

JALAN CHEMICAL INDUSTRIES PVT LTD

POLICY ON PROVISIONING AND WRITE-OFF OF ASSETS

(As approved and adopted by the Board of Directors at their meeting held on 31.03.2024)

CLASSIFICATION, PROVISIONING AND WRITE-OFFS OF ASSETS

Our Company, M/s. Jalan Chemical Industries Pvt Ltd, is an Investment and Credit Company “NBFC-ICC”, as defined in Para 5.1.19 of Chapter II of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (“the Directions”) issued by the Reserve Bank of India on 19th October, 2023. The Company is engaged in the business of providing finance by way of making loans and trading/investments in securities.

Para 14 of Chapter IV of the Directions inter-alia stipulates as under:

14. Asset classification

14.1. The asset classification norms as given below shall apply to ‘applicable’ NBFCs (i.e. except NBFCs-ML and above and microfinance loans of NBFC-MFIs). Applicable NBFC shall, after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes, namely:

- (i) Standard assets;
- (ii) Sub-standard assets;
- (iii) Doubtful assets; and
- (iv) Loss assets.

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.

14.1.1. “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.



14.1.2. "Sub-standard asset" shall mean

- (i) an asset which has been classified as non-performing asset for a period not exceeding 18 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.

Provided that the classification of infrastructure loan as a sub-standard asset shall be in accordance with the provisions of paragraph 17 of these Directions;

14.1.3. "Doubtful asset" shall mean

- (i) a term loan, or
- (ii) a lease asset, or
- (iii) a hire purchase asset, or
- (iv) any other asset,

Which remains a sub-standard asset for a period exceeding 18 months.

14.1.4. "Loss asset" shall mean

- (i) 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; and
- (ii) 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.

14.2. The extant NPA classification norm stands changed to the overdue period of more than 90 days for applicable NBFCs. A glide path is provided to applicable NBFCs to adhere to the 90 days NPA norm as under –

NPA Norms	Timeline
>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
> 90 days	By March 31, 2026

Note: The glide path will not be applicable to NBFCs which are already required to follow the 90-day NPA norm.



14.3. Non-Performing Asset (referred to in these Directions as "NPA") shall mean:

- (i) an asset, in respect of which, interest has remained overdue for a period of more than 180 days;
- (ii) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of more than 180 days or on which interest amount remained overdue for a period of more than 180 days;
- (iii) a demand or call loan, which remained overdue for a period of more than 180 days from the date of demand or call or on which interest amount remained overdue for a period of more than 180 days;
- (iv) a bill which remains overdue for a period of more than 180 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 180 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 180 days;
- (vii) the lease rental and hire purchase instalment, which has become overdue for a period of more than 180 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.

Provided that in the case of lease and hire purchase transactions, an applicable NBFC shall classify each such account on the basis of its record of recovery.

Note: The period of more than 180 days for NPA classification as mentioned above shall be adjusted as per glide path outlined in paragraph 14.2.



14.4. The following shall apply to applicable NBFCs:

14.4.1. An amount is to be treated as overdue if it is not paid on the due date fixed by the NBFCs.

The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. shall be clearly specified in the loan agreement and the borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/ loan agreement till full repayment of the loan. In cases of loan facilities with moratorium on payment of principal and/or interest, the exact date of commencement of repayment shall also be specified in the loan agreements. In case of existing loans, compliance to these instructions shall necessarily be ensured as and when such loans become due for renewal/ review.

14.4.2. NBFCs shall recognize incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the categories specified below.

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 180 days

Note: The period of SMA-2 shall be adjusted as per glide path outlined in paragraph 14.2.

14.4.3. The above instructions on SMA classification of borrower accounts are applicable to all loans, including retail loans, irrespective of size of exposure of the lending institution.

14.4.4. The 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. Illustrations for the same are provided in paragraph 137 of the Directions.

14.4.5. Loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower. 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. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commence of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.

14.4.6. Consumer Education on SMA/NPA - With a view to increasing awareness among the borrowers, NBFCs should place consumer education literature on their websites, explaining with examples, the concepts of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process. NBFCs shall also consider displaying such consumer education literature in their branches by means of posters and/or other appropriate media. Further, it shall also be ensured that their front-line officers educate borrowers about all these concepts, with respect to loans availed by them, at the time of sanction/disbursal/renewal of loans.

