

Education on NPA

Consumer Education on SMA/NPA

The Reserve Bank of India vide its Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023 and Prudential norms on Income Recognition, Asset Classification and Provisioning (“IRACP”) pertaining to Advances – Clarifications dated November 12, 2021 and February 15, 2022, clarified certain aspects relating to classification of loan accounts with a view to bring about uniformity and common understanding regarding the implementation of the guidelines on IRACP in a harmonised manner.

With a view to increase awareness amongst the borrowers, placed herewith are concepts, clarifications and illustrative examples on due dates, date of overdue and classification as Special Mention Account (SMA) or Non-Performing Asset (NPA).

1. Overdue and date of overdue.

The loans provided by Radhya Micro Finance Private Limited (“Company”) to its borrowers are repayable on due dates as stipulated in the terms and conditions and documentation for the loan agreed between the Company and the borrowers. A loan is considered as overdue if the amount payable on a due date is not paid on such date. The borrower account will be flagged as overdue as part of the day-end process for on the due date. The date of overdue will be the date on which the loan account is flagged as overdue.

2. Classification as Special Mention Account (SMA)

The Company will recognize incipient stress in loan accounts, immediately on default, by classifying such loan as special mention accounts (“SMA”) as per the categories specified below:

SMA Sub-categories	Basis for classification – Principal or interest payment
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

The above SMA classification of loan accounts are applicable to all loans, including retail loans, irrespective of size of exposure of the Company. Classification of accounts as SMA will be done as part of day-end process for the relevant date.

3. Non-performing assets (“NPAs”)

A non performing asset or NPA is:

- (i) An asset, in respect of which, interest has remained overdue for a period of more than 90 days;
- (ii) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of more than 90 days or on which interest amount remained overdue for a period of more than 90 days;
- (iii) a demand or call loan, which remained overdue for a period of more than 90 days from the date of

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demand or call or on which interest amount remained overdue for a period of more than 90 days;

(iv) a bill which remains overdue for a period of more than 90 days;

(v) 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;

(vi) 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; and

(vii) a lease rental and hire purchase instalment, which has become overdue for a period of more than 90 days.

Classification of borrower accounts as NPA will be done as part of the day-end process for the relevant date. In other words, the date of NPA will reflect the asset classification status of a borrower account at the day-end of that calendar date.

Example:

(a) If the repayment date with respect to the loan falls on March 31st, and the relevant outstanding amounts payable on such date is not received in full on such repayment date, before the Company runs the day-end process with respect to classification of their borrower accounts for the repayment date, the date of overdue shall be March 31st.

(b) In the event the loan continues to remain overdue, then the loan account shall be tagged as SMA- 1 upon running day-end process on the 30th day from March 31st i.e. upon completion of 30 days of the Loan being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be 30th April.

(c) Similarly, if the loan continues to remain overdue after it being classified as SMA-1, it shall be tagged as SMA-2 upon running day-end process on the 60th day from March 31st i.e. on 30th May.

In the event of the Loan continuing to remain overdue further, it shall become classified as NPA upon running day- end process on the 90th day from March 31st i.e. on 29th June.

4. Upgradation of accounts classified as NPAs

The loan accounts classified as NPAs may be upgraded as 'Standard Asset' only if entire arrears of interest and principal are paid by the borrower. If the entire arrears of interest and principal is not paid by the customer, then the borrower accounts are to be continued to be classified as NPAs and accordingly the provision created on the said account will continue to the extent of outstanding loan amount.

In case of borrowers having more than one credit facility, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.