be stipulated.
- (ii) In case of NS, where payments shall be made over 3 years, the condition of Right to Recompense may be negotiated, wherever feasible/possible and the amount/basis of recompense be crystallized upfront.
- (iii) TFCI shall ensure recovery of the crystallized recompense amount before issue of 'No dues Certificate'.

**VIII. PERSONAL AND CORPORATE GUARANTEES:**

While negotiating an OTS/NS, TFCI would attempt to make thorough assessment of the worth of personal/corporate guarantors. The worth of personal guarantors/corporate guarantors has to be added to the value of assets for negotiating the OTS/NS amount. Efforts would be made to obtain the lists of assets of personal guarantors. As far as possible, income tax and wealth tax returns for last 3 years would be obtained. These should be made the basis for assessment of the worth of personal guarantors. In the absence of these, an affidavit and CA certificate should be at least obtained.

**IX. GENERAL POLICIES FOR OTS/NS:**

- (a) Efforts to be made to obtain PDCs for the entire OTS amount in advance. In case of NS atleast one years' dues PDCs should be collected in advance.
- (b) A valuation of assets by an approved valuer would be undertaken, if no such valuation has been carried out recently (within 6 months prior to submission of OTS/NS proposal). Officials of TFCI would associate in the valuation process as far as possible and visit the project site.

- (c) In arriving at the OTS/NS amount to be negotiated, the realizable/distress sale value of assets and net-worth of personal/corporate guarantors would normally be taken into account.
- (d) Deductible statutory liabilities from realizable value of assets as per legal provisions for sale of assets under DRT/ SRFA&ESI Act/IBC 2016 would be taken cognizance of, in negotiating the OTS.
- (e) As far as feasible, verification of documents in support of the amount of statutory liabilities would be undertaken.
- (f) In cases of willful default, fraud, malfeasance, etc. OTS/NS could be considered on merit with proper justification, keeping in view the amount likely to be recovered through the legal route/other route.
- (g) In case of running projects/units, a business valuation may be preferred and value also be placed on intangible assets e.g. goodwill, brands, capability of promoters, etc.
- (h) In case any other lender(s) imposed any condition(s) not included in TFCI's letter of approval or in case any of the terms/amount stipulated under OTS/NS by any such lender(s) is more favourable to them than the terms/amounts stipulated by TFCI, such of those conditions/amounts under OTS/NS, as may be considered necessary by TFCI, in its discretion, shall apply to the OTS/NS arrangement with TFCI also, as if the company had specifically agreed to such conditions/amounts. For the fulfillment of this condition, it would be normally necessary for the borrower to submit letters of settlement approval from all other lenders before a No Dues Certificate is issued.
- (i) The OTS/NS would be without prejudice to TFCI's rights under action already initiated under SRFA&ESI Act, 2002 and/or IBC 2016, original application and other proceedings pending before DRT/Court and shall be subject to consent decree being obtained from DRT/Court.
- (j) Wherever the sale of assets of a borrower is undertaken an Asset Sale Committee, consisting of member(s) from TFCI/lenders and company, shall preferably be constituted for the purpose of effectuating sale of assets/identified surplus assets in a time bound and transparent manner.

**X. REVOCATION OF OTS/NS:**

In cases where settlement of dues has failed and payments are not made by the borrowing concerns as per the agreed terms of OTS/NS, TFCI shall have the absolute right to revoke the same, reinstate the original liabilities of the borrower, appropriate the part

amount, if any, received against the dues as per original terms. Further, in case a fresh proposal for settlement of dues is received from the borrowing concern, the same shall be processed afresh keeping in view the changed circumstances and should not be normally inferior to the earlier OTS proposal.

A periodical review of OTS/NS cases shall be done from time to time and cases fit for granting further time for payment/revocation would be recommended to the competent authority for approval.

The policy for OTS, as above is indicative in nature and deviation in individual cases shall be dealt with keeping in view the justification thereof and the facts and circumstances of a particular case.

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**POLICY AND PROCEDURE TO BE FOLLOWED FOR SALE OF NPA  
BY TFCI TO BANKS/FIs/NBFCs/ARC's**

**A. POLICY TO BE FOLLOWED:**

**I. SCOPE**

The policy is applicable for sale of NPAs of TFCI to banks/FIs/NBFCs and is based on the "Guidelines on Purchase/Sale of Non-Performing Assets" issued by RBI vide circular No.RBI/2005-2006/54,DBOD No.BP.BC.16/21.04.048/2005-2006 dated the 13<sup>th</sup> July, 2005 amended vide circular No.DBOD.BP.BC.No.98/21.04.132/2013-14 dated 26<sup>th</sup>February 2014 and amended vide circular No.DBR.BP.BC.No.39/21.04.132/2015-16 dated 24<sup>th</sup> September 2015 and further amended vide circular No.BP.BC.9/21.04.048/2016-17 dated 1<sup>st</sup> September 2016 as applicable for sale of NPAs.

