

GALADA FINANCE LIMITED

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' DOR.STR. REC.13/13.03.00/2024-25 dated April 15, 2024, 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

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

Overdue:

The demand out of the loan amount which customer fails to repay on time is known as the Loan Overdue Amount, i.e., the Loan Overdue Amount is the amount left unpaid even after the due date of payment.

In other words, any amount due to the COMPANY under any credit facility is 'overdue' if it is not paid on the due date fixed by the COMPANY.

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.

Method of Appropriation of payments into the loan account

The application of 'First in First Out'(FIFO) is in place for appropriation of payments into the borrower account. The Principle of FIFO i.e., 'First In First Out' accounting method is applied to arrive at the number of days of overdue for determining the SMA/NPA classification. In FIFO method, the oldest outstanding dues in the loan account will be cleared first. The FIFO method thus requires that what is due first must be paid by the borrower first.

For example: If in any loan account with 05.01.2025 as due date and as on 01.01.2025 there are no overdues and an amount of (Rs. A) is due for payment towards principal instalment/interest any payment being credited on or after 01.01.2025 in the loan account will be appropriated towards the dues outstanding on 05.01.2025. If nothing is paid/or there is partial payment (Rs. B) of dues on / 01.01.2025, the overdue as on 01.02.2025 will be Rs. A-B.

Additionally, an amount of Rs C becomes due as on 05.02.2025. Now any payment/partial payment into the account on or after 01.02.2025 will be first utilized to pay off the partial due of 05.01.2025(A-B). If there is more recovery than A-B then after recovering dues of 05.01.2025, the remaining amount will be treated as recovery towards due of 05.02.2025.

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

All the facilities granted by the COMPANY 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

Special Mention Account (SMA)

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 COMPANYs to initiate timely remedial actions to prevent their potential slippages to NPAs.

An account/ facility would be classified as a Special Mention Account (SMA) category if the amount due and payable to COMPANY is not paid by borrower on due date. Basis ageing of overdues, the COMPANY reports the borrowers under following categories of SMA

Loans facilities	
SMA Sub-categories	Basis for classification Principal or interest payment or any other amount wholly or partly overdue
SMA-0	1to 30 days
SMA-1	More than 30 days and up to 60days
SMA-2	More than 60days and up to 90 days

Non-Performing Asset:

A non performing asset (NPA) is a loan or an advance where;

- i. Interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan.
- ii. 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, roll over 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 months.

4. Asset Classification Process

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.

Example:

If due date of a loan account is March 31, 2025, and full dues are not received before the COMPANY runs the day-end process for this date, the date of overdue shall be March 31, 2025. If it continues to remain overdue, then this account will be tagged as SMA-1 upon running day-end process on April 30, 2025 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account will be from May 1, 2025 to May 30, 2025.

Similarly, if the account continues to remain overdue, it will be tagged as SMA-2 upon running day-end process on Jun 30, 2025 and if continues to remain overdue further, it will be classified as NPA upon running day-end process on June 30, 2025.

Example for SMA/NPA status

Loan facilities Scenario 1: All dues are paid

Date	Due	Amount Credited	Overdue	DPD	Status	Remarks
31.03.2025	100.00	100.00	0.00	0	Standard/Regular	No Overdue

Scenario 2: No due is paid

Date	Due	Amount Credited	Total Due	DPD	Status	Remarks
31.03.2025	100.00	0.00	100.00	1	SMA-0	Overdue
30.04.2025	110.00	0.00	210.00	31	SMA-1	Overdue
30.05.2025	115.00	0.00	325.00	62	SMA-2	Overdue
30.06.2025	0.00	0.00	325.00	90	NPA	Overdue

Scenario 3: Payment of Partial Dues

Date	Due	Amount Credited	Total Due	DPD	Status	Remarks
30.03.2025	100.00	0.00	100.00	1	SMA-0	Overdue
29.04.2025	0.00	80.00	20.00	30	SMA-1	Overdue
30.04.2025	110.00	0.00	130.00	31	SMA-1	Overdue
15.05.2025	0.00	100.00	30.00	16	SMA-0	Overdue
29.05.2025	0.00	0.00	30.00	30	SMA-1	Overdue

Upgradation of accounts classified as NPAs:

The loan accounts classified as NPAs will 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 continue to be applicable.

Impact to Borrower due to Non-repayment of loan in time

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

5. 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. In case of any clarifications or assistance, please reach us at our customer care numbers or contact the Company.

For detailed guidelines on asset classification and provisioning, please refer to RBI's Master Direction- Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023.

The asset / SMA classification norms are subject to changes as per regulatory guidelines issued from time to time.