



RAR FINCARE LIMITED

Consumer Education on SMA/NPA (Version 1)

Introduction

RAR Fincare Limited is registered with RBI as non-deposit taking Non-Banking Finance Company. The company is governed by the Companies Act, 2013 in addition to the oversight of the Department of Supervision (DNBS) of RBI.

About the Literature

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 harmonized manner.

With a view to increase awareness amongst the borrowers, placed herewith are concepts, clarifications and illustrative examples as detailed here under:

Due & Over Due

Dues: Indicate the principal/ interest levied on the loan account which are payable within the period stipulated as per the terms of sanction of the credit facility.

Overdue: Indicates the principal/ interest levied on the loan account which are payable but have not been paid within the period stipulated as per the terms of sanction of the credit facility. In other words, any amount due to the NBFC under any credit facility is ‘overdue’ if it is not paid on the due date fixed by the NBFC

Relevance of the Principle of ‘First-In-First Out’ (FIFO) in appropriation of payments into the borrower account:

The Principle of FIFO accounting method is relevant to arrive at the No. of days of overdue for determining the SMA/ NPA status. The FIFO principle assumes that the oldest outstanding dues in the loan account needs to be cleared first. The FIFO method thus requires that what is due first must be paid by the borrower first.

For example: If in any loan account as on 01.02.2022 there are no dues and an amount of Rs. 50,000 is due for payment towards principal instalment/interest/charges on 01.02.2022. Any payment being credited on or after 01.02.2022 in the loan account will be used to pay off the dues outstanding on 01.02.2022

Assuming that there is a partial payment Rs 10,000/- of dues during the month of February, the overdue as on 01.03.2022 will be Rs 40,000/- (INR 50,000 – INR 10,000)

Additionally, an amount of Rs. 10,000/- becomes due as on 01.03.2022. Now any payment /partial payment received into the account on or after 01.03.2022 will be first utilized to pay off the partial due of 01.02.2022 of INR 40,000/-. If there is more recovery than the INR 40,000/-, then after recovering dues of 01.02.2022, the remaining amount will be treated as recovery towards due of 01.03.2022.

Age of oldest Dues: The age of oldest dues is reckoned in days from the date on which the oldest payment is due and continues to remain unpaid. In the aforesaid illustration, if the dues relating to 1st February 2022 remain unpaid till 1st March 2022, the age of the oldest dues is reckoned as 29 days on 2nd March 2022.

The loans provided by RAR FINCARE 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 principal and/or interest 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.

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 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 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.

Non-performing assets (“NPAs”)

A nonperforming asset or NPA is:

- An asset, in respect of which, interest has remained overdue for a period of more than 90 days;
- 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;
- a demand or call loan, which remained overdue for a period of more than 90 days from the date of demand or call or on which interest amount remained overdue for a period of more than 90 days;
- a bill which remains overdue for a period of more than 90 days;
- 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;

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.

Please note that that the aforesaid few examples are illustrative and not exhaustive in nature covering common scenarios and that IRACP norms and clarifications provided by RBI on the subjects referred above shall prevail.

Impact on the credit Score: As the classification of loan accounts as SMA/NPA is getting reported to the credit information Companies , the same will affect the credit score of the borrower/guarantor.

NPA Classification at Borrower Level As per RBI circular, RBI/2021-2022/104 DOR.No.STR.REC.55/21.04.048/2021-22, NPA classification will be initiated at a borrower level and not facility wise. For example, if a borrower has 3 Loans and if one loan is marked as NPA, then automatically the other 2 Loans shall also be classified as NPA.

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.

Adoption

This literature and any changes made during any review shall be adopted by resolution of the Board of Directors. Any deviation to any clause of this Policy due to the urgency of an event or any other reason shall be made only with the approval of the CEO/CRO/CFO.

Approved by the Board of Directors in its meeting held on 20th February, 2025

<i>Senior Management – Reviewer</i>	<i>Senior Management – Approver</i>	<i>Custodian</i>
<i>SD/-</i>	<i>SD/-</i>	<i>SD/-</i>
<i>Chief Risk Officer</i>	<i>Chief Operations Officer</i>	<i>Company Secretary</i>
<i>SD/-</i>	<i>SD/-</i>	
<i>Chief Financial Officer</i>	<i>Chief Executive Officer</i>	