**II. SELECTION OF NON-PERFORMING ASSETS FOR SALE:**

- 2.1 Any financial asset which is non-performing in the books of TFCI may be considered for sale where on merit it is felt that realization through this route would be beneficial to TFCI.
- 2.2 Besides, TFCI may also consider the following criteria for identifying NPAs for sale:
  - The resolution of NPA through usual process is held up due to non-cooperation of the promoters/company who are misusing DRT/DRAT forum.
  - Enforcement of SRFA&ESI Act, 2002, is difficult because of non-cooperation from other lenders.
- 2.3 The NPAs may be sold individually or in a basket/pool of homogenous assets (e.g. belonging to the same group, same industry/sector, same location, etc.) on a portfolio basis.
- 2.4 Wherever possible, the sale of equity/preference shares/debentures subscribed may also be considered along with loan assets.

**III. VALUATION:**

- 3.1 Valuation of each NPA shall be carried out by Govt. approved valuer essentially with the objectives to
  - arrive at a fair value of the asset.
  - provide transparency in the sale.
  - provide a basis for fixing the reserve price/basis for negotiations with the prospective buyers.

- 3.2 The reserve price shall be indicated based on external valuation.
- 3.3 In respect of cases where external valuation of asset is not possible due to certain constraints, internal assessment of the value would be considered to fix the reserve price/basis for negotiations with the prospective buyer.
- 3.4 The reserve price shall be approved by the Competent Authority/Managing Director.

#### **IV. ELIGIBILITY CRITERIA FOR BANKS/FIs/NBFCs:**

TFCI shall consider sale of its NPAs to any bank/FI/NBFC which are registered with RBI. However, depending on the principal outstanding of individual cases/all the cases in the pool, TFCI if thinks appropriate may also stipulate a minimum net worth in respect of NBFC only.

#### **V. SALE OF NPAs:**

The sale of NPAs to Banks/FIs/NBFCs shall be "without recourse basis" i.e. the entire credit risk (including litigations against TFCI) associated with the NPAs should be transferred to the purchasing Banks/FIs/NBFCs on receipt of the sale proceeds. The NPAs shall be taken off from its books and it should be ensured that no known liability will be devolving on TFCI. TFCI shall also ensure that it does not have any involvement with regard to the NPAs sold and do not assume operational, legal or any other type of risk relating to the NPAs sold. Consequently, the specific NPA shall not enjoy support of any credit enhancement/liquidity facilities in any form or manner from TFCI.

#### **VI. ASSIGN/SALE OF NPA's TO ARC'S**

TFCI, as a part of resolution of NPAs, can transfer the debt in favour of ARCs, as per the provisions of SRFA&ESI Act, 2002 by accepting a part of assignment amount in cash (atleast 15%) and remaining amount by way of accepting Security Receipts (SRs). However, TFCI shall endeavor to assign the debt pertaining to its NPA to ARCs on maximum cash consideration.

#### **VII. REALISATION OF SALE PROCEEDS:**

TFCI shall sell NPAs to Banks/FIs/NBFCs on cash basis and the entire sale consideration shall generally be received upfront. However, in specific cases extension of time could be given to the purchaser based on merit.

#### **VIII. PROVISIONING NORMS:**

- In case sale price is below the net book value (NBV) (i.e. book value less provisions held), shortfall shall be debited to the profit and loss account of that year.
- If the sale is for a value higher than NBV, excess provision shall be reversed.

**IX. COMPLIANCE OF DISCLOSURE REQUIREMENT:**

TFCI shall disclose the information on the sale of financial assets in the notes on account in its balance sheet.

**B. PROCEDURE TO BE FOLLOWED:**

**I. NPA SALE COMMITTEE:**

A "NPA Sale Committee" shall be constituted with atleast 3 senior/middle level officers with the Departmental Head as the Chairman for the purpose of opening of bids and for any negotiation with the prospective purchaser(s).

**II. ADVERTISEMENT:**

After selection of cases, carrying out valuation, fixation of reserve price etc., advertisement shall be made in the leading newspaper/website(s) for sale of NPA without giving the name of the companies. Besides, a copy of the advertisement shall be sent to leading Banks/FIs/NBFCs who are purchasing NPAs. In respect of NPAs for which the stake of other Banks/FIs/NBFCs have been acquired by certain Bank/FI/NBFC, the offer on TFCI's share also may be considered from the same Bank/FI/NBFC without advertisement provided the offer is at least equal to the reserve price from the NPAs as approved by the Executive Committee of Directors.

