

POLICY ON RESOLUTION OF STRESSED ASSETS

(For Base Layer NBFC – Investment and Credit Company)

1. Preamble

This Policy is framed pursuant to:

- RBI Master Direction – NBFC Scale Based Regulation (SBR) Directions*, 2023 (as amended up to 2025)*
- Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025
- *Prudential Framework for Resolution of Stressed Assets (issued vide circular dated June 7, 2019, as amended)*
- RBI (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025
- Prudential Norms governing Restructuring of Advances
- *The Companies Act, 2013 (specifically Sections 62, 177, 179, and 247)*
- *The Insolvency and Bankruptcy Code (IBC), 2016 (where applicable)*
- Relevant circulars issued by RBI from time to time

This Policy governs the *early identification of stress, creation of Resolution Plans (RP), restructuring, resolution, asset classification, provisioning, and monitoring of stressed advances of the Company.*

2. Objective

The objectives of this Policy are:

1. To ensure structured and time-bound resolution of stressed assets.
2. To preserve *the economic value of viable business units and maximize recovery.*
3. To prevent evergreening of weak credit facilities *and ensure transparent reporting.*
4. To ensure regulatory compliance with RBI prudential norms *and the Companies Act, 2013.*
5. To strengthen credit monitoring and risk mitigation mechanisms.
6. *To facilitate early identification of stress through Special Mention Account (SMA) categorization.*

3. Applicability

This Policy applies to:

- All credit facilities (“advances”) extended by the Company*, whether solely or under a multiple banking/consortium arrangement*.
- Standard, Sub-standard and Doubtful accounts eligible for restructuring.

- Conversion of principal or interest into debt/equity instruments.
- Funding of unpaid interest (FITL).
- *Specialized frameworks applicable to MSME borrowers as per RBI guidelines.*
- For NBFC-Factors, additional applicable regulatory provisions shall apply mutatis mutandis.

4. Definitions

4.1 Advances

All credit facilities including:

- Term Loans
- Bills discounted/purchased
- Factored receivables
- Investments (excluding equity investments)

4.2 Fully Secured

An advance is fully secured when *the* present value of dues (principal + interest under restructured terms) is fully covered by:

- Tangible primary security
- Tangible collateral security
- Bank guarantees
- State/Central Government guarantees

Personal or corporate guarantees are not treated as tangible security except where promoters are corporate bodies.

4.3 Restructured Account

An account where concessions are granted due to *the* borrower's financial difficulty, including:

- Reduction in interest rate
- Extension of tenor
- Alteration of repayment schedule
- Conversion of debt
- Moratorium

4.4 Repeatedly Restructured Account

An account restructured more than once, except where *the* second restructuring occurs after *the* expiry of concessions under *the* first restructuring.

4.5 Specified Period

One year from *the* commencement of *the* first repayment (principal or interest, whichever is later) under *the* restructuring terms.

4.6 Satisfactory Performance

No overdue beyond *the* NPA threshold during *the* specified period and no overdue at its end.

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- **4.7 Special Mention Accounts (SMA)**

Before a loan account turns into a Non-Performing Asset (NPA), it shall be identified as an SMA:

- *SMA-0: Principal or interest payment wholly or partly overdue for 1-30 days.*
- *SMA-1: Principal or interest payment wholly or partly overdue for 31-60 days.*
- *SMA-2: Principal or interest payment wholly or partly overdue for 61-90 days.*

5. General principles of restructuring

5.1 Eligibility

The Company may restructure:

- Standard Assets
- Sub-standard Assets
- Doubtful Assets

Restructuring of loss assets shall not ordinarily be undertaken *and requires specific Board approval.*

5.2 Stages of Restructuring

Restructuring may occur:

1. Before commercial operations commence
2. After commencement but before classification as sub-standard
3. After classification as sub-standard or doubtful

5.3 Restrictions

- No retrospective restructuring *shall be permitted.*
- Asset classification norms continue during *the consideration of the Resolution Plan (RP).*
- Reclassification shall not be suspended pending *a restructuring decision.*
- Undue delay in sanctioning restructuring may attract supervisory concern.

· In consortium/multiple-lending cases, the Company shall adhere to the Inter-Creditor Agreement (ICA) if executed.

6. Viability assessment framework

Restructuring shall not be undertaken unless:

- Financial viability is established.
- Reasonable certainty of repayment exists.
- Detailed cash flow analysis is conducted.
- Techno-Economic Viability (TEV) study is carried out (where required).

· For large exposures exceeding RBI-stipulated thresholds, an Independent Credit Evaluation (ICE) is obtained from RBI-authorized credit rating agencies.

Restructuring without viability assessment shall be treated as evergreening.

6.1 Viability Benchmarks

The following broad benchmarks shall apply (sectoral modifications permitted):

1. ROCE \geq 5-year G-Sec yield + 2%
2. DSCR $>$ 1.25 within 5 years; yearly DSCR $>$ 1
3. IRR – Cost of Capital Gap \geq 1%
4. Loan Life Ratio (LLR) \geq 1.4
5. EBITDA trends aligned with industry norms
6. Operating & cash break-even aligned with projections

7. Conditions precedent for restructuring

Before implementation:

- Formal borrower consent *is* required.
- Promoters' personal guarantee *is* mandatory.
- Promoter contribution *is* mandatory.
- Right to recompense clause *shall be* incorporated.
- Implementation within 120 days *from the end of the Review Period, or as stipulated by RBI.*

7.1 Promoter Contribution

Minimum of:

- 20% of NBFC sacrifice OR
- 2% of restructured debt

Whichever is higher.

