



Kerala State Industrial Development Corporation Limited

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**Consumer Education Literature on SMA and NPA
Classification**

1. Introduction

This document, in compliance with RBI Circular on 'Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications' Ref : RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22 dated November 12, 2021, is uploaded to facilitate the consumer to have awareness on the concept of overdue, SMA and NPA classification. The Consumer Education Literature with details / explanations on the concepts of SMA/NPA with clarifications and illustrative examples on due dates are furnished herewith

2. General Information

2.1 Dues: Indicate the principal/ interest/ any charges levied on the loan account which are payable within the period stipulated as per the terms of sanction of the credit facility

2.2 Overdue: Indicates the principal/ interest/ any other amount levied on the loan account which are due and payable but have not been paid within the period stipulated as per the terms of the credit facility agreed and accepted by the Corporation and the Customer (borrower). In other words, any amount due to the Corporation under any credit facility is 'overdue' if it is not paid on the due date and remains unpaid as per the agreed terms of the credit facility

2.3 Difference between Balance due and overdue

The "Balance Due" that appears on the Statement of Accounts refer to the total amount that is currently outstanding for the account, while the "Overdue Balance" refers to the balance that has not been paid within the specified agreed period.

2.4 Method of Appropriation of payments into the loan account

KSIDC adheres to Indian Accounting Standards for its financial reporting and accounting practices. Ind AS 115 requires revenue to be recognized when an entity transfers the control of goods or services to a customer at an amount to which the entity expects to be entitled. Regarding payments due and payable under the loan agreement, KSIDC follows a specific order of appropriation, as outlined below:

- i. Premium on pre-payment
- ii. Cost, charges, expenses and other monies
- iii. Interest including additional interest payable in terms of the loan agreement
- iv. Further interest and additional interest on defaulted amounts payable
- v. Repayment of instalments of principal due and payable under the loan agreement

2.5 NPA/SMA Classification will be Borrower wise and not facility wise.

All the facilities granted by the Corporation to a borrower and investment in all the securities issued by the borrower will be treated as NPA/NPI and not the particular facility/investment or part thereof which has become irregular.

3. Definitions

3.1. Special Mention Account (SMA) and Non-Performing Asset (NPA) Classification:

Special Mention Account (SMA) is an account which is exhibiting signs of incipient stress resulting in the borrower defaulting in timely servicing of his/her debt obligations, though the account has not yet been classified as NPA as per the extant RBI guidelines. Early recognition of such accounts will enable to initiate timely remedial actions to prevent their potential slippages to NPAs.

The Corporation will classify borrower's account(s) as SMA or NPA if the default subsists (as per timeline prescribed) at time of running the day-end process. The classification parameter as provided in RBI Circular is as under:-

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 30 days and upto 90 days

SMA classification of borrower account(s) is applicable to all loans irrespective of the size of exposure of the Company.

3.2. Non-performing Asset:

Non-Performing Asset (NPA) is a:-

- loan or advance where interest and/ or instalment of principal remains overdue for a period of more than 90 days,
- a term loan inclusive of unpaid interest, when the instalment is overdue for a period of 90 days or more or on which interest amount remained overdue for a period of 90 days or more;
- When the account is restructured. Restructuring is an act in which lending institutions grant a concession to the borrower under financial difficulty for economic or legal reasons. Restructuring may involve modification of terms of the advances/securities, which would generally include, among others, alteration of payment period/payable

amount/the amount of instalments/rate of interest, rollover of credit facilities, sanction of additional credit facility/release of additional funds for an account in default to aid curing of default/enhancement of existing credit limits, compromise settlements where time for payment of settlement amount exceeds three month

- Detection of fraud in the loan account.

3.3. Sub-Standard Asset:

“Sub-standard asset” shall mean: a loan account which has been classified as non-performing asset for a period not exceeding 12 months. (b) an asset / a loan account 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 RBI Directions.

3.4. Doubtful Asset:

Doubtful asset shall mean: loan, which remains a sub-standard asset for a period exceeding 12 months.

3.5 Loss Asset:

Loss asset shall mean: (a) an asset / a loan account which has been identified as loss asset by the Corporation or its internal or external auditor or by the Reserve Bank of India during the inspection of the Corporation, to the extent it is not written off by KSIDC; 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 customer / borrower.

Illustrative movement of a loan account to SMA category to NPA category based on delay / non- payment of dues and subsequent upgradation to Standard category at day end process is provided(the same loan account under various scenarios):

Example: If due date of a loan account is March 31, 2023, and full dues are not received before the lending institution runs the day-end process for this date, the date of overdue shall be March 31, 2023. If it continues to remain overdue, then this account shall get

tagged as SMA-1 upon running day-end process on April 30, 2023 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2023.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2023 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2023.

Please note that that the aforesaid few examples are illustrative and not exhaustive in nature covering common scenarios and that the IRACP norms and clarifications provided by RBI on the subjects referred above shall prevail.

In case of borrowers having more than one credit facility from KSIDC, the Loan Account shall be upgraded from NPA to Standard Asset only upon repayment of entire arrears of interest and principal pertaining to all credit facilities. With respect to upgradation of Loan Accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations, etc., the instructions as specified by RBI from time to time will be applicable

4. Asset Classification Process

4.1 Asset Classification will be a part of day end process: It is further clarified that borrower accounts will be flagged as overdue by the Company as part of 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 will be done as part of day-end process for the relevant date and the SMA or NPA classification date will 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.

4.2 Up gradation of accounts classified as NPAs:

Loan Account classified as NPA may be upgraded as 'Standard' Asset only if entire arrears on interest and principal are paid by the Borrower.

4.3 Impact to Borrower due to non-repayment of loan in time

Missed payments / default will be recorded on the credit report which could affect the credit score and make it harder for the party to access financial products in the future.

5. Reporting of Borrower's Account(s)

The details of the Borrower's Account(s) along with the status i.e., Standard, SMA-0, SMA-1, SMA-2, NPA, etc.; shall be reported by the Corporation to Credit Information Companies

(CICs), Information Utility (IU), Central Repository of Information on Large Credits (CRILC) and such other Authorities, as may be required under RBI Directions and other prevailing laws applicable to the Company.

6. Disclaimer:

Please note that that the aforesaid examples are shown to cover common scenarios of SMA/NPA classification and that of the IRACP norms. The examples are only illustrative and not exhaustive in nature and clarifications provided by RBI on the subjects referred above shall prevail. The asset / SMA classification norms are subject to changes as per regulatory guidelines issued from time to time.