INDEL MONEY LIMITED
NPA MANAGEMENT POLICY

1. INTRODUCTION

This Policy is based on the Master Circular No. RBI/2023-24/26 DOR.STR.REC.14/21.04.048/ 2023-24 dated May 08, 2023, in respect of Income Recognition, Asset Classification and Provisioning norms, for Urban Cooperative Banks, issued by the Reserve Bank of India. The same has been made applicable to NBFCs now.

Even though RBI has issued instructions and guidelines, it is felt necessary to have a NPA Management Policy, approved by the Board of Directors of the NBFC, along with a Standard Operating Procedure (SOP), for effective management of NPAs.

The NPA Management Policy of the Company has been formulated, for achieving the following objectives:

(i) Effective and efficient management of the Non-Performing Assets.
(ii) Appropriate classification of the Company's assets, based on prudential norms.
(iii) Uniform and consistent application of the norms, especially in a CBS environment.
(iv) Provisioning as required by the Reserve Bank of India and Statutory Auditors.
(v) Lay down Standard Operating Procedures for identification of NPAs, classification, follow up and recovery.
(vi) Compliance with the instructions of the various regulatory authorities, Central and State Governments and other statutory bodies.

2. NON-PERFORMING ASSETS (NPA)

2.1 Classification of Assets as Non-Performing

A non-performing asset is a loan or an advance where:

(a) Interest and / or installment of principal remain **overdue** for a period of more than 90 days, in respect of a Term Loan.
(b) The account remains "**out of order**" in respect of an Overdraft / Cash Credit and all other loan products being offered as an overdraft facility, including those not meant for business purposes and/or which entail interest repayments as the only credits.
(c) In addition, an account may also be classified as NPA in terms of certain specific provisions of this Master Circular.

Any amount due to the Company under any credit facility, if not paid by the due date fixed by the bank, becomes overdue.

An account should be treated as 'out of order ' if :
the outstanding balance in the CC/OD account remains continuously more than 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.

2.2 Identification of NPA by System Software

Asset Classification should be done on an ongoing basis, by the software, as per a **System Based Asset Classification.**

System-based asset classification' would mean classification carried out by the software of the Company in an automated manner on an ongoing basis, based on the relevant RBI instructions.

The borrower accounts shall be flagged as overdue (SMA/NPA) as part of their day-end processes for each day. The date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

2.3 Provisioning

NBFC should also make provisions for NPAs as at the end of each calendar quarter i.e. as at the end of March / June / September / December, so that the income and expenditure account for the respective quarters as well as the P&L account and balance sheet for the year end reflects the provision made for NPAs.

2.4 Charging of Interest at monthly rests

Company shall charge interest at monthly rests in the context of adoption of 90 days norm for recognition of loan impairment and consequential need for close monitoring of borrowers' accounts.

3. SPECIAL MENTION ACCOUNT (SMA)

(i) SMA is an account which is exhibiting signs of incipient stress resulting in the borrower defaulting in timely servicing of debt obligations, though the account has not yet been classified as NPA. As early recognition of such accounts enables Company to initiate timely remedial actions to prevent their potential slippages into NPAs, Company shall classify loans/advances accounts as SMA, as under:

Category	Principal or interest payment or any other amount wholly or partially overdue for
SMA-0	Up to 30 days
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

(ii) The above-mentioned instructions on classification of borrower accounts into SMA categories are applicable for all loans, including retail loans irrespective of size of exposure.

4. Central Repository of Information on Large Credits (CRILC)

(i) Credit information, including classification of an account as Special Mention Account (SMA), on all borrowers having aggregate exposures of **₹5 crore and above** to Central Repository of Information on Large Credits (CRILC) maintained by the Reserve Bank of India. Aggregate exposure shall include all fund-based and non-fund-based exposure, including investment exposure on the borrower.

(ii) NBFC is required to submit CRILC Report on quarterly basis.

(iii) NBFCs should take utmost care about data accuracy and integrity while submitting the information / data on large credit to RBI, as incorrect reporting will attract penal provisions.

5. TREATMENT OF ACCOUNTS

(i) Record of Recovery

The treatment of an asset as NPA should be based on the record of recovery. Where there is a threat of loss, or the recoverability of the advances is in doubt, the asset should be treated as NPA.

Where entire overdue pertaining to all the credit facilities availed by a borrower from the Company have been regularised by repayment through genuine sources (not by sanction of additional facilities or transfer of funds between accounts), the accounts may be upgraded to 'standard' asset category.

(ii) Treatment of NPAs - Borrower-wise and not Facility-wise

In respect of a borrower having more than one facility with the Company, all the facilities granted by the Company shall be treated as NPA and not the particular facility or part thereof which has become irregular/NPA.

6. Restructuring of Advances

All the instructions contained in the Circulars and Guidelines, issued by RBI, from time to time, will be applicable for restructured accounts.

7. OTHER ADVANCES

(a) Advances against term deposits, NSCs eligible for surrender, KVPs and Life policies need not be treated as NPAs although interest thereon may not have been paid for more than 90 days, provided adequate margin is available in the accounts.

8. NPA Reporting to Reserve Bank of India

Company shall report the figures of NPAs to the Regional Office of the Reserve Bank at the end of each year within two months from the close of the year in the prescribed proforma.

9. ASSET CLASSIFICATION

Company shall classify their assets into the following:

(a) Standard Assets

Standard asset is one which does not disclose any problem, and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.

(b) Sub-standard Assets
An asset would be classified as sub-standard if it remained as NPA for a period less than or equal to 12 months.

(c) Doubtful Assets
An asset is required to be classified as doubtful, if it has remained NPA for more than 12 months.

