

# (Tower Investment & Trading Co. Ltd.)

Income Recognition & Asset Classification Policy (IRAC)

## Introduction

As per the regulations issued by RBI, provisioning of assets is critical for all entities in the financial services sector. Currently, the Master Direction on Scale-Based Regulation for Non-Banking Financial Companies (NBFCs) provide norms for asset classification and provisioning for NBFCs. As per the Master Directions every NBFC shall, after considering the degree of well-defined credit weaknesses and extent of dependence on collateral security for realization, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes, namely:

- (i) Standard assets;
- (ii) Sub-standard assets;
- (iii) Doubtful assets; and
- (iv) Loss assets.

Provisioning is required for each of these assets at the rates prescribed by RBI. Additionally, NBFCs are required to disclose provisions made as per the RBI regulations in their financial statement.

## Policy of the Company

Keeping this in view, we adhere to the guidelines issued by RBI while identifying and providing for non-performing assets and for maintaining provision on the standard assets wherever necessary. The guidelines are enumerated below.

## Asset Classification

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

- (i) Standard assets;
- (ii) Sub-standard assets;
- (iii) Doubtful assets; and
- (iv) Loss Assets.

- 2) 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 up gradation.

“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” means:

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

'Non-performing asset' (referred to in these Directions as "NPA") means:

(a) an asset, in respect of which, interest has remained overdue for a period of six months or more; (will be following 90 days' norms as applicable to NBFC's)

(b) 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; (will be following 90 days' norms as applicable to NBFC's)

(c) 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; (will be following 90 days' norms as applicable to NBFC's)

(d) a bill which remains overdue for a period of 180 days or more; (will be following 90 days' norms as applicable to NBFC's)

(e) 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; (will be following 90 days' norms as applicable to NBFC's)

(f) 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; (will be following 90 days' norms as applicable to NBFC's)

(g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more; (will be following 90 days' norms as applicable to NBFC's)

(h) 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, a nonbanking financial company may classify each such account on the basis of its record of recovery;

## Classification of Assets/ Accounts & Provisioning Norms

Asset Classification	Definition	Provisioning Norm								
Standard Asset	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.	0.25% of the outstanding  <b>Note:</b> <i>Every NBF shall make provision for standard assets at 0.25% of the outstanding which shall <u>not</u> reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as '<u>Contingent Provisions against Standard Assets</u>' in the balance sheet</i>								
Substandard asset	An asset which has been classified as non-performing asset for a period not exceeding 18 months;  DPD 3 months to DPD (3 months + 12 months)  OR  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.	<ul style="list-style-type: none"> <li>A general provision of 15 percent on total outstanding</li> <li>The 'unsecured exposures' which are identified as 'substandard' would attract additional provision of 10 per cent, i.e., a total of 25 per cent on the outstanding balance</li> </ul>								
Doubtful asset	"doubtful asset" means:  (a) a term loan, or (b) a lease asset, or (c) a hire purchase asset, or (d) any other asset,  which remains a sub-standard asset for a period exceeding 12 months;  DPD (3 months + 12 months + 1 day) to DPD (3 months + 12 months + 1 day + 3 Years)	For unsecured portion <ul style="list-style-type: none"> <li>100% provision to the extent to which the advance is not covered by the realizable value of the security to which RAR Fincare has a valid recourse</li> </ul> For secured portion <table border="1" style="margin-top: 10px; width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Period for which the advance has remained in 'doubtful' category</th> <th style="text-align: center;">Provision requirement (%)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Up to one year</td> <td style="text-align: center;">25%</td> </tr> <tr> <td style="text-align: center;">One to three years</td> <td style="text-align: center;">40%</td> </tr> <tr> <td style="text-align: center;">More than three years</td> <td style="text-align: center;">100%</td> </tr> </tbody> </table>	Period for which the advance has remained in 'doubtful' category	Provision requirement (%)	Up to one year	25%	One to three years	40%	More than three years	100%
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Loss Assets	<ul style="list-style-type: none"> <li>• An asset which has been identified as loss asset by RAR Fincare or its internal / external auditor or by the RBI during the inspection &amp;</li> <li>• 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</li> </ul> <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> <li>• After passing DPD (3 months + 12 months + 1 day + 3 Years)</li> </ul>	100%
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#### Provisioning norms in respect of all cases of fraud:

- The entire amount due to the Company (irrespective of the quantum of security held against such assets), or for which the Company is liable, is to be provided for over a period not exceeding four quarters commencing with the quarter in which the fraud has been detected;
- The Managing Director (MD) / Chief Executive Officer (CEO) shall have authority for approving further additional provisions either on case to case basis taking cognizance of recovery prospects, security conditions, the bankruptcy, local area disturbance, natural calamities, slowdown of market or sector of economy or any other reason having impact on the prospects of full recovery of the loans and advances or its security position.

