

NPA POLICY

In terms of RBI circular no. DNBR/PD(CC)/No. 002./03.10.001/2014-15 dated November 10, 2014, a loan asset of an NBFC should be classified as NPA under the following circumstances

At present, an asset is classified as Non-Performing Asset when it has remained overdue for a period of six months or more for loans; and overdue for twelve months or more in case of lease rental and hire purchase installments, as compared to 90 days for banks. In the interest of harmonisation, the asset classification norms for NBFCs-ND-SI and NBFCs-D are being brought in line with that of banks, in a phased manner, as given below

Assets other than Lease Rental and Hire-Purchase Assets shall become NPA:

- 1) if they become overdue for 5 months for the financial year ending March 31, 2016;
- 2) if overdue for 4 months for the financial year ending March 31, 2017; and
- 3) if overdue for 3 months for the financial year ending March 31, 2018 and thereafter.

For all loan and hire-purchase and lease assets, sub-standard asset would mean:

- 1) an asset that has been classified as NPA for a period not exceeding 16 months (currently 18 months) for the financial year ending March 31, 2016;
- 2) an asset that has been classified as NPA for a period not exceeding 14 months for the financial year ending March 31, 2017; and
- 3) an asset that has been classified as NPA for a period not exceeding 12 months for the financial year ending March 31, 2018 and thereafter.

For all loan and hire-purchase and lease assets, doubtful asset would mean:

- 1) an asset that has remained sub-standard for a period exceeding 16 months (currently 18 months) for the financial year ending March 31, 2016;
- 2) an asset that has remained sub-standard for a period exceeding 14 months for the financial year ending March 31, 2017; and
- 3) an asset that has remained sub-standard for a period exceeding 12 months for the financial year ending March 31, 2018 and thereafter.

At present, every NBFC is required to make a provision for standard assets at 0.25% of the outstanding. On a review of the same, the provision for standard assets for NBFCs-ND-SI and for all NBFCs-D, is being increased to 0.40%. The compliance to the revised norm will be phased in as given below:

- 0.30% by the end of March 2016
- 0.35% by the end of March 2017
- 0.40% by the end of March 2018

The Board of Directors of every NBFC granting/intending to grant demand/call loans shall frame a policy for the company and implement the same.

Such policy shall, inter alia, stipulate the following,

- a) A cut off date within which the repayment of demand or call loan shall be demanded or called up;
- b) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if the cut off date for demanding or calling up such loan is stipulated beyond a period of one year from the date of sanction;
- c) The rate of interest which shall be payable on such loans;
- d) Interest on such loans, as stipulated shall be payable either at monthly or quarterly rests;
- e) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if no interest is stipulated or a moratorium is granted for any period;
- f) A cut off date, for review of performance of the loan, not exceeding six months commencing from the date of sanction;
- g) Such demand or call loans shall not be renewed unless the periodical review has shown satisfactory compliance with the terms of sanction.”

Normal tenor of a gold loan can be up to a period of 12 months from the date of advance. Interest is payable at the time of maturity i.e. along with repayment of principal. The loan becomes overdue one month after the maturity date.

To be categorized as NPA , the loan should have remained overdue (inclusive of unpaid interest) for a period of six months or more or on which interest amount remained overdue for a period of six months or more from the due date.

Effectively, a gold loan qualifies to be categorized as NPA from the 17^h month, when it remains unpaid or interest has not been serviced for 16 months from the date of advance or for 4 months from the date due date during the current year

Prudential norms on income recognition, Asset classification, and provisioning.

Income from NPA is not recognized on accrual basis but is treated as income only when it is actually received.

Classification of assets and provision requirements

As an NBFC, after taking into account the degree of well defined creditworthiness and extent of dependence on collateral security for realization, we are required to classify loans and any other form/s of credit into the following classes:

Standard asset where no default in repayment of principal or interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business.

Provision requirements - 0.30% as general provision. This provision should not be reckoned for arriving at net NPAs .

Sub standard asset is the one that has remained NPA for a period not exceeding 16 months. In such cases, the current net worth of the borrower or the current market value of the security is not enough to ensure recovery of the dues.

Provision requirements – general provision of 10%

Doubtful assets are accounts that fall under sub standard category and have remained as NPA for period exceeding 16 months.