**III. DUE DILIGENCE:**

A data room shall be set up for inspection of legal documents, project details, latest status including legal position, etc. The data room will be available for inspection for a specified period after advertisement only to Banks/FIs/NBFCs who have expressed their interest in writing and signed "Confidentiality Agreement" as per the format to be given by TFCI. No project/site visit shall be arranged and the offer has to be made by the Banks/FIs/NBFCs only on the basis of due diligence of documents.

**IV. RESERVE PRICE:**

The NPA-wise reserve price shall be approved by Competent Authority.

**V. RECEIPT OF OFFERS:**

The offers will be received in a sealed envelope alongwith Earnest Money Deposit (EMD) which may be as stipulated and fixed by 'NPA Sale Committee'. However, only case-wise or pool-wise amount of earnest money will be indicated to prospective purchaser without linking to percentage of the reserve price. The offers may be opened by the NPA Sale Committee in front of the representatives of Banks/FIs/NBFCs. The offers may be

considered for individual NPA or in pool of NPA and the same is to be indicated in the advertisement. The offer of NPA-wise highest bidder or highest bidder of the pool of NPAs may be considered provided the offers are more than the respective reserve price. However, TFCI shall keep the option of inter-se bidding among eligible bidders by NPA Sale Committee as also the right to reject any offer without indicating any reasons.

**VI. APPROVAL FOR SALE OF NPAs:**

Proposal for sale of NPA to the successful bidders based on the recommendations of 'NPA Sale Committee' will be put up for approval of the Executive Committee of Directors.

**VII. ISSUE OF LETTER OF SALE:**

The letter conveying sale of NPAs will be issued after approval of the Executive Committee of Directors.

**VIII. RECEIPT OF PAYMENT:**

The EMD shall be adjusted on issue of sale letter. Balance amount has to be remitted by the buyer within 30 days of issue of sale letter. Any extension thereto shall be subject to the approval of MD with reporting to Executive Committee of Directors.

**IX. DEED OF ASSIGNMENT/RELEASE OF DOCUMENTS(S):**

The legal department of TFCI shall execute deed of assignment envisaging unconditional and irrevocable sale. Also, legal department will execute documents assigning in favour of the purchaser of its rights and obligation, title and interest in financing documents and all collateral and security interest/or pledges created to secure and/or guarantees issued in respect of the payment of loans which the seller is entitled to. Legal department shall also take necessary action for release of original loan agreement(s), security documents, guarantees, share certificates, etc., title deed and necessary correspondence after keeping photocopies.

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**POLICY FOR SALE OF ASSETS UNDER THE PROVISIONS OF SRFA&ESI ACT, 2002**

The following procedure would be followed by TFCI for sale of assets of defaulter borrowers under the provisions of SRFA&ESI Act, 2002:

- i. Notice under section 13(2) to be given to the defaulter company giving sixty days' time to repay the outstanding amount.
- ii. If any representation/objection is received from the defaulter company, to reply the same within fifteen days.
- iii. Take consent of 60% of the secured creditors in value terms to proceed further under SRFA&ESI Act 2002 for sale of assets/other action under the Act.
- iv. Appointment of 'Authorized Officer as per the rules framed under the act.
- v. At the expiry of sixty days to proceed with taking over of possession of the assets directly or with the assistance of enforcement agency. The authorized officer to make inventory as per the rules prescribed under the Act.
- vi. In case of difficulty in taking over of the possession of the unit for any reasons, the authorized officer to approach DM for assistance.
- vii. Publication of possession notice in two leading newspapers within seven days of taking over of the possession of the assets.
- viii. Issue notice to the borrower as prescribed under Rule 6 of Security Interest Enforcement Rules 2002 giving notice of thirty days for sale of property of which the possession has been taken by any of the modes specified under the rules.
- ix. Carrying out valuation and fixing of reserve price of the property.
- x. Finalization of tender document.
- xi. Publication of sale notice fixing date/time/place of auction in two leading newspapers. The auction date to be after thirty days of publication.
- xii. Conduct of auction and payment to be received strictly in terms of tender document and the rules.
- xiii. Sale certificate to be issued only after receipt of entire sale consideration.
- xiv. Sale of the assets can be made on private treaty basis.
- xv. In case of sale by any method other than public auction ensure compliance of conditions as prescribed in the rules made under the Act.

