

SMA and NPA classification with specific reference to day end process.

Pursuant to the Reserve Bank of India (RBI) guidelines on “Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications” as notified vide circulars dated November 12, 2021 and February 15, 2022, the RBI has clarified the concepts of Overdue dates and Special Mention Account (SMA) / Non Performing Asset (NPA) classification and upgradation of accounts, as mentioned below, to ensure uniformity across all lending institutions.

Due date/repayment date

It is the date on which the instalment comprising of principal / interest billed on the loan account are payable as mentioned in sanction terms/loan agreement.

Overdue (default) accounts

An account shall be in default when principal / arrears of interest is not paid in full as seen on the respective due date mentioned in sanction terms/loan agreement, such account shall be specified as overdue loan account. The Company shall flag the Loan account as overdue as part of the day-end processes for the due date, irrespective of the time of running such processes.

Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

An overdue loan account shall be classified as SMA (Special Mention Account) or NPA (Non-Performing Asset) as per RBI regulations as notified vide circular dated November 12, 2021 and February 15, 2022 read with the NPA recognition framework defined under the Scale Based Regulation (SBR) framework for NBFCs vide circular dated October 22, 2021.

Classification as Special Mention Account (SMA)

The Company shall recognise incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA). The basis for classification of SMA categories shall be as follows:

Loans other than revolving facilities	
SMA Sub-categories	Basis for classification – Principal or interest payment 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 180 days*

The loan account shall be classified as Non-Performing Asset (NPA) when Principal or interest payment remains overdue for a period of more than 180 days*.

Example:

If due date of a loan account is March 31, 2021, 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, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 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, 2021.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on September 27, 2021*.

*NPA recognition norm will change to 150 days, then to 120 days and finally to 90 days in accordance with RBI circular on Scale Based Regulation dated October 22, 2021

Upgradation of Accounts classified as Non-Performing Asset (NPA):

(to be implemented w.e.f 1st October 2022)

The loan account classified as NPA can be upgraded as “Standard” only if the entire arrears of interest and principal are paid in full and there is NIL arrears upon running day end process of that calendar date. In case of borrowers having more than one credit facility, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.

For detailed guidelines on asset classification and provisioning, please refer to the RBI Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 as amended.