Provision requirements - 100% of the extent to which the advance is not covered by realizable value of security. In regard to secured portion:

Up to one year after treated as doubtful asset - 20%

One to three years 30%

More than 3 years 50%

Loss assets are those where loss has been identified by us or internal/external auditors or during RBI inspection but the amount has not been written off wholly or partly.

Accounts with erosion in value of security/ frauds committed by borrowers should not go through various stages of asset classification

Provision requirements - 100% Provision if not written off

If the realizable value of security is less than 50% of the outstanding, the asset should be classified as Doubtful and if it falls below 10%, it should be categorized as loss asset.

Advances against gold ornaments, Govt securities are not exempted from provisioning requirements.

Management

Management of NPA begins with a better understanding of the underlying credit risk and initiating corrective measures starting from the branch levels.

Relevant to the nature of our lending operations, reasons for an asset turning bad can be broadly identified as follows:

1. Laxity in identification of customers' background and adhering to KYC norms.
2. Lack of proper appraisal and risk assessment
3. Improper / inadequate documentation
4. Incorrect assessment of security
5. Inadequate post disbursement follow up.
6. Fraud

Precautions by Various Functionaries

Branch Staff

1. 'Know your customer' guidelines should be strictly adhered to before granting loans to anybody. If KYC requirements are not complied with in respect of existing borrowers, Managers should take necessary steps to ensure compliance with KYC norms immediately.

Special attention to be given to the following:

- a. The address in the ID proof and that in our records as given at the time of granting of loan should be same. Discrepancies, if any, shall be adequately questioned and satisfactory explanation to the same shall be obtained.
- b. Frequent contact with the borrowers, particularly in the case of high value loans of say 1 lakh and above through personal visits and face-to-face discussions with the borrowers may be undertaken for ensuring prompt repayment of loans.
- c. The quality of the gold ornaments shall be checked/ tested, before accepting the same as security for the loan, by the employee responsible for the same. Weight of the extraneous items should be assessed properly and shall be reduced from the gross weight of the gold ornament. Net weight of the gold ornament shall be taken into consideration for arriving at the allowable maximum limit of loan.
- d. DPN shall be fully filled up and properly executed by the borrower.
- e. The branch staff should be vigilant enough to be aware of developments in the area to identify and avoid undesirable customers with dubious past track records.
- f. All the other laid down systems and procedures should be followed strictly.

Internal Audit Team

The Internal Audit team shall verify and cross check the following during the internal audit of a branch.

1. Gold loan packets of outstanding accounts with the pledge notes.
2. The contents, weight and purity of gold ornaments pertaining to all the outstanding loans.
3. Compliance with KYC norms in respect of all the accounts.
4. Proper reduction for extraneous items is done for all eligible gold loan accounts.
5. Scale of finance is as per the prescribed rates.
6. All documents are properly executed.
7. All prescribed systems and procedures are complied with.

Regional Manager

1. Regional Managers will have to positively verify at random, the purity of gold ornaments taken as security during their visit to branches.
2. They have to also verify whether KYC norms are complied with in respect of all the accounts.
3. Any discrepancies noted in the compliance of prescribed systems and procedures have to be reported to the higher authorities.
4. Ensure that all instructions are being followed by all branches under his control.

Corporate Office

1. Random check on the above, whenever a CO functionary visits a branch.
2. Time bound action on rectification as required.

Recovery of Non Performing Assets

All loans outstanding beyond the loan validity will be disposed off within three months from the expiry of the loan period. In order to undertake this, the company requires a well oiled gold loan monitoring, follow-up & disposal mechanism in place. With a view to have a proper monitoring mechanism, we have already set up an Overdue Loans Cell at Corporate Office under Chief Operating Officer. The OLC will interact with branches & their controllers for speedy recovery of all loans which has exceeded the stipulated loan tenor. Since disposal of gold loans through individual branches is not feasible, due to small numbers and the high cost of auctioning, it will be desirable to dispose them off through a centralized disposal set up. The operational workflow for a centralized GL disposal set up will be

- a) Identification of potential overdue gold loans by OLC of Corporate Office and advising them to concerned branches

