Navadhan Capital Private Limited

Provisioning & Write off Policy
v 1.3

Version	Proposed by	Reviewed by	Approved by	Approval	Applicable
v1.0	Vijay Haswani Head of Credit	Nitin Agrawal CEO	Board of Directors	07-Nov-19	01-Apr-20
v1.1	Vijay Haswani Head of Credit	Nitin Agrawal CEO	Board of Directors	17-Jun-22	17-Jun-22
v1.2	Vijay Haswani Head of Credit	Nitin Agrawal CEO	Board of Directors	09-May-23	01-Apr-23
V1.3	Rasika Argade Manager Credit	Vijay Haswani Head of Credit	Board of Directors	28-Mar-24	01-Apr-24

1. INTRODUCTION

This provisioning and write off policy shall be subject to the provisions of "The Companies Act, 1956" and "Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023". The Company policies should always be read in conjunction with latest RBI guidelines, directives, and instructions. The company will apply best industry practices so long as such practice does not conflict with or violate RBI guidelines.

The purpose of this policy is to ensure that the principles of provisioning of different asset classes and procedures for writing off irrecoverable debt are formalized. The Board has the overall responsibility for adopting and approving the Provisioning and Write-off Policy of irrecoverable debt.

2. POLICY PRINCIPLES

2.1 Asset Classification and Upgradation:

2.1.1 **Asset Classification:** The Company's loans and advances and any other forms of credit are classified as follows:
(i) Standard assets;
(ii) Sub-standard assets;
(iii) Doubtful assets; and
(iv) Loss assets.

2.1.2 **Upgradation of assets (other than standard assets):** The substandard and doubtful assets could be upgraded upon commencement of satisfactory debt servicing by the client and / or subsequent to re-scheduling of the account subject to compliance with extant RBI guidelines. 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 upgradation.

2.1.3 **Re-scheduled Loans:** An asset which has been renegotiated or rescheduled shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or re-schedulement as a doubtful asset or a loss asset as the case may be. Necessary provision is required to be made as applicable to such asset till it is upgraded.

The definition of the asset classes mentioned above is as per "Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023" and updated from time to time.

3. PROVISIONING NORMS:

Company shall follow RBI norms applicable for asset classification. Over and above the RBI norms, the Board of Navadhan has decided to adopt an accelerated provisioning norm for higher prudence and also to build anti-cyclical risk buffers. The Board at its discretion can revise the norms back to RBI norms. Current asset classification and provisioning against Days Past Due (DPD) for each specific loan and borrower is given in the table ahead.

Note:
Amended to 0.40% from 0.25% earlier by the Board in its meeting held on 17-Jun-2022
*100% to the extent to which advance is not covered by realizable value of security to which Navadhan has a valid recourse. The realizable value is to be estimated on a realistic basis.
**Provisioning will be done on AUM basis. However, maximum provision on portfolio built on risk sharing basis will be only to the extent of the contingent risk on Navadhan.

Category	DPD	RBI norms	Navadhan** norms
Standard	0-30 days	0.25%	0.40% #
	31-60 days	0.25%	1.0%
	61-90 days	0.25%	2.0%
	91-120 days	0.25%	5.0%
Sub-standard	121-180 days	10% for unsecured, 10% for secured	10.0% for unsecured 10.0% for secured
	181-270 days	10% for unsecured, 10% for secured	15.0% for unsecured 10.0% for secured
	271-360 days	10% for unsecured, 10% for secured	25.0% for unsecured 10.0% for secured
	361-450 days	10% for unsecured, 10% for secured	50.0% for unsecured 15.0% for secured
	451-540 days	10% for unsecured, 10% for secured	65.0% for unsecured 15.0% for secured
	541-660 days	10% for unsecured, 10% for secured	75.0% for unsecured 15.0% for secured
Doubtful*	661-1020	100% for unsecured, 20% for secured	100% for unsecured, 20% for secured
	1020-1740 days	100% for unsecured, 30% for secured	100% for unsecured, 30% for secured
	>1740	100% for unsecured, 50% for secured	100% for unsecured, 50% for secured
Loss Asset	100%. If the assets are permitted to remain in the books for any reason, 100% of the outstanding shall be provided for.		
Restructured Standard Asset		5%	5%

Company may follow a more stringent/ accelerated provisioning as decided by Board from time to time.

4. WRITE OFFS

4.1 Despite formulation and strict implementation of credit policy, Navadhan may be confronted by circumstances requiring the technical write-off of irrecoverable debt. The management shall establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the Navadhan. However, for various reasons there may be a need to book losses on bad debts. Some of the examples are as below:

a) The migrant borrower untraceable to do recoveries or deceased with no recourse left
b) A balance being too small to recover, for economic reasons, considering the cost of recovery;
c) Where Navadhan deems that a borrower is unable to pay

4.2 Guiding Principles for Write Off

The following are guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt which is outstanding in the portfolio.

