

POLICY ON LOAN RECOVERY, PROVISIONING AND NON PER- FORMING ASSET

Introduction

The Compliance Policy of ACG LEASING LIMITED (“the Company”) ensures fulfilment of compliance function in the company. The Compliance Function envisages strict observance of all statutory provisions contained in various legislations such as Banking Regulation Act, Reserve Bank of India Act, Companies Act, Prevention of Money Laundering Act etc. as well as to ensure observance of other regulatory guidelines issued from time to time; standards and codes prescribed by other regulators etc; and also NBFC internal policies and fair practices code.

COMPONENTS OF THE POLICY

i. Classification of Accounts

1. Identification of irregular account
2. Special Mention Accounts (SMA)
3. Management of Assets, Follow-up and recovery.
 - Monitoring aspects
 - Manner of recovery
 - Management of irregular accounts
 - Repossession of the assets
- 1. Non-Performing assets management.**
 - NPA classification and management of NPA accounts.
 - **Recovery of Non Performing Pay Day Loans**

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1. Income recognition

2. Provisioning norms.

- Provisioning for standard assets
- Disclosure in balance sheet
- Registration of Transactions with CERSAI

i. Classification of Accounts:

As per the norms prescribed by Reserve Bank of India, all loans and advances are being classified under four categories viz.,

1. Standard
2. Sub-standard
3. Doubtful
4. Loss

STANDARD ASSET

“Standard asset” means 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 nor carry more than normal risk attached to the business;

SUB-STANDARD ASSET

For all loan and hire-purchase and lease assets, sub-standard asset would mean:

1. An asset that has been classified as NPA for a period not exceeding 18 months.
2. 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.

DOUBTFUL ASSET

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“Doubtful asset” means:

1. a term loan or
2. a lease asset or
3. a hire purchase asset or
4. any other asset

which remains a sub-standard asset for a period exceeding 18 months.

LOSS ASSET

“Loss asset” means:

(a) an asset which has been identified as loss asset by the non-banking financial company or its internal or external auditor or by the Reserve Bank of India during the inspection of the non-banking financial company, to the extent it is not written off by the non-banking financial company; 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.

ii. Identification of irregular accounts

As per the existing practice, for term loans, the corresponding date of DPN is considered as due date for payment of instalments. If the DPN of a loan is 10th, the 10th of all the subsequent months/quarters will be the due date for payment of the instalment. If it is not paid exactly on the said date, the account is considered as irregular. We charge 2% penal charges on the entire balance outstanding till it is regularized.

iii. Special Mention Accounts (SMA)

Before a loan account turns into an NPA, NBFCs shall be required to identify incipient stress in the account by creating a sub-asset category viz. 'Special Mention Accounts' (SMA) with the three sub-categories as given in the table below :

SMA Sub-categories

SMA-0	Principal or interest payment not overdue for more than 30 days
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-180 days*

***A glide path is provided to NBFCs in Base Layer to adhere to the 90 days NPA norm as under –**

NPA Norms	Timeline
>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
> 90 days	By March 31, 2026

In view of the above said glide path, SMA2 as dealt with in supra shall be read / modified accordingly.

1. Management of Assets, Follow-up and recovery

Monitoring aspects

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All standard assets should be monitored and followed up closely so as to retain them in the same status.

To ensure prompt repayment of loans branches should

- Explain clearly the terms of repayment to the borrower.
- The gestation period of the project should be assessed correctly at the stage of appraisal itself and instalment holiday should be got sanctioned.
- All accounts should be monitored as to the adherence of terms of repayment, operations etc.
- Instalment and interest due date should be intimated sufficiently earlier. During the initial days we use to follow up through telephonic reminder calls or by visiting the customer's residence or business premises. The financial institution shall give written notices to the borrower informing them about the due EMI and requesting the borrower to clear the dues. Without giving any written notice, the company shall not initiate any legal or any other recovery measure including the repossession of the security. If the borrower is intentionally avoiding calls/written notices, then we are free to move ahead with the repossession in case of secured loans and legal proceeding of recoveries in case of Unsecured loans.

Manner of recovery

Authorized representatives of the company should follow the following set of rules for the collection process

1. Only the authorized people from the organization can follow up and has to provide the identity at first while going to collect the dues. The authority letter has to be shown by the representative.
2. Respect the privacy of the borrower. While contacting the borrower on phone or in person for the recovery of the balance due, do not intrude the privacy of the borrower.

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3. Ensure that the communication either verbal or written will be in a simple business language and the interaction is done with civic manners.
4. The timings are specified in contact the borrower unless the special circumstances require the company to contact the customer at a different time.
5. Borrower's request to call at a different time is honored. If the customer wishes he can be contacted at a different place of his choice other than his/ her residence or the business place.
6. The efforts made for recoveries are always documented along with the gist of interactions with the borrower.
7. The assistance is given to resolve the disputes in a mutually acceptable and orderly manner.
8. Any inappropriate or other calamitous occasions are avoided for making calls / the collection of dues.

