

### Introduction

**SGROYAL Capital Private Limited** is a Reserve Bank of India registered Non Deposit taking Non Systemically Important Loan Company. Its principal area of operation is to extend loans to borrowers.

### Objective

To reduce the Company's NPA level in absolute terms by preventing slippage of accounts and accelerating recoveries in the existing NPAs.

To take a pro-active approach in finding solutions which could involve restructuring of loans if intent of borrower is positive. Compromise solutions would be encouraged in certain situations, though the endeavor would remain recovery of 100% principal and interest dues when possible. To update system of identification and reporting of accounts showing signs of slippage of 'NPA' category.

To provide directions to contain slippage to NPA category.

### Asset Classification & Provisioning Norms

Guidelines on Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

As per RBI's notification on Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs- Clarifications ('RBI Circular') dated October 22, 2021 and norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications ('RBI Circular') dated November 12, 2021 norms of NPA has been revised as under.

Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA).

Immediately on default, borrower accounts will be classified as special mention accounts (SMA) as follows:

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Payment not received on Due Date

Reported as SMA 0 if remains overdue till 30 days

Reported as SMA 1 for the next 30 days

Reported as SMA 2 for the next 30 days

Reported as NPA after 90 days

SMA Sub-categories	Basis for classification - Principal or interest payment or any other amount wholly or partly overdue
SMA-0	Upto 30 days
SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days

**NPA Classification** - The extant NPA classification norm stands changed to the overdue period of **more than 90 days** for all categories of NBFCs. 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

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**Example 1**

Let us understand taking 03<sup>rd</sup> January, 2022 as the due date-

DPD Status as on 03 <sup>rd</sup> January	Classified as on the day end	Classification as on the Reporting Date, i.e. 31 <sup>st</sup> January, 2022
1-30 Days	SMA 0	To be reported as per day end process
31-60 Days	SMA 1	
61-90 Days	SMA 2	
More than 90 Days	NPA	Upgraded to standard only if the entire outstanding is repaid

**Example 2**

Example: If due date of loan account is March 31, 2021 and full dues are not received before the lending Institution runs the day end process for this date, the date of overdue shall be March 31, 2021. If it continues to remain overdue, then this account shall be tagged as SMA-1 upon running day end process on April 30,2021 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 Classification for that account shall be April 30,2021.

Similarly, if the account continues to remain overdue, it shall be tagged as SMA 2 upon running day end process on May 30,2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29,2021.

**Note:**

As per RBI's Guidelines, the lending institution will flag borrower account as overdue at the day end processes for the due date, irrespective of the time of running such processes. The classification of borrowers accounts as SMA or NPA shall also be done as part of the day- end process for the relevant date. In otherwords, the SMA or NPA classification date shall be the calendar date for which the day end process is run.

**Upgradation of NPA Accounts**

The loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal are paid by the borrower. Partial payment, such as payment of only interest or only one instalment, shall not result in the upgradation of the loan account.

Once a loan account is classified as an NPA, it shall remain as such till the time the entire outstanding amount is repaid.

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## Compromise/Settlement

The basic guidelines governing compromise settlements of NPAs are listed below.

- i. A compromise should be negotiated settlement, which would ensure recovery of the dues to the maximum extent possible at minimum expense and within shortest possible timeframe.
- ii. While taking NPAs a proper distinction will have to be made between willful defaulters and defaulters due to circumstances beyond their control. While in case of the former, a tough stand has to be taken, in latter cases a moderated view is to be taken.
- iii. Due weightage to be given to present activities of the borrower / guarantor, their present means etc.
- iv. While arriving at a negotiated settlement, the advantage available to the NBFC for prompt recycling of funds should be weighted in comparison to the likely recovery be following legal or other protracted course of action i.e. opportunity cost analysis be made.
- v. A compromise/settlement be made only if the account has been classified as loss assets. However, if there are any genuine reasons compromise/settlement be made in case of a Non Performing Assets account also.
- vi. While compromising in any account only interest amount be sacrificed and no relief be granted in principal amount. However, in deserving cases relief in principal amount also be considered.

## Norms In Respect of Writing Off of Balances in The Borrowal Accounts

The accounts, balances of which are to be written off must have been classified as NPA and tenor of the loan has exceeded by 6 month.

In respect of the accounts with outstanding, the proposals will be placed before the Board.

Valuation and sale of property repossessed by the Company will be carried out as per law and in a fair and transparent manner. The valuation given by the approved valuer will be conveyed to the borrower before proceeding with sale of property.

## Monitoring of Non Performing Assets

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

- i. The borrower and the guarantor be vigorously followed up for recovery/regularization of the account in center meetings or otherwise.

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- ii. In case no desired response is received, recovery notice to be served on borrower followed by a legal notice through an advocate to the borrower and the guarantor from the date of identification of the account as NPA.
- iii. 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 as per Board approved restructuring policy
- iv. The position of recovery in NPA accounts should be reviewed on a monthly basis and the position of recovery be placed before the Management
- v. Recoveries affected in NPA assets be first be appropriated towards principal.

## Management

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

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

1. Lack of proper appraisal and risk assessment
2. Improper/in adequate documentation
3. Incorrect assessment of security
4. In adequate post disbursement follows up.
5. Fraud