- b) Sending first notice to borrowers latest by 15 days prior to the loan becoming overdue
- c) Personal visit by branch manager/ staff member on the defaulting customer within 7 days from the date of notice
- d) If no result forthcoming, serving of second repayment notice after a maximum gap of 15 days from the date of personal visit and/or the first notice
- e) If the loan remains outstanding even after this, takeover of the gold ornaments by the Regional Manager within a span of one month and transfer the loan account to Corporate Office overdue Loan Pool account
- f) All gold loans & underlying ornaments taken over by the RM should be either be auctioned at the HQ branch if sizeable number of loans are available or will be transferred to specified auction centres periodically.
- g) At any point of time before the loan is transferred to Auction centre, in case the borrower approaches the company for redemption of pledged ornaments, this will be carried out by the concerned branch (Originating or HQ) in the normal manner
- h) Auctions will be carried out only after publishing the auction date and venue in two vernacular dailies being circulated in the area of concerned branches. Also the concerned branches will also display the auction date and centre in their notice boards well in advance
- i) As further concession to customers, the company may also consider settlement of loan dues by way of concessions in interest as a one-time settlement on a case-to-case basis with approval from Corporate Office

Auction Procedure for overdue gold

All loans outstanding beyond the loan validity will be disposed off within three months from the expiry of the loan period. In order to undertake this, the company requires a well oiled gold loan monitoring, follow-up & disposal mechanism in place. With a view to have a proper monitoring mechanism, we have already set up an Overdue Loans Cell at Corporate Office under Chief Operating Officer. The OLC will interact with branches & their controllers for speedy recovery of all loans which has exceeded the stipulated loan tenor.

Appointment of an Auctioneer

Since as per the revised RBI guidelines, the company or its promoters cannot participate actively in the auction, a qualified and experienced auctioneer will be appointed by the company to carry out the auction on behalf of the company. The broad terms of engagement of an auctioneer will be as under

- 1) The auctioneer should have a minimum 10 years experience in gold trade and has proper license
- 2) The company will give full list of articles to be auctioned to the auctioneer who will have to furnish the details of auction as per the format given by the company
- 3) The auction proceeds should be credited to the Company's account within a maximum period of 30 days from the date of auction
- 4) The auctioneer and company will enter into a written agreement for conducting the auction
- 5) The fees payable to the auctioneer will be pre-fixed subject to a ceiling 5% of the auction proceeds
- 6) The name of the auctioneer will be approved by an internal committee of the company comprising of Managing Director (Chairperson), Executive Director & CFO as members and COO as member secretary
- 7) The auctioneer's tenure will be one year with reappointment every year

Approved Auction Procedure

The company shall have a transparent policy approved by the board for auction of pledged assets. On completion of prescribed loan period, or whenever probability of a short fall in the realizable value of the asset pledged at the prevailing market rate from the total dues payable by the pledger arises, the account will be treated as NPA and assets pledged shall be sold by public auction after issuing notice to the loanee/pledger. The criteria for selection of accounts for auction shall be based on probable loss taking in to account the prevailing market price of the pledged asset. All auctions shall be conducted through independent professional auctioneers appointed by the company and approved by the Board for the same. As a matter of policy the company or its promoters or promoter entities themselves shall not participate in the auctions held. The auction procedure in case of non- repayment shall be transparent. Prior notice to the borrower as described above shall be given before the auction and there shall not be any conflict of interest. The auction process shall ensure that an arm's length relationship in all transactions during the auction is maintained including with group companies and related entities.

The following procedure shall be followed for conducting the auction.

- a) Auctioneer shall serve an auction notice to the pledger by registered post A/D intimating the date of auction before 21 days of the proposed date of auction.