Management of irregular Accounts

Once the account turns to be irregular on account of default in payment of instalment/interest such accounts should be monitored meticulously and the borrower concerned should be kept under frequent contact.

In case of prolonged irregular accounts such cases should be kept under close surveillance. Cases warranting re-schedulement / re-phasing of instalments on valid grounds should be attended to immediately and the entire process like getting sanction, documentation, etc., should be completed within 2 months before the account becoming NPA.(RBI notification on rescheduled accounts should be taken care)

For the accounts where re-schedulement is not the remedy, other steps like, recalling the advance and serving notice including legal notice, should be taken before the account becoming NPA. If there is no response, suit should be filed. The outer limit for filing the suit is 7 months from the date when the account became out of order/sticky. Before filing the suit, the entire document and validity of the pronote and enforceability should be confirmed

V. NON-PERFORMING ASSET

“Non-performing asset” (referred to in these Directions as “NPA”) means:

1. an asset, in respect of which, interest has remained overdue for a period of six months or more;
2. a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;
3. a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;
4. a bill which remains overdue for a period of six months or more;
5. 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 six months or more;
6. any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;
7. the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;
8. in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/ beneficiary when any of the credit facilities becomes non-performing asset.

A glide path is provided to NBFCs in Base Layer to adhere to the 90 days NPA norm as under –

NPA Norm	Timeline
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>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
> 90 days	By March 31, 2026

In view of the above said glide path, point No.V (a to h) as dealt with in supra shall be read / modified accordingly.

Management of NPA begins with a better understanding of the underlying credit risk and initiating corrective measures starting from the branch levels.

Relevant to the nature of our lending operations, reasons for an asset turning bad can be broadly identified as follows:

1. Laxity in identification of customers' background and adhering to KYC norms.
2. Lack of proper appraisal and risk assessment
3. Improper / in adequate documentation
4. Incorrect assessment of security
5. In adequate post disbursement follow up.
6. Fraud

WRITE OFF

Write-off comes as the last resort and only when all other recovery measures have failed. This course is to be adopted in cases where the amounts outstanding are small, the security available is negligible and the expenses to be incurred might be more than the amount likely to be recovered. While resorting to writing off the accounts, it should be ensured that the proposal for writing off is examined thoroughly and also taking into accounts the aspects, as outlined in RBI notification.

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There should not be any laxity in the conduct and post sanction supervision of the advance. Suitable note is to be placed to the Board. Board is the only deciding factor for writing off any loans.

The information about our writing off any account, should not be divulged to the borrower/guarantor or anybody else. Branch should try for recovery till the closure of our debt.

INCOME RECOGNITION

(1) The income recognition shall be based on recognized accounting principles.

(2) Income including interest/ discount/ hire charges/ lease rentals or any other charges on NPA shall be recognized only when it is actually realized. Any such income recognized before the asset became non-performing and remaining unrealized shall be reversed.

PROVISIONING NORMS

Every non-banking financial company shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realization 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:-

Loans, advances and other credit facilities including bills purchased and discounted-

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

(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 realizable value of the security to which the non-banking financial company has

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a valid recourse shall be made. The realizable 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 realizable value of the outstanding) shall be made on the following basis:-

Period for which the asset has been considered as doubtful	Per cent of provision
Up to one year	20
One to three years	30
More than three years	50

(iii)

**Substandard
assets**

A general provision of 10 per cent of total outstanding shall be made.

Provisioning for Standard Assets

Every Non-Banking Financial Company shall make provision for standard asset sat 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.

Disclosure in the Balance Sheet

(1) Every non-banking financial company shall separately disclose in its balance sheet the provisions made as above without netting them from the income or against the value of assets.

(2) The provisions shall be distinctly indicated under separate heads of account as under:-

1. provisions for bad and doubtful debts; and
2. Provisions for depreciation in investments.

(3) Such provisions shall not be appropriated from the general provisions and loss reserves held, if any, by the non-banking financial company.

(4) Such provisions for each year shall be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves may be written back without making adjustment against them.

Registration of Transactions with CERSAI

All NBFCs have been advised to file and register the records of all equitable mortgages created in their favour on or after 31st March 2011 as and when equitable mortgages are created in their favour, with the Central Registry of Securitisation Asset Reconstruction and the Security Interest of India (CERSAI).

Policy Review:

The Board may review the Policy on Loan Recovery, Provisioning And Non Pre-Forming Asset from time to time as may be required. Changes, if any, shall be effective only upon approval by the Board. Any other regulatory changes shall stand updated in the policy from time to time.