4.2.1 The policy is compiled in accordance with the Fair Practices Code and RBI guidelines as announced from time to time shall be suitably incorporated

4.2.2 Before any debt is written off it must be proven that the debt has become irrecoverable. To ensure that recommendations for write off are consistent and accurate, irrecoverable debt will be defined as debt where:-

a) The tracing of the borrower(s)/co-borrower(s) is unsuccessful

b) All reasonable steps were taken by the officials to recover the debt

c) Bad debt written off must be considered in terms of cost benefit, when it becomes too costly to recover and the chances of collecting the debt are very slow, a write off should be considered

4.2.3 Time value of money is very important because the older the debt becomes, the more difficult and costly it becomes to collect. It is therefore imperative that a proper system of credit control is implemented and maintained to avoid debt reaching the stage of becoming too expensive to recover.

4.2.4 Differentiation must be made between those borrowers who cannot afford to pay and those who just do not want to pay (WILFUL DEFAULTERS).

4.3 Categories of Borrowers that may qualify for the writing-off of irrecoverable debt

4.3.1 **Migrated / Untraceable Borrowers:** Upon arriving at the decision that the borrower has migrated, the borrower's arrear outstanding will be written off. Additionally, where for any reason the forwarded address of a borrower becomes untraceable or the borrower becomes untraceable from the current address, balances outstanding to such accounts must be written off.

4.3.2 **Small balances:** Where borrower has re-paid most of the loan and the remaining balance is less than Rs.100 or considered non-material by the management committee or any delegated authority thereof, to pursue recoveries

4.3.3 **Insolvent Borrower**

4.3.4 **Hostile field environment at client location:** The situation at the client location has become hostile either due to relationship strained with Field Executive and Client or for any other reason.

4.3.5 **Severe Financial Impairment of client.** Client has borne severe losses and financial security is impaired

4.3.6 **Severe Misconduct**

4.4 Writing Off Process

4.4.1 As part of regular monitoring process, portfolio quality shall be monitored on an on-going basis at various hierarchical levels. For accounts deemed difficult to recover, special effort shall be made to help the operational staff in affecting recoveries, including but not limited to legal recourse.

4.4.2 Portfolio review shall be formally done every month by the business development head for each state/ business line. The Business Head shall include the representatives from the credit and internal audit team for this review based on MIS validated by the IT team. After each monthly review, the set of cases which are irrecoverable shall be identified. All these set of irrecoverable loans across all states and business lines shall be aggregated at the Corporate level and reviewed periodically by the Management Committee.

4.4.3 Management Committee for the purpose of portfolio review, shall comprise of the following personnel:

4.4.3.1 MD/CEO

4.4.3.2 Head – Business Development

4.4.3.3 Head – Credit/ CRO

4.4.3.4 Head – Internal Audit/ Operational Risk

4.4.3.5 Head – Treasury/ Accounts/ CFO

4.4.3.6 Head – Operations & Technology

Personnel interested with the above responsibilities in the absence of any of these authorities may be invited to attend these meetings in lieu of the said authority after due delegation.

4.4.4 Management Committee shall review this portfolio and after considering all the factors relevant to the context, decide to recommend the pool of loans for write-off or recommend a management overlay

4.4.5 The recommendation of the MC shall be presented to the Audit Committee with sufficient rationale. The Audit Committee with or without amendments, after due deliberations, shall recommend to the Board for write-off. If any of the committee members do not agree with the majority view, they will have the right to get their views minuted, if deemed relevant. The Audit Committee shall ensure that the write-offs have been affected in the books of the Company and the auditors have evidenced and confirmed the amounts.

4.4.6 The Board shall decide on the write-off based on these recommendations as part of adoption of final accounts.

4.4.7 The Board and the committee, that reviews the write-off and takes a decision thereon, shall have majority independent directors or shall be chaired by an independent director, if there are adequate number of independent directors on the Board.

4.4.8 The loan accounts written-off in the books of the Company may continue to be pursued for recoveries, as the case may be, and therefore the portfolio information available at branches or with the operating staff shall include written-off cases so that the staff can suitably pursue them. In case of recoveries from written-off accounts, suitable accounting treatment shall be affected and credit reporting done.

5. IMPLEMENTATION AND REVIEW OF THIS POLICY

This policy shall be implemented forthwith once it has been approved by the Board of Directors. All future submissions for the writing off of debt must be considered in accordance with this policy.

-x-