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**POLICY FOR RECOVERY OF DUES THROUGH RESOLUTION OR LIQUIDATION OF ASSETS UNDER PROVISIONS OF INSOVENCY & BANKRUPTCY CODE 2016**

The policy for taking action under Insolvency & Bankruptcy Code 2016 (IBC 2016) was approved by the Board of Directors at its meeting held on 8<sup>th</sup> February 2017. Based on the decision of the Board, the Executive Committee of Directors at its meeting held on 12<sup>th</sup> September 2017 approved the criteria for selection of cases to be referred to NCLT, appointment of resolution professional and fixation of fee payable to resolution professionals. In line with the above decisions, the following procedure would be broadly followed by TFCI for recovery of dues through resolution or liquidation of defaulter borrowers under the provisions of IBC 2016:

- i. TFCI can approach for resolution under IBC 2016 wherever the defaulting borrower company/promoters are causing delay in recovery through other routes or the security position is not comfortable.
- ii. A committee of senior management comprising of Managing Director, Executive Director & Chief General Manager may process the cases to be referred to NCLT under IBC 2016 and obtain approval for the same alongwith tentative fee of the resolution professional from the Executive Committee of Directors, the Competent Authority under delegated powers.
- iii. The committee of senior management may shortlist three resolution professionals from the list made available by Insolvency & Bankruptcy Board of India (IBBI) and invite offers. Based on the professional acumen, experience and quoted fee, one of the above would be appointed as to act as resolution professional for the case, with the approval of Managing Director.
- iv. TFCI either by itself or jointly with others financial creditors may file an application for initiating corporate insolvency resolution process against a defaulting corporate debtor before National Company Law Tribunal (NCLT) which is the Adjudicating Authority with jurisdiction over companies and other limited liability entities.
- v. The application under sub-section 1 of the code shall be furnished alongwith record of default, name of resolution professional proposed to act as an interim resolution professional (IRP) and any other information as may be applicable.
- vi. The Adjudicating Authority if satisfied that a default has occurred shall admit the application within a period of 14 days of the receipt of application and appoint

- IRP who shall be confirmed or replaced by financial creditors with 75% majority within 30 days as resolution professional (RP).
- vii. The management of the borrower entity shall vest with IRP/RP who shall manage the affairs of the borrower with the approval of committee of creditors with 75% majority.
  - viii. The insolvency resolution process shall be carried out by RP in a transparent manner and scheme of resolution shall be submitted before committee of creditors within 180 days (extendable once by a period not exceeding 90 days).
  - ix. In case the resolution plan is approved by the committee of financial creditors with 75% majority, the same shall be submitted to Adjudicating Authority for approval. If Adjudicating Authority is satisfied, it shall order approval of the resolution plan which shall be binding on all stakeholders.
  - x. In case the resolution plan is not approved by the committee of financial creditors with 75% majority, the same shall be submitted to Adjudicating Authority which if satisfied shall order for liquidation of the entity for recovery of dues.
  - xi. The assets of the defaulter will be distributed by the liquidator in the order of priority as laid down in the Code (the secured financial creditors have the first right of recovery under the Code).
  - xii. The fee/expenses for the resolution process under IBC 2016 shall be shared amongst the financial creditors and the fee for the conduct of bankruptcy process shall be paid from the distribution of the estate of the bankrupt as per section 178 of the code.

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## Appendix

### Changes in Loan Recovery & Monitoring Policy for 2018-19 vis-à-vis the previous year

<b>Changes/ Modifications</b>	<b>2018-19</b>	<b>2017-18</b>
The restructuring under the framework of CDR, SDR & S4A schemes of RBI.	The restructuring under the stated framework has been withdrawn by RBI and hence deleted.	The restructuring under the stated framework was provided.
The rehabilitation of stressed standard assets under flexible structuring scheme of RBI.	The rehabilitation under the stated scheme has been withdrawn by RBI and hence deleted.	The rehabilitation under the stated flexible structuring scheme was provided.
Restructuring of projects with changes in DCCO and substantial change in project outlay.	The scheme has been specifically provided in Annexure-III of the policy, in line with RBI guidelines.	The scheme was not specifically provided, though considered.
Resolution or Liquidation under IBC, 2016.	The scheme, as given in Annexure-VII, has been amended in line with updation in IBC, 2016 and the approvals of Board/EC during 2017-18. The main amendments include: <ul style="list-style-type: none"> <li>- Formation of senior management committee comprising MD, ED &amp; CGM to select the cases to be referred to NCLT and selection of RP for the purpose.</li> <li>- Obtaining approval from EC for referring the selected cases to NCLT and tentative fee of the RP.</li> </ul>	The scheme comprised of basic framework under IBC, 2016.