Para 15 of Chapter IV of the Directions inter-alia stipulates as under:

15. Provisioning Requirements

The provisioning requirements as given below shall apply to every applicable NBFC (except microfinance loans of NBFC-MFIs):

NBFC shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder:

15.1. Loans, advances and other credit facilities including bills purchased and discounted-

The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

Loss Assets	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.
Doubtful Assets	(a) 100% provision to the extent to which the advance is not covered by the realisable



	value of the security to which the NBFC has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis;							
	(b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. estimated realisable value of the outstanding) shall be made on the following basis: <table border="1" data-bbox="823 696 1332 1017"> <thead> <tr> <th>Period for which the asset has been considered as doubtful</th> <th>% of provision</th> </tr> </thead> <tbody> <tr> <td>Up to one year</td> <td>20</td> </tr> <tr> <td>One to three years</td> <td>30</td> </tr> <tr> <td>More than three years</td> <td>50</td> </tr> </tbody> </table>	Period for which the asset has been considered as doubtful	% of provision	Up to one year	20	One to three years	30	More than three years
Period for which the asset has been considered as doubtful	% of provision							
Up to one year	20							
One to three years	30							
More than three years	50							
Sub-standard assets	A general provision of 10% of total outstanding shall be made.							

Note:

An asset which has been renegotiated or rescheduled as referred to in clause (ii) of paragraph 14.1.2 of these Directions 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 shall be made as applicable to such asset till it is upgraded.

Para 16 of Chapter IV of the Directions inter-alia stipulates as under:

16. Standard asset provisioning (except NBFC-ML and above)

NBFC-BL shall make provision for standard assets at 0.25 percent of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need



not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet.

Having regards to the above directions and other regulations, the Company has framed this policy.

The classification of Assets, Provisioning and write-off of assets are guided by the Directions issued by the RBI.

Asset classification

As per the Prudential Regulations of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 and after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classifies its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes:

- (i) Standard assets;
- (ii) Sub-standard assets;
- (iii) Doubtful assets; and
- (iv) Loss assets.

Further, such 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.

Loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.

“**Standard asset**” as defined in Para 14.1.1 of the Directions means 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 nor carry more than normal risk attached to the business;

“**Sub-standard asset**” as defined in Para 14.1.2 of the Directions means:

- (i) an asset which has been classified as non-performing asset for a period not exceeding 18 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.

Provided that the classification of infrastructure loan as a sub-standard asset shall be in accordance with the provisions of paragraph 17 of these Directions.

"Doubtful Assets "as defined in Para 14.1.3 of the Directions means :

- (i) a term loan, or
- (ii) a lease asset, or
- (iii) a hire purchase asset, or
- (iv) any other asset,

which remains a sub-standard asset for a period exceeding 18 months.

"Loss Asset "as defined in Para 14.1.4 of the Directions means :

- (i) 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; and
- (ii) 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.

'Non-performing asset' (NPA) as defined in Para 14.3 of the directions means:

- (i) an asset, in respect of which, interest has remained overdue for a period of more than 180 days;
- (ii) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of more than 180 days or on which interest amount remained overdue for a period of more than 180 days;
- (iii) a demand or call loan, which remained overdue for a period of more than 180 days from the date of demand or call or on which interest amount remained overdue for a period of more than 180 days;



- (iv) a bill which remains overdue for a period of more than 180 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 180 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 180 days;
- (vii) the lease rental and hire purchase instalment, which has become overdue for a period of more than 180 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.

Provided that in the case of lease and hire purchase transactions, an applicable NBFC shall classify each such account on the basis of its record of recovery.

Note: The period of more than 180 days for NPA classification as mentioned above shall be adjusted as per glide path outlined in paragraph 14.2.

Provisioning and Write-offs

We are guided by the directions issued by the RBI for certain provisions for standard and non-performing assets. We, after taking into account the time lag between an account becoming on performing, and its recognition as such, the realization of the security, and the erosion of over time in value of the security charged, if any, make provisions against sub-standard, doubtful and loan assets.

Loss Assets - In case of loss assets, the entire asset is written off. If these are permitted to remain in the books, 100% provision of the outstanding shall be made.

Doubtful Assets - The company shall provide 100% provision to the extent to which the advance is not covered by the realisable value of the security to which our Company has a valid recourse. The realisable value is estimated on a realistic basis. In addition to above, depending upon the period for which the asset has remained doubtful, provision to the extent



of 20% to 50% of the secured portion (i.e. estimated realisable value of the outstanding) made on the following basis :-

<u>Period for which the asset has been considered as doubtful</u>	<u>% of provision</u>
Up to one year	20
Between one to three years	30
More than three years	50

In case of Substandard Assets, Our Company provides 10% of total outstanding.

The Company shall make provisions for standard assets at 0.25 per cent or such higher provision as may be prescribed by RBI of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet.

Exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. shall be clearly specified in the loan agreement and the borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/loan agreement till full repayment of the loan.

The Company shall not resort to ever greening of borrowal accounts.

The Company does not provide lease /hire purchase finance and hence provisioning norms are not considered in this policy in respect of such transactions.

This policy should always be read in conjunction with RBI guidelines, directives, and instructions. The company will apply above practices so long as such practice does not conflict with or violate RBI guidelines.