Contribution shall be brought upfront.

It may be in the form of:

- Cash
- Conversion of unsecured loans into equity

8. Right to recompense

All restructuring packages shall include:

- Creditor's right to recompense
- Minimum 75% recovery of recompense
- 100% recovery if *the concession is below the bare lending rate*

9. Conversion of debt

9.1 Conversion into Equity

- *Such conversion must comply with Section 62(3) of the Companies Act, 2013, requiring a prior special resolution if the conversion option was not present in the original loan agreement.*
- Permitted only for listed companies (*or unlisted companies subject to strict valuation norms*)
- Cap at 10% of restructured debt
- Subject to SEBI regulations

9.2 Conversion into Preference Shares

- Only as a last resort
- Subject to valuation norms *by a Registered Valuer appointed under Section 247 of the Companies Act, 2013.*

10. Asset classification norms

10.1 Standard Accounts

Immediately downgraded to Sub-standard upon restructuring.

10.2 NPA Accounts

Retain same classification post restructuring.

10.3 Upgradation

Allowed only after satisfactory performance during *the* specified period.

Repeated restructuring attracts stricter classification *and provisioning norms*.

11. Income recognition

- *Income recognition shall strictly follow the accrual/cash basis as per the applicable Accounting Standards (Ind AS 109, if applicable) and RBI directions.*
- Standard restructured accounts → Accrual basis
- NPA restructured accounts → Cash basis
- Additional finance:
- Treated as standard during *the* specified period
- Interest recognised on *a* cash basis if *the* pre-restructuring account was NPA

12. Provisioning norms

Provision shall include:

1. Normal prudential provisioning (as per asset classification *or Expected Credit Loss (ECL) model under Ind AS 109, whichever is higher*).
2. Additional provision for diminution in fair value.

Total provisioning capped at 100% of outstanding.

13. Diminution in fair value

Restructuring typically causes NPV loss.

13.1 Computation

Diminution = NPV before restructuring – NPV after restructuring

Discount rate = Bare lending rate applicable to *the* borrower.

Provision shall be debited to P&L and maintained separately.

13.2 Recalculation

Recomputed at each balance sheet date until full repayment.

If computation infrastructure *is* unavailable:

- Option to provide 5% of exposure (if dues < ₹1 crore).

14. Conversion into debt / equity instruments

- Classified *the same as the* restructured advance.
- Held under “Current Investments”.

- Valuation:
 - o Quoted equity → Market value
 - o Unquoted equity → Break-up value (*certified by an independent Registered Valuer*)
 - o If unavailable → ₹1

Depreciation *is not* offset against appreciation elsewhere.

15. Funding of unpaid interest (FITL)

- Classified *the same as the* restructured advance.
- Unrealised interest credited to: “Sundry Liabilities Account (Interest Capitalisation)”
- Income recognised only on actual receipt.

16. SPECIAL MEASURES – TRADE RELIEF & MSMEs

Where permitted under RBI Trade Relief Directions *or specific MSME restructuring frameworks*:

- Relief measures may be extended to eligible borrowers.
- Sunset clause must be adhered to.
- Separate monitoring and disclosure required.

17. Governance framework

17.1 Board Responsibilities

· Approve *and annually review the* restructuring policy (*Section 179 of the Companies Act, 2013*).

- Monitor restructuring trends.
- Review sacrifice levels.
- Ensure no evergreening *takes place*.

17.2 Credit Committee Responsibilities

- Approve restructuring proposals.
- Evaluate TEV and viability.
- Ensure promoter contribution compliance.

17.3 Risk & Compliance (*Audit Committee*)

• *The Audit Committee (under Section 177 of the Companies Act, 2013, if applicable) or the Risk Management Committee shall:*

- Validate NPV calculations.
- Monitor specified period performance.
- Ensure regulatory compliance.

18. Monitoring during specified period

During *the* specified period:

1. Monthly performance review.
2. Strict overdue tracking.
3. Escalation of early warning signals.
4. Reversal of upgradation if conditions *are* not met.

19. Internal controls and reporting

The Company shall ensure:

- Maker-checker system for NPV computation.
- Independent validation of sacrifice.
- Documentation of TEV assumptions.
- Audit review of restructuring cases.
- MIS reporting to *the* Board quarterly.
- *Timely reporting of stressed accounts (SMA/NPA) to Credit Information Companies (CICs), and Information Utilities (like NeSL) as mandated by the IBC, 2016 and RBI.*

20. Objective of restructuring

The fundamental objective is:

Revival of viable units and preservation of economic value, not postponement of recognition of stress.

21. Policy review

- Annual review mandatory.
- Immediate amendment upon RBI regulatory change *or amendments to the Companies Act/IBC.*
- Board approval required for revisions.

22. Effective DATE

This **POLICY ON RESOLUTION OF STRESSED ASSETS** has been approved by the Board of Directors of THIRUKOCHI FINCAP PRIVATE LIMITED at its meeting held on 12/03/2026.

Effective Date: 12/03/2026.