(d) Loss Assets
A loss asset is one where loss has been identified by the Company or internal or external auditors or by the Co- operation Department or by the Reserve Bank of India's inspection, but the amount has not been written off, wholly or partly.

In respect of accounts where there are potential threats to recovery on account of erosion in the value of security, such accounts should be straight away classified as doubtful asset or loss asset, as appropriate, irrespective of the period for which they have remained as NPA.

10. INCOME RECOGNITION POLICY

The policy of income recognition must be objective and based on the record of recovery. Income from non-performing assets (NPA) is not recognized on an accrual basis but is booked as income only when it is received. Therefore, Company shall not take interest on non-performing assets to their income account on an accrual basis.

However, interest on advances against term deposits, NSCs, KVPs and life insurance policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

Fees and commissions earned by the banks because of re-negotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the re- negotiated or rescheduled extension of credit.

In cases of loans where moratorium has been granted for repayment of interest, Company shall recognize interest income on accrual basis for accounts which continue to be classified as 'standard'.

Reversal of Income on Accounts Becoming NPAs
If any advance becomes NPA, interest accrued and credited to income account, should be reversed, or provided for, if the same is not realized.

However, if loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest, if any, corresponding to the interest accrued during such moratorium period need not be reversed.

In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.

Partial Recovery of NPAs

Interest realized on NPAs may be taken to income account, provided the credits in the accounts towards interest are not out of fresh / additional credit facilities sanctioned to the borrower concerned.

Interest Application

In the case of NPAs, as a prudential norm, there is no use in debiting the said account by interest accrued in subsequent months and taking this accrued interest amount as income of the Company as the said interest is not being received. It is simultaneously desirable to show such accrued interest separately or park in a separate account so that interest receivable on such an NPA account is computed and shown as such, though not accounted as income of the bank for the period.

The interest accrued in respect of performing assets may be taken to income account as the interest is reasonably expected to be received. However, if interest is not actually received for any reason in these cases and the account is to be treated as an NPA, then the amount of interest so taken to income should be reversed or should be provided for in full.

11. PROVISIONING NORMS

In conformity with the prudential norms, provisions should be made on the non-performing assets based on classification of assets.

Considering the time lag between an account becoming doubtful of recovery, its recognition as such, the realisation of the security and the erosion over time in the value of security charged to the Company, the Company should make provision as below:

Loss Assets

100 per cent of the outstanding should be provided for Loss Assets.

Doubtful Assets

Provision should be **100 per cent** of the extent to which the advance is not covered by the realisable value of the security to which the Company has a valid recourse. The realisable value should be estimated on a realistic basis.

Regarding the **secured portion**, provision may be made on the following basis:

Period for which the advance has remained in "Doubtful" category	**Provision**
Up to one year	20 per cent
One to three years	30 per cent
Advances classified as 'doubtful for more than three years'	100 percent

Sub-standard Assets

A general provision of **10 per cent** on total outstanding should be made without making any allowance for securities available.

Provision on Standard Assets

The Company shall maintain provision for standard assets at the following rates:

Category of Standard Asset	**Rate of Provisioning**
Direct advances to SME sectors	0.25%
Commercial Real Estate (CRE) sector	1.00%
Commercial Real Estate-Residential Housing Sector (CRE-RH)	0.75%
All other loans and advances not included above	0.40%

The provision towards "Standard Assets" need not be netted from gross advances but shown separately.

In case Company is maintaining excess provision than what is required / prescribed by Statutory Auditor / RBI Inspection for impaired credits under Bad and Doubtful Debt Reserve, additional provision required for Standard Assets may be segregated from Bad and Doubtful Debt Reserve and the same may be parked under the head "Contingent Provisions against Standard Assets" with the approval of the Board of Directors. Shortfall, if any, on this account may be made good in the normal course.
The above contingent provision will be eligible for inclusion in Tier II capital.

Provisioning Pertaining to Fraud Accounts

Provisioning norm in respect of all cases of fraud identified in terms of the Master Circular on Frauds - Classification and Reporting, are as under:

The entire amount due to the Company, (irrespective of quantum of security held against such assets), or for which the Company is liable (including in case of deposit accounts), is to be provided for over a period not exceeding four quarters commencing with the quarter in which the fraud has been detected.

Advances Against Deposits / Securities

Advances against fixed / term deposit, NSCs eligible for surrender, KVPs, and life policies are exempted from provisioning requirements.

Advances against gold ornaments, government securities and all other kinds of securities are not exempted from provisioning requirements.

Some of the steps taken by the Company regarding NPAs are as follows:

Upgradation of Existing NPAs by:

1. Aggressive collection mechanism
2. Focus on loans defaulted more than 90 days in interest payments
3. Special focus on loans which above 90% of market value
4. Settlement campaign for over-due accounts
5. Timely execution of auction process
6. Auction pricing will be not less than 85% of last 30 days average

Avoiding Fresh NPAs by:

1. Strict compliance of operation process
2. Proper appraisal on KYC and articles
3. Company to devise products with interest slab changes in frequent intervals
4. Purity checking by gold appraisers above specified limit loans to be made mandatory
5. Product tenure need to be set as 365 days
6. The appraisal system need to be improved
7. Risk Management committee need to be formed for analyzing risk exposures
8. Continuous training for employees for improving skills
9. Mark to Market analysis on regular intervals
10. Aggressive collection mechanism
11. Regular follow up on interest collection
12. Special focus on interest defaulted accounts for more than 90 days
13. MIS to branches and supervisors on a daily basis
14. Frequency of audit intervals once in every 15 days
15. AM/RM verification on KYC and strict monitoring on branches for business/collection
16. HO monitoring and control over loans for not falling in to NPA category

This policy will be renewed as and when new regulatory changes to NPA classification are issued by RBI.