

NON – PERFORMING ASSET & PROVISIONING POLICY

KUSHAL FINNOVATION CAPITAL PRIVATE LIMITED

Version	Date	Reviewer	Approver	Document Changes
1.0	June 23, 2025	Finance Department	Board of Directors	Implementation of the Policy

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1. Introduction

In terms of "RBI Master Direction of "Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023," issued by the Reserve Bank of India (RBI) with Notification No. RBI/DOR/2023-24/45 dated May 19, 2023 and RBI Circular DOR.STR.REC.68/21.04.048/2021-22 dated November 12, 2021 "Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications."

The Provisioning Policy has been devised by KUSHAL FINNOVATION CAPITAL PRIVATE LIMITED with an aim to streamline the process for provisioning norms, the methodology and guidelines for classification and accounting of assets classification of assets and provision requirements, managing and recovering of Non- Performing Assets.

The guidelines inter alia, covered general principles on adequate disclosures on the terms and conditions of a loan and also adopting a non-coercive recovery method. The Company shall comply with the applicable guidelines issued by the Reserve Bank of India (RBI) as and when secured advances are disbursed, and this Policy shall be amended accordingly to ensure such compliance.

2. Provisioning Norms

The Company shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realization 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 for Loans, advances and other credit facilities –

Provisioning norms for KFCPL for Supply Chain Loans are as follows:

Classification	Features	Time period for classification	Provisioning requirements
Standard	No overdue and no defaults perceived	Current - N/A	0.25% of the outstanding portfolio
	SMA - 0	Principal or Interest or Both are overdue for <= 30 days	0.25% of the outstanding portfolio
	SMA - 1	Principal or Interest or Both are overdue for 31- 60 days	5% of the outstanding portfolio
	SMA - 2	Principal or Interest or Both are overdue for 61- 89 days	10% of the outstanding portfolio
NPA which are sub divided as Substandard	An asset which has been classified as non-performing asset for a period not exceeding 6 months	Principal or Interest or Both are overdue for 90 - 119 days	20% of the outstanding portfolio
		Principal or Interest or Both are overdue for 120 -149 days	20% of the outstanding portfolio
		Principal or Interest or Both are overdue for 150 -179 days	20% of the outstanding portfolio

	An asset which has been classified as non-performing asset for a period exceeding 6 Months up to 365 days.	Principal or Interest or Both are overdue for 180 -269 days	30% of the outstanding portfolio
		Principal or Interest or Both are overdue for 270 -365 days	40% of the outstanding portfolio
	An asset which remains a sub-standard asset for a period exceeding 365 days till 540 days	> 365 days till 540 days	50% of the outstanding portfolio
	An asset which remains a sub-standard asset for a period exceeding 540 days till 635 days	> 540 days till 635 days	100% of the outstanding portfolio
Doubtful	An asset which remains a sub-standard asset for a period exceeding 540 days	> 635 days	100% of the outstanding portfolio
Loss	An asset which remains a sub-standard asset for a period exceeding 720 days	> 720 days	100% of the outstanding portfolio to be written off.
	Identified as loss by management or Internal or Statutory auditor	Anytime as per circumstances	Entire amounts have to be fully provided for.

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

Income from NPA is not recognized on accrual basis but is treated as income on receipt basis. On NPA date accrued interest not received will be reversed and accounted 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:

- (i) 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;
- (ii) "sub-standard asset" shall mean:
an asset which has been classified as (a) non-performing asset for a period not exceeding 6 months; (b) 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 for unsecured loans.

- (iii) "doubtful asset" shall mean:
 - a. a term loan, or b. a lease asset, or c. a hire purchase asset, or d. any other asset, which remains a sub-standard asset for a period exceeding 9 months for secured or unsecured loans
- (iv) loss asset shall mean:
 - (a) an asset which has been identified as loss asset by the non-banking financial company or its internal or external auditor or by the Credit / Risk Management Committee, to the extent it is not written off by the applicable NBFC; and (b) 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.
- (v) Non-Performing Asset (referred to in these Directions mentioned above as "NPA") shall mean:
 - (a) an asset, in respect of which, interest has remained overdue for a period of three months or more; (b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of three months or more or on which interest amount remained overdue for a period of three months or more; (c) a demand or call loan, which remained overdue for a period of three months or more from the date of demand or call or on which interest amount remained overdue for a period of three months or more, an applicable NBFC shall classify each such account on the basis of its record of recovery.
 - (b) Where there are multiple facilities and one of the facilities is classified as NPA all other accounts would be classified as NPA at borrower level.
- (vi) Upgradation of NPA to standard assets.

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.

Annexure 2

Activities eligible for crop season linked asset classification norms

Farm Credit

A. Loans to individual farmers, directly engaged in Agriculture only. This will include:

- i. Crop loans to farmers, which will include traditional / non-traditional plantations and horticulture.
- ii. Medium and long-term loans to farmers for agriculture (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm.)
- iii. Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

B. Loans to corporate farmers, farmers' producer organizations / companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture. This will include:

- (i) Crop loans to farmers which will include traditional / non-traditional plantations and horticulture.
- (ii) Medium and long-term loans to farmers for agriculture (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm.)
- (iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

4. Provisioning and write off

On the basis of the guidelines of RBI as outlined above, provisioning requirements should be assessed depending on the financial status of an account. In the case of loss assets, proposals should be submitted to the Credit/Risk Management Committee for write off of cases upto 1 crore. Wherever the Credit/Risk Management Committee consider that there could still be a possibility for recovery, 100% provisioning must be done in such cases where period exceeding 365 days as and when received from the collection team.

Asset categorization and provisioning requirements should be reviewed on a half yearly basis and to be submitted to the Credit/Risk Management Committee for approval. Write off proposals can be taken up on a case-to-case basis. Write-off decisions shall be made following a review of the reasons for the write-off, along with a specific person to be responsible for the write-off.

5. NPA Recovery

On any kind of Recovery from NPA cases the amount of recovery will be first allotted to Principal Overdue, then Interest Overdue and then towards Penalty of any kind. In case of One Time Settlement the same will be allocated as per the Settlement norms decided between parties.

6. Restructured Accounts

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 would be classified as Sub-standard assets.