

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 LIMITED at its meeting held on 12/03/2026.

Effective Date: 12/03/2026.

Version:1

