
POLICY FOR EARLY RECOGNITION OF FINANCIAL DISTRESS & DETERMINING NON-CO-OPERATIVE BORROWERS

AVASARA FINANCE LIMITED

Approved by	Board of Directors
Policy Owner	Risk Management Committee
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POLICY FOR EARLY RECOGNITION OF FINANCIAL DISTRESS & DETERMINING NON-CO-OPERATIVE BORROWERS

The Reserve Bank of India (RBI) vide its Master Directions - Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023 read with any amendments thereby has laid down various guidelines to enable early detection of incipient stress in a financial asset. The Framework also requires “all NBFCs” to adopt a policy, laying down the internal principles and procedures for early detection of financial distress. As per the guidelines the NBFCs are required to have adequate systems for classifying or declassifying a borrower as non-co-operative borrower.

Keeping in mind the several requirements of RBI vide its Master Directions the following internal policy has been adopted by the Board of the Company:

1. Corrective action plan to arrest distress in the assets

- 1.1. The Company shall identify the incipient stress in an account, before it turns into an NPA, by classifying the asset under the following sub-asset categories in the following manner:

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**

** (to be adopted by March 31, 2026)

- 1.2. In the above context, it is further clarified that borrower accounts shall be flagged as overdue by the lending institutions as part of ***their day-end processes for the due date, irrespective of the time of running such processes***. Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. ***In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.***
- 1.3. Consumer Education: For increasing awareness among the borrowers a consumer education literature is being placed on the website of the Company explaining with examples, the concepts of date of overdue, SMA

and NPA classification and upgradation, with specific reference to day-end process.

- 1.4. The Company shall closely monitor the accounts reported as SMA-1 or SMA-0 as these are the early warning signs of weaknesses in the account. The Company shall also take up the issue with the borrower with a view to rectifying the deficiencies at the earliest. The systems of the Company shall be accordingly adapted to monitor the stressed accounts and give out warning signals timely.

2. Accelerated Provisioning –

The Company agrees to comply with the accelerated provisioning norms as discussed in the aforesaid Framework in case any of the provisions of the Framework gets violated.

3. Non Co-operative Borrowers –

3.1 Basis of Classification –

A borrower in which the Company is having an exposure of Rs. 50 million, can be classified as non-co-operative only if it –

- a. defaults in making payment despite having the ability to pay;
- b. thwarts the efforts of the Company for recovery of dues by not providing information sought even after two reminders;
- c. denies access to assets financed/ collateral security;
- d. obstructs sale of securities; etc.
- e. shows any signals of wilful defaulters, as listed down in the Annex to this Policy.

However, list provided above is only indicative and there may be other instances where the Company may have reason to believe that the borrower is deliberately obstructing the legitimate efforts of the Company to recover the amount due. The borrowers shall be given 30 days' notice to clarify their stand before their names are reported as non-cooperative borrowers.

3.2 Further review of classification of a non-co-operative borrower:

3.3.1 It shall be the duty of the Board of Directors of the Company to carry out review of the classification of the non-co-operative borrowers on yearly basis for deciding on whether to declassify them as non-co-operative, based on their corporate dealings and return to the benchmark for credit worthiness as set by the Company.

3.3.2 The Board of Directors shall have the power to decide on whether a borrower shall continue to be classified as non-co-operative or whether the same should be declassified, after due consideration of the facts of the case.

3.3 Fresh exposure on the non-co-operative borrowers:

- a. The Company shall, to the extent possible, avoid taking any further exposures on a borrower; once the same has been classified as non-co-operative and until the same has been de-classified.
- b. Where the Company is taking additional exposure on the borrower, even after the same has been classified as non-co-operative, it agrees to maintain provisions at higher rates as applicable to substandard assets.

4. Board's responsibilities

- 4.1 The Board of Directors of the Company shall take all necessary steps to arrest the deteriorating asset quality in their books and shall focus on improving the credit risk management system.
- 4.2 The Board of Directors of the Company shall ensure timely provision of credit information to and access to credit information from CRILC, prompt formation of Joint Lenders Forum, monitoring the progress of Joint Lender's Forum, whenever applicable and follow the guidelines of reporting as may be mandated in the regulation / Master Directions upon its applicability for the Company.

- 4.3 The Board of Directors of the Company shall be responsible for periodical review of this policy.

5. Credit Risk Management –

- 5.1 The Company shall independently carry out credit appraisal, in all cases of lending and not depend on credit appraisal reports prepared by outside consultants, especially the in-house consultants of the borrowing entity. They shall carry out sensitivity tests / scenario analysis, especially for infrastructure projects, which shall, inter alia, include project delays and cost overruns.
- 5.2 The Company shall ascertain the source and qualities of equity capital brought in by the promoters /shareholders and ensure that the debt of the parent company is not infused as equity capital of the subsidiary/SPV.
- 5.3 The Company shall verify as to whether the name of the directors of the Company appears on the list wilful defaulters, published by RBI, by way of DIN/PAN etc.
- 5.4 The Company shall monitor the end-use of funds and in order to prevent the diversion/siphoning of funds by the borrowers.
- 5.5 On case to case basis, the Company shall engage its own auditor for such specific certification purpose without relying on certification given by borrower's auditors.

6. Registration with CERSAI –

The Company shall register all mortgages created on its favour, if any, with the CERSAI, in the manner provided by the RBI under the Framework or otherwise, when there are secured charges in favour of the Company.

7. Policy Review

The Policy will be reviewed periodically or at least once a year by Risk Management Committee in line with all applicable laws and regulations as amended from time to time.

Annexure:

Indicative list of events on the happening of which, the company may have reason to believe the borrower has committed a wilful default

A borrower will be deemed to have committed a wilful default in the event where-

1. The borrower has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.
2. The borrower has defaulted in meeting its payment / repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes
3. The borrower has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
4. Delay of 90 days or more in
 - a. submission of stock statement / other stipulated operating control statements or
 - b. credit monitoring or financial statements or
 - c. non-renewal of facilities based on audited financials.
5. Actual sales / operating profits falling short of projections accepted for loan sanction by 40% or more; or a single event of non-cooperation / prevention from conduct of stock audits by Company or evidence of diversion of funds for unapproved purpose.
6. Return of 3 or more cheques (or electronic debit instructions) issued by borrowers in 30 days on grounds of non-availability of balance/DP in the account or return of 3 or more bills / cheques discounted or sent under collection by the borrower.
7. Devolvement of Deferred Payment Guarantee (DPG) instalments or invocation of Bank Guarantees (BGs) and its non-payment within 30 days.

8. Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other terms and conditions of sanction.
9. The borrower reporting stress in the business and financials.
10. Promoter(s) pledging/selling their shares in the borrower company due to financial stress.
11. The borrower has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given for the purpose of securing a term loan without the knowledge of the bank / lender.