- b) Advertisement showing the details of accounts listed for auction with date, time and venue shall be issued in at least two prominent Local News Paper, one in a vernacular language and the other in a national daily by the auctioneers.
- c) The pledger shall be given an opportunity to redeem the gold after paying the loan dues till the close of business hours of the preceding working day of the date of proposed auction.
- d) Unredeemed ornaments shall be sold in public auction by the auctioneer in the presence of Company officials.
- e) Such public auctions shall be held only when reasonable number of bidders participates in the auction and the same may be conducted either in the branch locality or in the Taluka or District Head Quarters
- f) Depending on the quality of gold placed for auction, the pledged ornaments should be auctioned off at a price close to the prevailing market price on the day of auction. For implementing the same, the company should provide for a reserve price for auction.
- g) The bid shall be confirmed then and there in favour of the bidder quoting highest rate. h) Bids for substantially lower amounts than the market rates shall not be confirmed unless a declining trend in the Gold Market is envisaged.
- i) The pledger also can participate in the bid as a bidder after remitting the earnest money deposit fixed by the auctioneer for each auction.
- j) Full records of the auction with particulars such as date, venue, and bidders participated, details of Sales made with rate, bid amount and highest bidder in whose name the bid has been confirmed etc. shall be maintained and preserved for auditors/inspectors to verify.
- k) After completion of the auction process, following details shall be intimated to the customer whose ornaments have been auctioned off by means of a registered letter:
- 1) Value fetched in the auction
 - 2) Outstanding Dues fetched and
 - 3) Balance, if any payable to the Customer
- l) Pledge account shall be settled from the auction proceeds after paying the mandatory taxes and auctioneers commission. In doing so the necessary compliance with Sales Tax laws of the state in which the auction is conducted shall be ensured;
- m) Following details regarding the auctions conducted during the year shall be disclosed in the Annual Report of the Company:
- i) No. of Auction Conducted

- ii) No. of Loan Accounts involved
- iii) Outstanding value in loan accounts involved
- iv) Value fetched in auction
- v) Balance amount refunded
- vi) Balance amount recovered from the borrower
- vii) Whether the Company participated in the auction, if yes, details of bids, value of jewellery etc.
- n) The Company, at its discretion, may initiate legal recourse for recovery of the shortfall in loan dues after serving a demand notice, at the discretion of the company based on the feasibility of recovery.
- o) Surplus fund, if any, available in the auction of pledged ornaments after setting off all dues of the company, taxes and the auctioneer's commission shall be passed on to the pledger under receipt .
- p) Ornaments pledged under Special Schemes with shorter pledge durations shall be listed for auction on completion of the agreed loan period, if the loan is not closed within the said period.

Spurious/low quality gold

In case of loan accounts becoming NPA because of the security being spurious or of low quality a proper investigation has to be initiated immediately to examine the staff accountability. If there is deviation from the laid down instructions then the recovery has to be effected from the concerned employee/(s). Concurrently the Branch Team has to contact the borrower and recover the money using our usual methods including legal procedures. If there are no lapses on the part of the employees, then the borrower has to be proceeded against legally to recover our dues.

Stolen/ thondy articles

In case of loan accounts becoming NPA on account of the security being confiscated by the police with respect to any crime or as stolen gold, the Branch Team has to immediately contact the borrower/his family members and resort to hard core recovery measures. If the dependants of the borrower are in penury condition then, the outstanding has to be assessed for the purpose of write off. An enquiry has to be conducted to examine staff accountability, if any, which contributed to the loss to the company. If there are any lapses found in the enquiry, then the delinquent staff should make good the amount as per the report of the enquiry officer.

Other reasons including fraudulent acts

In all other cases, staff accountability should be examined and if any lapses are found then the delinquent staff should be made responsible for the loss and he/she should be made responsible for the loss in proportion to his/her responsibility. The time lines for such staff accountability exercise should be same as laid down in our policy on frauds.

Provisioning and write off

On the basis of guidelines of RBI as outlined above, provisioning requirements should be assessed at Corporate Office depending on the financial status of an account. In the case of loss assets, proposals should be submitted to the board for approval for write off. Wherever the CO feels that there could still be a possibility for recovery, 100% provisioning has to be done in such cases.

Asset categorization and provisioning requirements should be ideally reviewed on a quarterly basis and to be submitted to the board for approval. Write off proposals can be taken up on an annual basis, during the last quarter of a financial year.

Staff accountability

As listed above, reasons for an asset drifting to the non performing category are primarily on account of laxity in exercise of controls and lack of follow up at the branch level itself. Staff collusion is also a major reason. It has hence become necessary to define staff accountability in such cases. The time lines for such staff accountability exercise should be as per guidelines laid down in our policy on frauds.

Even at the occurrence of an asset sliding to the Sub standard category, the BM, duly guided by the respective RM must initiate steps to regularize the account and recorded proof should be retained at branch levels for scrutiny by RM/ Audit/ CO officials. Every branch auditor should review these records and comment in their respective reports.

Relevant provisions of our fraud policy will be applicable with regard to disciplinary proceeds against the staff.

Quality assurance will be made part of performance management of staff at all level.
