

DSP FINANCE PRIVATE LIMITED
(Formerly known as DSP Investment Managers Private Limited)

Customer Awareness on Classification as SMA and NPA

Pursuant to **Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications dated November 12, 2021 (“IRACP Clarification”)** and **Master Direction issued by RBI for Non-Bank Finance Company – Scale Based Regulations (“SBR MD Circular”)**, with a view to increasing awareness among the borrowers, DSP Finance is issuing this note on its websites, to explain with examples, the concepts of dues, overdue, Special Mention Accounts (SMA) and Non-Performing Assets (NPA) classification and upgradation, with specific reference to day-end process.

- **Dues** - means, 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.
- **Overdue** - Any amount due to DSP Finance under any credit facility is ‘overdue’ if it is not paid on the due date fixed by DSP Finance.

The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. shall be clearly specified in the loan agreement and the borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/loan agreement till full repayment of the loan. In cases of loan facilities with moratorium on payment of principal and/or interest, the exact date of commencement of repayment shall also be specified in the loan agreements. In case of existing loans, compliance to these instructions shall necessarily be ensured as and when such loans become due for renewal/review.

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

DSP Finance will recognize incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA). In order to remove any ambiguity, it is clarified that the intervals are intended to be continuous and accordingly, the basis for classification of SMA categories shall be as follows:

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 60 days and upto 90 days

The above instructions on SMA classification of borrower accounts are to all loans, including retail loans, irrespective of size of exposure of the lending institution.

- **Non-Performing Asset (NPA):**

NPA is a loan or an advance where interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan

The borrower accounts shall be flagged as overdue by the lending institutions as part of their 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 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. 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.

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Example:

- *If due date of a loan account is June 30, 2024, and full dues are not received before the DSP Finance runs the day-end process for this date, the date of overdue shall be June 30, 2024.*
- *If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on July 30, 2024 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be July 30, 2024.*
- *If the account further continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on Aug 30, 2024 i.e. upon completion of 60 days of being continuously overdue.*
- *If it still continues to remain overdue, it shall get classified as NPA upon running day-end process on September 29, 2024. i.e. upon completion of 90 days of being continuously overdue.*

● **Upgradation of accounts classified as NPAs**

The loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.