#### Guidelines for Classification of Assets

- The Company shall establish appropriate internal systems (including technology enabled processes) for proper and timely identification of NPAs, especially in respect of high value accounts.
- The Company shall fix a minimum cut off point to decide what would constitute a high value account depending upon their respective business levels. The cut-off point should be valid for the entire accounting year.
- The Company would be fixing responsibility and validation levels for ensuring proper asset classification.

### **Asset Classification to be borrower-wise and not facility-wise**

The Company shall treat all the facilities granted to a borrower as NPA and not the particular facility or part thereof which has become irregular.

### **Availability of security / net worth of borrower/ guarantor**

The availability of security or net worth of borrower/ guarantor should not be considered for the purpose of treating an advance as NPA or otherwise

### **Accounts where there is erosion in the value of security/frauds committed by borrowers**

In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers it will not be prudent that such accounts should go through various stages of asset classification. In cases of such serious credit impairment, the Company would straightaway classify the asset as loss asset as may be decided by the management:

### **Recovery and Up gradation of loan accounts classified as NPAs**

- If arrears of interest and principal are paid up-to-date by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as non-performing and may be classified as 'standard' accounts. Further, the asset shall be re-classified as standard only after all the dues relating to the facility are paid by the borrower and no amount is overdue from the borrower to the Company.
- In case, the account is subjected to restructuring/ rescheduling/ rephasing, the upgradation can be considered after one year of satisfactory performance of repayment in the account under restructuring or as per RBI guidelines from time to time.
- In the absence of a clear agreement between the Company and the Borrower for the purpose of appropriation of recoveries in NPAs (i.e., towards principal or interest due), the Company shall adopt the right of appropriation of recoveries generally first towards EMI outstanding with first preference to interest and the principal on FIFO basis.

## Income Recognition

The policy of income recognition must be objective and based on the record of recovery.

Interest Income on Receivables:

- The Company shall recognise interest income on accrual basis in respect of the receivables, which are classified as 'standard'.
- The Company shall not recognise interest income on accrual basis in respect of the receivables which are classified as a 'substandard' asset. The Company would only recognise income in such accounts on realisation on cash basis.
- On an account turning NPA, the Company would reverse the interest already charged and not collected by debiting Profit and Loss account and stop further application of interest.

Other Income:

- Upfront / Processing fee are recovered and recognised at the time of disbursement of loan.
- Revenue from fee based activities and all other charges / fees are recognised on accrual basis, when there is no uncertainty in the ultimate realisation / collection.
- Interest income on deposits is recognised on accrual basis over the tenor of the deposit on a prorata basis.

## Reversal of income

- If any advance becomes NPA, the entire interest accrued and credited to income account in the past periods, should be reversed if the same is not realised.
- In respect of NPAs, fees or charges and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.

## Disclosure in the balance sheet

(1) Every non-banking financial company shall separately disclose in its balance sheet the provisions made as per paragraph 9 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:-

- (i) Provisions for bad and doubtful debts; and
- (ii) 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.

## Accounting year

- Every non-banking financial company shall prepare its balance sheet and profit and loss account as on March 31 every year.
- Whenever a non-banking financial company intends to extend the date of its balance sheet as per provisions of the Companies Act, it should take prior approval of the Reserve Bank of India before approaching the Registrar of Companies for this purpose.
- Further, even in cases where the Bank and the Registrar of Companies grant extension of time, the non-banking financial company shall furnish to the Bank a proforma balance sheet (unaudited) as on March 31 of the year and the statutory returns due on the said date.

## Document Review

This document is expected to aid all functionaries in effectively carrying out their role and responsibilities in the Company's recovery process within the guidelines set out.

Proper disclosures in the financial statements as may be required under the RBI guidelines and relevant accounting standards would be made.

Any rescheduling of the loan shall be done with the prior approval of the Board/Competent Authority and in accordance with applicable Directions/Guidelines in this regard. The MD/CEO shall be the competent authority for approving the rescheduling of loans.

The Company will abide by all guidelines, directives, instructions and advices of RBI as may be in force from time to time. The policies in this document should be read in conjunction with these guidelines, directives, instructions and advices. The Company will apply better practices so long as such practice does not conflict with or violate RBI guidelines.

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