CONSUMER EDUCATION – SMA & NPA

Consumer Awareness/ Education Document pursuant to prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications issued via Reserve Bank of India Circular No. RBI/2021-2022/125 DOR.STR.REC.C8/21.04.048/2021-22 dated November 12, 2021 ("IRACP Norms") read with Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (Updated as on March 21, 2024) ("Master Direction").

1. INTRODUCTION

Swara Fincare Limited, is a public limited company incorporated under the Companies Act, 2013 and registered with the Reserve Bank of India ("RBI") as a non-deposit taking non-banking financial company ("NBFC").

RBI vide its Circular No. DNBS(PD) CC No.349 /03.10.001/2013-14 dated 20th February, 2015 read with Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (Updated as on March 21, 2024) ("RBI Directions") advised that NBFC's shall put in place consumer education literature on their websites, with a view to increasing awareness, explaining with examples, the concepts of date of overdue, special mention accounts ("SMA") and non-performing asset ("NPA") classification and upgradation, with specific reference to day-end process.

2. OBJECTIVE

With a view to increase awareness among the borrowers, consumer education literature has been placed by explaining the concepts of overdue, SMA, NPA classification and upgradation to standard asset. The examples quoted in the document are illustrative and not exhaustive in nature and relate to general scenarios. The guidelines and clarifications issued by the RBI will prevail for implementation and may be amended from time to time by the RBI.

3. CONCEPTS / CLARIFICATIONS / ILLUSTRATIVE EXAMPLES ON DUE DATES AND SPECIFICATION OF SMA/ NPA CLASSIFICATION DATES

3.1 Definitions

(a) "**Dues**" means, the principal, interest, any cost, charges, expenses levied or incurred on the loan/ financing facility which are payable within the period stipulated as per the terms of sanction of the credit facility or the definitive facility documents.

(b) "**Equated Monthly Instalments (EMI)**" are calculated based on loan repayment tenure and rate of interest availed. EMI is the total amount of principal and interest repayment that is paid on monthly basis for the tenure of the loan as applicable.

(c) "**Overdue**" means, the principal, interest, any charges levied on the loan account which are payable but have not been paid within the period stipulated as per the terms of sanction of the credit facility or the definitive facility documents and may include default interest and additional cost for enforcement of security, if required. In other words, any amount due to the Company under any credit facility is 'overdue' if it is not paid on the due date fixed by the Company.

3.2 Classification of SMA and NPA

Borrower shall pay/ are required to pay the EMI / PEMI / Interest on or prior to the due date as mentioned in facility documents. Non - payment or delay in payment of EMI/ PEMI/ Interest by the due date, shall render the borrower liable to pay delayed payment charges as mentioned in the facility documents.

The delayed payment charges till the realisation of such outstanding amount may be revised and announced by the Company from time to time. In such an event(s), the borrower may also be liable to pay incidental charges and costs/ damages to the Company, as may be stipulated by the Company on that behalf and as agreed upon in the facility documents.

The Company is required to recognize the incipient stress in borrower's accounts immediately on default, by classifying them as SMA. Such accounts if not regularized within 90 (ninety) days gets classified as NPA. The basis of classification of SMA and NPA is as follows:

Classification Categories	Basis for classification – Principal or interest payment or any other amount wholly or partially overdue
SMA 0	Up to 30 days
SMA 1	More than 30 days and up to 60 days
SMA 2	More than 60 days and up to 90 days
NPA	More than 90 days

The borrower accounts shall be flagged as overdue as SMA/ NPA by the Company as part of their day-end processes for the due date, irrespective of the time of running such processes. 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.

*"**Explanation**: At the end of every calendar day, the Company shall run day-end process to determine whether an account will be treated as overdue or not. If the dues are not received into the designated bank account until completion of day-end process, the amount would be considered as not received and therefore will be treated as overdue."*

3.3 Illustration with respect to SMA / NPA Classification

(a) If the repayment date with respect to the loan/ facility falls on 31st March, and the relevant outstanding amount payable including but not limited to interest on such date is not received in full on such due date, before the Company runs the day-end process with respect to classification of their borrower accounts for the repayment date, the date of overdue shall be 31st March.

(b) In the event the loan/ facility continues to remain overdue, then the account may be tagged as SMA-1 upon running day-end process on the 30th day from 31st March i.e. upon completion of 30 days of the loan/ facility being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be 30th April.

(c) Similarly, if the loan/ facility continues to remain overdue after it being classified as SMA-1, it may be tagged as SMA-2 upon running day-end process on the 60th day from 31st March i.e. on 30th May.

(d) In the event of loan/ facility continuing to remain overdue further, it shall be classified as NPA upon running day-end process on the 90th day from 31st March i.e. on 29th June.

3.4 Upgradation of loan to 'Standard Asset' from 'NPA'

Loan/ Facility accounts classified as NPAs are upgraded to 'Standard' asset only if the entire arrears of interest and principal pertaining to credit facilities are paid by the borrower. In case of borrowers having more than one credit facility from the lender/ Company, 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. This clause shall be subject to the regulatory directions/ guidelines issued by the RBI from time to time.

3.5 Impact on Credit Score

As the classification of loan/ facility accounts as SMA/ NPA is getting reported to the bureaus i.e. CIBIL, Experian etc., the same may affect the credit score of the borrower, eventually creating hindrance for the availing further credit facility from banks and financial institutions.

4. CUSTOMER CARE CONTACT DETAILS

Any grievance or requests of the customer/ borrower can be brought to the knowledge of the Company through customer care. Our customer care toll free number is 1800 123 0071 and the email id is customercare@swarafincare.com

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