DHARA MOTOR FINANCE LIMITED

Income Recognition, Asset Classification, Provisioning norms pertaining to Advances, and NPA Policy

FY 2025-26

As per RBI's notification on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications ('RBI Circular') dated November 12, 2021 norms of NPA has been revised.

Key Highlights of revised NPA norms:

1. The timelines for Special Mention Account (SMA) categorisation have been modified, the overdue timeline for SMA 0, SMA 1 and SMA 2 shall be upto 30, more than 30 upto 60 and more than 60 upto 90 days. Please refer to the note below for details.
2. The Classification of borrower accounts as Special Mention Account (SMA) as well as Non-Performing Asset (NPA) shall be done as part of the day-end process for the relevant date. The SMA or NPA classification date shall be the calendar date for which the day end process is run. The said SMA classification of borrower accounts are applicable to all loans (except agri advances), including retail loans, irrespective of size of exposure
3. Loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal are paid by the borrower.
4. In cases of loans where moratorium has been granted for repayment of interest, lending institutions may recognize interest income on accrual basis for accounts that continue to be classified as 'standard'
5. If loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest corresponding to the interest accrued during such moratorium period need not be reversed

Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

As per circular DBR.No.BP.BC.45/21.04.048/2018-19 dated June 7, 2019 by RBI on 'Prudential Framework for Resolution of Stressed Assets', lenders will recognize incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA).The SMA categories shall be as follows:

Loans other than revolving facilities

SMA Sub-categories Basis for classification - 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 due date of a loan account is March 31, 2021, and full dues are not received before the lending institution runs the day-end process for this date, the date of overdue shall be March 31, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2021.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

If the interest or principal remains overdue for a period 90 days or three months and above the loan account is classified as a Non-Performing Asset (NPA). Once an asset is classified as NPA, it will move back to 'Standard' category if the DPD (days past due) count comes to '0' DPD.

As per RBI's guidelines, the lending institutions will flag borrower accounts as overdue at the day-end processes for the due date, irrespective of the time of running such processes. The classification of borrower accounts as SMA or NPA shall also be done as part of the day-end process for the relevant date. In other words, the SMA or NPA classification date shall be the calendar date for which the day end process is run.

What is "Days Past Due (DPD)"

It indicates whether you have been consistent in your repayments and if you have missed any, how many instalments you have missed and by how many days.

The counting of DPD will be considered based on the oldest payment due date and the number of days falling due shall be counted to classify the loan account as NPA.

In case the due date and billing date are different, the former would be considered for the purpose of calculating the DPD (days past due).

NPA Definition:

A credit facility is considered non-performing when it ceases to generate income for the company. An asset is classified as NPA if interest and / or instalment of principal remained 'past due' for a specific period.

Any dues to the company under a credit facility will be overdue if not paid by the due date fixed by the company.

The criteria for treating a loan account as NPA depend on the nature of facility as under:

(i) Term loan:

A term loan is to be classified as NPA if interest and / or principal remained overdue for more than 90 days.

(ii). HP Instalment:

An HP instalment is to be classified as NPA if instalment remained overdue for more than 90 days.

Assets Classification:

In order to facilitate assessment of quality of the advances portfolio and to enable them to make adequate provisions, DMFL classify loan assets into the following categories.

CATEGORY

1 Standard Assets

Assets, which do not disclose any problem and do not carry more than the normal risk attached to the business. Such assets are not NPA

2. Sub-standard

Assets are classified substandard which has remained NPA for a period less than or equal to 12 months. They have well defined credit weaknesses and are characterised by the distinct possibility that the company will sustain some loss if the deficiencies are not rectified.

3. Doubtful

Assets are classified as doubtful if it remained in the sub-standard category for 12 months. They have all the weaknesses inherent in sub-standard assets with the added characteristic that collection or liquidation of the dues is highly improbable.

4. Loss Assets:

These are assets where loss has been identified by the company or Internal / external auditors or RBI inspection, but the amount has not been written off, wholly or in part. Such assets are considered uncollectible and of so little value that their continuance as bankable assets is not warranted, even though there may be some salvage or recovery value

Guidelines for asset classification

Assets are to be classified generally on the basis of well-defined credit weaknesses and the extent of dependence on collaterals for realisation of dues. Net worth of borrower / guarantor should not be taken into account while determining whether an advance is NPA. Company should bear in mind the following RBI guidelines for asset classification.

(i) Identification of assets as NPA on on-going basis

Company should identify assets as NPA on an on-going basis. They should evolve a system to eliminate the tendency to delay or postpone identification of NPA, particularly in respect of high-value accounts. They should internally resolve doubts regarding asset classification within one month of the date by which the account would have been classified as NPA as per prescribed norms.

(ii) Treatment of accounts as NPA

a)   Record of recovery

The classification of an asset as NPA has to be done on the record of recovery. DMFL should not classify an account as non-performing due to the existence of 'temporary deficiencies' such as balance exceeding limit, non-availability of adequate drawing power, non-submission of stock statement or non-renewal of accounts on due date. If an account is regularised before the balance sheet date by repayment of overdue through genuine sources (not by sanction of additional facilities or transfer of funds between accounts), the account need not be treated as NPA. It should, however, be ensured that the account remains in order subsequently and a solitary credit made in the accounts near about the balance sheet date to extinguish the overdue interest or instalment of principal is not reckoned as the sole criterion for treating the account as a standard asset. In other genuine cases, DMFL must furnish to the Statutory Auditor / RBI Inspecting Officer satisfactory evidence of regularisation of the account.

Treatment of loss assets
If the realizable value of the security, as assessed by DMFL or approved valuer or RBI, is less than 10% of the outstanding in the borrower's account, existence of security should be ignored and the account should be classified straightway as a loss asset.
Provisions:

(i) In conformity with prudential norms, DMFL will make provisions on the NPAs based on classification of assets in to prescribed categories as detailed in paragraph 4 above. Considering the time lag between an account becoming doubtful of recovery, its recognition as such, the realisation of the security and erosion in the value of security over time, DMFL is required to make provisions as detailed below against loss, doubtful and sub-standard assets:

	Asset category	Provision required	
1	Loss	The DMFL should write off the entire outstanding. Otherwise, it has to make 100% provisioning for the outstanding.	
2	Doubtful	(a) 100% of the portion not covered by the realisable value of security	
		(b) Over and above item (a) depending upon the period up to which the asset has remained doubtful, 20% - 50% of the secured portion (i.e. estimated realisable value) as given below: Period	
		Up to 1 year	20%
		1-3 years	30%
		Over 3 years	50%
3	Sub standard	A general provision of 10% on total outstanding	

Provision on Standard Assets

DMFL is required to make a general provision of 0.40% on standard assets from the year ended March 31.

The provision towards 'standard assets' need not be netted from gross advances but should be shown separately as 'Contingent Provision towards Standard Assets' under 'Other Funds and Reserves' in the Balance Sheet. In case DMFL is having provision in excess of what is required for non-performing assets under Bad & Doubtful Debt Reserve (BDDR), additional provision required for standard assets may be segregated from BDDR and parked under 'Contingent Provision towards Standard Assets' with the approval of the Board of Directors. This contingent provision will be available for inclusion in Tier II capital.

For and on behalf of the Board of Directors

Gajendra Singh
Managing Director

Ghanshyam Singh Chauhan
Whole Time Director