



RICH CREDIT FINANCE PRIVATE LIMITED

NPA & WRITE OFF POLICY

Accretion to non-performing assets (NPAs) of NBFC is a major factor determining the sustained profitability of NBFCs. The stressed assets of a NBFC may be classified into two broad categories

- (i) The Special Mention Accounts (SMAs)
- (ii) The Non-performing Assets (NPAs),
- (iii) out of order account

Special Mention Accounts:

The subject of Non-performing assets has been drawing the attention of RBI in the adverse economic scenario being faced by the corporates and businesses. Accordingly, the central bank issued a framework for revitalizing distressed assets in the economy which outlined incentives for early detection of problem cases, timely restructuring for viable accounts and prompt recoveries and sale of unviable accounts. It also introduced concept of Special Mention Accounts (SMAs) and required the NBFC to categorize accounts as SMA as follows:

Loans other than revolving facilities		Loans in the nature of revolving facilities like cash credit/overdraft	
SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue	SMA Sub-categories	Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-0		Upto 30 days	
SMA-1	More than 30 days and upto 60 days	SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days	SMA-2	More than 60 days and upto 90 days

The regulator has also set up a Central Repository of Information on Large Credits (CRILC). The NBFC is required to report credit information, including classification on an account as SMA to CRILC on all their borrowers having aggregate fund-based and non-fund based exposure of Rs. 50 million and above with them.

Out of Order Account:

Cash credit/Overdraft (CC/OD) account is classified as NPA if it is 'out of order'. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, the extant instructions, *inter alia*, stipulate that the account should be treated as 'out of order' if there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period. In order to avoid any ambiguity regarding determination of 'out of order' status of CC/OD accounts on a continuous basis, it is clarified that an account shall be treated as 'out of order' if:

- The outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- The outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or
- The outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period.

Non-Performing Assets:

An asset, becomes non-performing when it ceases to generate income for the NBFC. Reserve Bank of India (RBI) has stated the following criterion for recognizing a non-performing asset (NPA):

- A. An asset, in respect of which, interest has remained overdue for a period of more than 90 days;
- B. A term loan inclusive of unpaid interest, when the instalment is overdue for a period of more than 90 days on which interest amount remained overdue for a period of more than 90 days;
- C. A demand or call loan, which remained overdue for a period of more than 90 days from the date of demand or call or on which interest amount remained overdue for a period of more than 90 days;
- D. A bill which remains overdue for a period of more than 90 days;
- E. The interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of more than 90 days;
- F. Any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of more than 90 days;
- G. The lease rental and hire purchase instalment, which has become overdue for a period of more than 90 days;

Apart, from the above mentioned classification, any other assets where there might not be a serious financial delay in repayment of dues (or defaults) but which otherwise are showing signs of stress such as over leverage or some industry specific concerns or any other specific signs of stress and hence require special attention and monitoring can also considered as part of stressed assets of the Bank.

Identification of NPAs:

Accounts are classified as NPAs bases on the extant RBI guidelines contained in the 'Master Direction – Non-Banking Financial Company – Systemically Important Non-deposit taking Company and Deposit taking company (Reserve Bank) Directions, 2016. Accounts that have irregularities persisting for more than 90 days are classified as NPAs.

Asset classification:

The asset classification norms as given below shall apply to every applicable NBFC:

- i. **Standard asset** shall mean the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business;
- ii. **Sub-standard asset** shall mean an asset which has been classified as non-performing asset for a period not exceeding 12 months;
- iii. **Doubtful asset** shall mean an asset which remains a sub-standard asset for a period 'exceeding 12 months.
- iv. **Loss asset** shall mean (a) an asset which has been identified as loss asset by the applicable NBFC or its internal or external auditor or by the RBI during the inspection of the applicable NBFC, to the extent it is not written off by the applicable NBFC; and (b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.

Provisioning:

The NBFC would make provisions in the non performing accounts (NPAs) based on the guidelines issued by RBI.

Every applicable NBFC shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder:-

The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

- i. **Standard asset** - Every applicable NBFC shall make provisions for standard assets at 0.25 per cent of the outstanding, which shall not be reckoned for arriving at net NPAs.
- ii. **Sub-standard assets** - A general provision of 10 percent of total outstanding shall be made.
- iii. **Doubtful Assets** –
 - a. 100% provision to the extent to which the advance is not covered by the realisable value of the security to which the applicable NBFC has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis;
 - b. In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. Estimated realisable value of the outstanding) shall be made on the following basis:-

<u>Period for which the asset has been considered as doubtful -</u>	<u>Percent of provision</u>
Up to one year	20
One to three years	30
More than three years	50

- iv. Loss Assets - The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding shall be provided for;

Write off:

As per RBI regulation, loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100% of the outstanding should be provided for.

Considering the fact that RBI gives an option to the FIs to either write off loss assets or maintain full provision there against, the following policy would guide write offs:

The Company would follow the broad guidelines on write off of NPAs as follows:

1. The proposal for writing off any NPA (either fully or partially) would emanate from respective business team. The final approval would rest with such authority as given under the delegation of powers approved by the Board as applicable from time to time
2. Company may fully write off accounts classified as loss assets or doubtful assets of more than 3 years against which 100% provision is being held.
3. Further, Company may write off unsecured portion of doubtful assets against which it is holding 100% provision.
4. In the case of NPAs for which Company is entering into a settlement, the Company would write off the irrecoverable portion of the debt i.e. the outstanding less the settlement amount.
5. While the Company may decide to either actually write off the balance in any NPA or go for prudential write off as defined by the RBI in cases covered above, in the case of compromise settlement / OTS, the irrecoverable portion as mentioned above would be actually written off from the Company.

Business Team will be responsible for any follow up with client including sending follow-up mail, interest reminders, recovery notice, collection of money or additional collateral, initiation of Legal action etc. considering overall client relationship and other aspects.

For any product specific write-off, respective product/collection policy will prevail.

Upgradation of accounts classified as NPAs

Loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.

Any amount due to the company under any credit facility is 'overdue' if it is not paid on the due date fixed by the company.

