INCOME RECOGNITION & ASSET CLASSIFICATION POLICY

Standard Capital
Markets Limited

Standard Capital Markets Limited

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This policy is issued by Standard Capital Markets Limited (hereinafter referred to as "SCML" or "Company") and encompasses all affiliated entities, employees, and stakeholders associated with SCML operations.

1. Policy Statement

1.1. The Reserve Bank of India under *Clause 12 and 14 of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions 2023 dated October 19, 2023* ensures uniformity in implementation of Income Recognition & Asset Classification Policy.

1.2. With a view to increase awareness amongst the borrowers, placed herewith are concepts/clarifications on due dates and specification of Special Mention Account (SMA)/ Non-Performing Asset (NPA) classification.

2. Definitions

2.1. "Non-Performing Asset" shall mean

(i) an asset, in respect of which, interest has remained overdue for a period of more than 90 days.

(ii) 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.

(iii) 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.

(iv) a bill which remains overdue for a period of more than 90 days.

(v) 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.

(vi) 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.

(vii) the lease rental and hire purchase instalment, which has become overdue for a period of more than 90 days.

(viii) 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.

2.2. "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.

2.3. "Sub-standard asset" shall mean (i) An asset which has been classified as non-performing asset for a period not exceeding 12 months; (ii) 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.

2.4. "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 12 months.

2.5. "Loss asset" shall mean an asset which has been identified as loss asset by the NBFC or its internal or external auditor or by the Reserve Bank during the inspection of the applicable NBFC, to the extent it is not written off by the applicable NBFC; 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.

3. Applicability of the Norms

3.1. The purpose of this policy is to provide a comprehensive framework for income recognition and asset classification based on the duration of overdue amounts in accordance with guidelines prescribed by the Reserve Bank of India.

3.2. To apply uniform standards across all lending operations ensuring consistent treatment of similar exposures.

3.3. The guideline requires the lenders/company to recognize the NPA in borrower accounts immediately on default in order to remove any ambiguity.

4. Income Recognition

4.1. Income Recognition of SCML is based on accounting principles.

4.2. Income of SCML include interest/discount/hire charges/lease rentals or any other charges on NPA are recognised only when it is actually realised. Any income recognised before the asset became non-performing and remaining unrealised shall be reversed.

4.3. 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.

4.4. In the event wherein moratorium has been granted for repayment of interest, the interest income be recognised on accrual basis for accounts which continue to be classified as 'standard'.

4.5. <u>Income from Investments on an accrual basis:</u>

4.5.1. Income from dividends on *shares of corporate bodies and units of mutual funds* shall be taken into account on a cash basis.

Provided such income from dividends are declared in its Annual General Meeting and SCML right to receive payment is established.

4.5.2. Income from *bonds and debentures* of corporate bodies and government securities/bonds shall be taken into account on accrual basis.

Provided the interest rate on these instruments is pre-determined and serviced regularly and is not in arrears.

4.5.3. Income on *securities of corporate bodies or public sector undertakings, the payment of interest and repayment of principal guaranteed* by Central or State Government shall be taken into account on accrual basis.

5. Overdue of Loan Repayment

5.1. The amount shall be treated as overdue if the principal/interest is not paid on the due date as fixed by SCML.

5.2. The loan agreement between the lender (SCML) and the borrower shall specify the due date for loan repayment, frequency of repayment, and breakup between principal and interest as SMA/NPA classification.

5.3. The borrower of SCML shall apprise the terms of the loan agreement at the time of loan sanction and at the time of subsequent changes if made to the sanction terms/loan agreement till full repayment of the loan.

5.4. In the event of loan facility with moratorium on payment of principal or interest, the exact date of loan repayment shall be specified in the loan agreements.

5.5. For existing loans, compliance to these provisions are necessary to when the loans become due for renewal/review.

6. Special Mention Account (SMA) Classification

6.1. SCML shall promptly recognize early signs of stress in loan accounts by classifying such assets as Special Mention Accounts (SMA) immediately upon default.

