

Consumer education literature for concepts of special mention accounts (SMA) and non-performing assets (NPA) classification

Reserve Bank of India (RBI) periodically issues guidelines to lending institutions on income recognition and asset classification. GyanDhan Financial Services Private Limited (GyanDhan) offers various types of loans to its customers, as per internal policies of the GyanDhan and in compliance with the RBI guidelines.

It is important for customers to repay their loan dues on time to maintain a healthy credit score.

A. Irregular/overdue accounts

The loans/credit facilities granted by the GyanDhan have a pre-fixed repayment schedule as mentioned in the loan agreements, loan statements, communications or other related documents.

The loan account is considered as '**irregular/overdue**' by the GyanDhan, if the principal amount of loan, interest thereon, or equated monthly installment (EMI) is not paid on the due date.

For instance, if the due date for a loan account is March 31, 2023 and full dues are not received on the same date, the date of irregularity (overdue) shall be March 31, 2023.

B. Special mention accounts (SMA) reporting

The irregular/overdue accounts are classified as SMA (reporting at borrower level) as follows:

Categories	Loans other than revolving facilities
SMA sub-categories	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

Example: If the due date for a loan account is March 31, 2023 and the entire dues are not paid by the borrower, the account would be reported as:

SMA-0: During March 31, 2023 to April 29, 2023

SMA-1: During April 30, 2023 to May 29, 2023

SMA-2: During May 30, 2023 to June 28, 2023

GyanDhan reports the overdue position for the loan accounts is reported to credit bureaus on a monthly basis.

Further, GyanDhan reports to RBI the asset classification including SMA status at month-end to Central Repository of Information on Large Credits (CRILC) for all borrowers with aggregate exposure of ₹ 50.0 million or above on a monthly basis.

C. Classification of non-performing asset (NPA)

1) Based on the ageing of irregularity/overdues

As per RBI guidelines and as per the policies of GyanDhan, a Non-Performing Asset (NPA) is a loan or an advance where:

- 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.
- 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.
- The lease rental and hire purchase instalment, which has become overdue for a period of more than 90 days.
- 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, the Company shall classify each such account on the basis of its record of recovery.

2) Restructuring

Restructuring is an act in which lending institutions grant a concession to the borrower under financial difficulty for economic or legal reasons. Restructuring may involve modification of terms of the advances/securities, which would generally include, among others, alteration of payment period/payable amount/the amount of instalments/rate of interest, roll over of credit facilities, sanction of additional credit facility/release of additional funds for an account in default to aid curing of default/enhancement of existing credit limits, compromise settlements where time for payment of settlement amount exceeds three months.

3) Other reasons for NPA classification

- Detection of fraud in the loan account.
 - Accounts identified as NPA as per norms followed by the GyanDhan.

If a loan account of a borrower is classified as NPA, all other accounts of the same borrower/co-borrower are also classified as NPA, irrespective of overdue status in other accounts.

Based on the ageing of the loan as NPA, the accounts are further classified as:

Class	Description
Sub-standard	An account that is non-performing for a period not exceeding 18 months
Doubtful	An account that has remained in the sub-standard category for more than 18 months
Loss	An account which is considered uncollectible and of such little value, that its continuance as a GyanDhanable asset is not warranted although there may be some salvage or recovery value

D. Upgrade from NPA

The loan accounts which are classified as NPAs due to overdue/irregular criteria are upgraded to 'standard', if the borrower pays off the entire arrears of interest and principal for all loan facilities availed from the GyanDhan.

The loan accounts classified as NPAs after restructuring or other reasons are upgraded based on the subsequent performance of these accounts.

E. Example for SMA/NPA status

Loan facilities other than in the nature of CC/OD accounts:

1. All dues paid

Date	Charged (Rs.)	Recovery (Rs.)	DPD*	Status	Remarks
Mar 31, 2023	1,000	1,000	0	Regular	No overdues

*DPD: days-past-due

2. No dues paid

Date	Charged (Rs.)	Recovery (Rs.)	DPD	Status	Remarks
Mar 31, 2023	1,000	-	1	SMA-0	Overdue position
Apr 30, 2023	1,100	-	31	SMA-1	Overdue position
May 30, 2023	-	-	61	SMA-2	Overdue position
May 31, 2023	1,150	-	62	SMA-2	Overdue position

Jun 29, 2023	-	-	91	NPA ¹	Asset classification
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3. Partial dues paid (during SMA)

Date	Charged (`)	Recovery (`)	DPD	Status	Remarks
Mar 31, 2023	1,000	-	1	SMA-0	Overdue position
Apr 30, 2023	1,100	800	31	SMA-1	Overdue for Mar
May 25, 2023	-	500	26	SMA-0	Overdue for April
May 31, 2023	1,150	-	32	SMA-1	Overdue for April
Jun 28, 2023	-	1,000	29	SMA-0	Overdue for May
Jun 30, 2023	900	-	31	SMA-1	Overdue for May

Note: 1. The SMA status may be upgraded on payment of dues by the borrower.

2. The appropriation of recovery would be done for the oldest overdue as per first-in-first-out (FIFO) basis.

4. Partial dues paid (after NPA)

Date	Charged (Rs.)	Recovery (Rs.)	DPD	Status	Remarks
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Mar 31, 2023	1,000	-	1	SMA-0	Overdue position
Apr 30, 2023	1,100	-	31	SMA-1	Overdue position
May 30, 2023	-	-	61	SMA-2	Overdue position
May 31, 2023	1,150	-	62	SMA-2	Overdue position
Jun 29, 2023	-	-	91	NPA	Asset classification
Jun 30, 2022	-	3,000	31	NPA	All dues not cleared

Note 1. The account classified as NPA is upgraded only when the borrower pays off the entire arrears of interest and principal for all loan facilities availed from the GyanDhan.

The above examples are illustrative covering common scenarios and not exhaustive and subject to change based on the RBI guidelines. The asset classification of the borrowers would be determined based on the prevailing RBI guidelines including Master Circular issued by RBI on income recognition, asset classification and provisioning pertaining to advances.

F. Clarifications

The borrowers may contact their relationship manager, branches or customer care for further clarifications about the overdue/irregularity details and related implications.