

INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING (IRACP) POLICY

1. INTRODUCTION:

The introduction of **Income Recognition, Asset Classification and Provisioning (IRACP)** norms by Reserve Bank of India has enabled objective categorization of asset quality of NBFCs. Transparency in disclosing asset quality has benefited many stake holders such as shareholders, investors and regulators. It enables the Management in monitoring the asset quality on a regular basis.

Reserve Bank of India guidelines provide that all assets classified as other than 'Standard' (as described in sl.no.3 below) are to be termed as 'Non Performing Assets' (NPAs). Slippage from 'Standard' to 'Non Performing' has adverse impact in the books of accounts as mentioned below:

Income is not recognised in the case of NPAs.

RBI guidelines stipulates the need for higher provisions for NPA

This policy is intended to address Asset Classification, Income Recognition and Provisioning of Financial Assets in a systematic manner and to provide clear guidelines to contain, monitor and recover such loans and advances.

2. OBJECTIVES:

- 2.1. To prevent slippage of accounts
- 2.2. To accelerate recovery in existing NPAs.
- 2.3. To follow the asset classification and provisioning norms stipulated by RBI from time to time.

3. ASSET CLASSIFICATION:

Company shall after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classify its loans and advances and any other forms of credit into the following classes, namely:

- (i) Standard asset
- (ii) Sub-standard asset
- (iii) Doubtful asset and
- (iv) Loss asset

(i) Standard Asset: 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: Sub-standard asset shall mean:

- (a) an asset which has been classified as non-performing asset for a period not exceeding 18 months.
- (b) an asset where the terms of the agreement regarding interest and/or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms.

(iii) Doubtful Asset: An asset which remains a sub-standard asset for a period exceeding 18 month.

(iv) Loss Asset: Loss asset shall mean:

- (a) an asset which has been identified as loss asset by the Company or internal or external Auditors or by RBI during Inspection, to the extent it is not written off by the Company.
- (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.

Non-performing Asset: means an asset for which, interest/principal payment has remained overdue for a period of 6 months or more.

Overdue: Any amount due to the NBFC as Interest and Principal under any credit facility is 'overdue', if it is not paid on the due date fixed by the Company.

In a phased manner, the overdue period for NPA classification shall be reduced as mentioned below:

<u>NPA NORMS</u>	<u>TIMELINE</u>
>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
> 90 days	By March 31, 2026

4. INCOME RECOGNITION:

Once an account is classified as NPA, the entire interest accrued and credited to income account in the past periods, must be reversed to the extent it remains unrealised. It is clarified that 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 corresponding to the interest accrued during such moratorium period need not be reversed.

5. PROVISIONING NORMS:

Company 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:

5.a. The provisioning requirement in respect of NPAs:

(i) 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 should be provided for.	
(ii) 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 non-banking financial company 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.	
	Period for which the asset has been considered as doubtful	% of provision
	Up to one year	20
	One to three years	30
	More than three years	50
(iii) Sub-standard assets	A general provision of 10 per cent of total outstanding shall be made.	

5.b. Provision for Standard Assets

Company shall make provision for standard assets at 0.25 percent of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as ‘Contingent Provisions against Standard Assets’ in the balance sheet.

6. SPECIAL MENTION ACCOUNT (SMA)

The RBI circular DBR.No.BP.BC.45/21.04.048/2018-19 dated June 7, 2019 on ‘Prudential Framework for Resolution of Stressed Assets’ requires the lenders to recognize incipient stress in borrower accounts, immediately on default, by classifying them as Special Mention Accounts (SMA). The intervals are to be continuous and accordingly, the basis for classification of SMA categories shall be as follows:

SMA CLASSIFICATION

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue
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 180 days

The date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

7. UPGRADATION:

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

8. MONITORING and RECOVERY

8.1. All precautions should be taken to avoid slippage of assets to NPA

8.2. Following steps should be initiated once account has been identified as NPA:

8.2.1 The borrower and the guarantor be vigorously followed up for recovery/regularization of the account. Demand notices to be sent by ordinary post. In case no desired response is received, recovery notices to be served after 15 days.

8.2.2 In exceptional cases, if there are genuine difficulties being faced by certain borrowers, their accounts may be rescheduled / restructured preferably prior to such loans becoming NPAs.

8.2.3 Statements showing position of NPAs for the quarter ending are computed at Head Office immediately after the closing of quarter. Such statements be thoroughly scrutinized and the data of all the branches be consolidated. Based on these figures targets for recovery be fixed in consultation with the Branch Managers. Head Office should follow up with the branches for achievement of targets by reviewing the position on quarterly basis.

8.2.4 The position of recovery in NPA accounts should be reviewed on a monthly basis by the Recovery Vertical and the position of recovery to be placed before the Management on a monthly basis.

8.3. **Appropriation of Recovery in NPA accounts:** Recoveries made in NPA assets be first appropriated towards charges, then to interest and last to principal.

9. OTHER GUIDELINES:

All the loans and advances need to be classified as per the norms prescribed by Reserve Bank of India.