6.2. The categorisation of SMA Accounts is as per the following overdue period:

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

6.3. The SMA classification of borrower accounts are applicable to all loans, including retail loans irrespective of the size of exposure of SCML.

6.4. SCML shall flag the borrower accounts as overdue and classify them for SMA/NPA as part of their day-end process for the due date irrespective of the duration.

Example of SMA/NPA classification of Loan Account:

- SMA 0 - If due date of a loan account is 31st March, 2021, and full dues are not received on this date, the account shall be SMA 0 on day end of 31st March, 2021.
- SMA 1 - If the account continues to remain overdue, then this account shall get tagged as SMA-1 upon completion of 30 days of being continuously overdue i.e. 30th April, 2021.
- SMA 2 - If the account continues to remain overdue, it shall get tagged as SMA-2 on 30th May, 2021.
- NPA – If the account continues to remain overdue further, it shall get classified as NPA on 29th June, 2021

7. Non-Performing Asset (NPA)

7.1. The Company classifies borrower accounts as Non-Performing Assets (NPA) in pursuance of Clause 2.1 of this policy, regulatory guidelines issued by the RBI and the terms of the loan agreement.

7.2. The Company declares the borrowers accounts as NPA if interest and/ or instalment of principal is overdue for more than 90 days from the agreed date in pursuance of the loan agreement.

8. Asset Classification, Provisioning and Upgradation

8.1. SCML shall classify its loans and advances, or any other forms of credit into the following classes, which are standard assets, sub-standard assets, doubtful assets, and loss assets after taking into account the degree of credit weakness and extent of dependence on collateral security for realization.

8.2. The classification of assets referred to in clause 8.1. shall be upgraded only if entire arrears of interest and principal loan are paid by the Borrower and not merely as a result of rescheduling. 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.

Classification and Provisioning of NPA Assets

8.3. Standard Asset

8.3.1. The account shall be classified as a Standard Asset in respect of which no default in repayment of principal or interest is perceived.

8.3.2. SCML classifies its standard assets at 0.40 percent of the outstanding loan. However, the same shall not be deducted when calculating net NPA.

8.4. Sub-Standard Asset

8.4.1. If the account has remained NPA for a period not exceeding 12 months, it shall be classified as a sub-standard asset.

8.4.2. A general provision of 10% of the total outstanding shall be made for sub-standard assets.

8.5. Doubtful Asset

(i) If the account remains NPA for more than 12 months, it shall classify such asset as doubtful.

(ii) A 100% provision shall be made for the portion of the advance that is not covered by the realizable value of the security to which SCML has valid recourse. The realizable value of the security shall be estimated on a realistic basis.

(iii) In addition to (ii), provisions for the secured portion of the doubtful asset (i.e., the estimated realizable value of the outstanding) shall be made based on the period the asset has remained in the doubtful category, as follows:

Period as Doubtful Asset	Provision (%)
Upto one year	20%
More than one year and upto three years	30%
More than three years	50%

8.6. Loss Assets

(i) The doubtful asset shall be classified as a loss asset by SCML, or its internal/external auditor or by the Reserve Bank of India during the inspection of the Company, to the extent it is not written-off by the Company.

(ii) The asset shall be classified as a loss asset if the asset 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.

(iii) Loss Assets are those for which 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.

9. Consumer Awareness on SMA/NPA

9.1. To increase awareness among borrowers SCML shall put in place a consumer education literature on their website, explain the framework/procedure/concept with examples, concept of date of overdue, SMA/NPA Classification and upgradation, with specific reference to day end process,

9.2. Such referenced literature be also placed in the branch of SCML, as posters or other media form.

9.3. Furthermore, front-line officers of SCML are responsible for explaining the concept of SMA/NPA provisioning, classification, or upgradation of its borrowers at the time of loan sanction/disbursal/renewal.

10. Approval & Review

10.1. This Policy on Income Recognition of the SCML shall be approved by the Board of the Company.

10.2. The Board shall review the compliance of this policy periodically.

10.3. The Company shall update the Policy periodically and when required on the needs of the company, or the compliance of the amended guidelines/regulations issued by the RBI.

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Delhi