Thakur Fininvest Private Limited

Non Performing Asset Policy

Introduction

Thakur Fininvest Private Limited is a Reserve Bank of India registered Non Deposit taking Systemically Important Loan Company. It 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

RBI with effect from 1 September, 2016 has directed that all NBFC-SI-ND shall adopt the following norms.

Asset Classification Norms

In terms of RBI circular no. DNBR/PD(CC)/No. **DNBR. PD. 008/03.10.119/2016-17** dated September 01, 2016, a loan asset of an NBFC should be classified as NPA under the following circumstances.

At present, an asset is classified as Non-Performing Asset when it has remained overdue for a period of six months or more for loans; and overdue for twelve months or more in case of lease rental and hire purchase installments, as compared to 90 days for banks. In the interest of harmonisation, the asset classification norms for NBFCs-ND-SI and NBFCs-D are being brought in line with that of banks, in a phased manner, as given below

The asset classification norms as given below shall apply to every applicable NBFC (except NBFC-MFIs):

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

Standard assets;

Sub-standard assets;

Doubtful assets; and

Loss assets.

The class of assets referred to above shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the upgradation.

(i) 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;

“sub-standard asset” shall mean:

an asset which has been classified as non-performing asset for a period not exceeding 18 months;

Provided that the period ‘not exceeding 18 months’ stipulated in this sub-clause shall be ‘not exceeding 16 months’ for the financial year ending March 31, 2016; ‘not exceeding 14 months’ for the financial year ending March 31, 2017; and ‘not exceeding 12 months’ for the financial year ending March 31, 2018 and thereafter.

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:

Provided that the classification of infrastructure loan as a sub-standard asset shall be in accordance with the provisions of paragraph 24 of these Directions.

Doubtful asset shall mean:

a term loan, or

a lease asset, or

a hire purchase asset, or

any other asset,

which remains a sub-standard asset for a period 'exceeding 18 months' for the financial year ended March 31, 2015; 'exceeding 16 months' for the financial year ended March 31, 2016; 'exceeding 14 months' for the financial year ending March 31, 2017 and 'exceeding 12 months' for the financial year ending March 31, 2018 and thereafter.

loss asset shall mean:

an asset which has been identified as loss asset by the applicable NBFC or its internal or external auditor or by the Bank during the inspection of the applicable NBFC, to the extent it is not written off by the applicable NBFC; and

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 (referred to in these Directions as "NPA") shall mean:

an asset, in respect of which, interest has remained overdue for a period of six months or more;

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;

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;

a bill which remains overdue for a period of six months or more;

the interest in respect of a debt or the income on receivables under the head 'other current of six months or more;

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;

Provided that the period of 'six months or more' stipulated in sub-clauses (a) to (f) shall be 'five months or more' for the financial year ending March 31, 2016; 'four months or more' for the financial year ending March 31, 2017 and 'three months or more', for the financial year ending March 31, 2018 and thereafter.

the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;

Provided that the period of 'twelve months or more' stipulated in this sub-clause shall be 'nine months or more' for the financial year ending March 31, 2016; 'six months or more' for the financial year ending March 31, 2017; and 'three months or more' for the financial year ending March 31, 2018 and thereafter.

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 above credit facilities becomes non-performing asset:

Provided that in the case of lease and hire purchase transactions, an applicable NBFC shall classify each such account on the basis of its record of recovery.

Prudential norms on income recognition, Asset classification, and provisioning

Income from NPA is not recognized on accrual basis but is treated as income only when it is actually received.

Classification of assets and provision requirements

As an NBFC, after taking into account the degree of well defined creditworthiness and extent of dependence on collateral security for realization, we are required to classify loans and any other form/s of credit into the following classes:

The provisioning requirements as given below shall apply to every applicable NBFC (except NBFC-MFIs):

Every applicable NBFC 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:-

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

(1) 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 shall be provided for;
ii) Doubtful Assets	(a) 100% provision to the extent to which the advance is not covered by the realizable (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 following basis:
Period for which asset has been considered doubtful:	
-Upto One year	20%
-One to three years	30%
-More than three years	50%
(iii) Substandard assets	A general provision of 10 percent of total outstanding

Standard Asset Provisioning

Every applicable NBFC shall make provisions for standard assets at 0.30 per cent by the end of March 2016; 0.35 per cent by the end of March 2017 and 0.40 per cent by the end of March 2018 and thereafter, 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.

Compromise/Settlement

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

- 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.
- 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.
- Due weightage to be given to present activities of the borrower / guarantor, their present means etc.
- 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.
- 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.
- 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

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:

- The borrower and the guarantor be vigorously followed up for recovery/regularization of the account in centre meetings or otherwise.
- 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.
- 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
- The position of recovery in NPA accounts should be reviewed on a monthly basis and the position of recovery be placed before the Management
- 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

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