



ABANS FINANCE PRIVATE LIMITED

POLICY ON TREATMENT OF WILFUL DEFAULTER

<u>Adoption/Amended</u>	<u>Authority</u>	<u>Date</u>
<u>Adoption</u>	<u>Board of Directors</u>	January 29, 2025

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1. POLICY STATEMENT AND PURPOSE

1.1 **Abans Finance Private Limited ('AFPL' or 'the Company')** is a Material Subsidiary of Abans Holdings Limited. Since March 31, 2024, it has been categorized as a Middle Layer NBFC (NBFC – ML), pursuant to the scale-based regulation put forth by the Reserve Bank of India (RBI. This policy is made in accordance with “ Master Direction on Treatment of Wilful Defaulters and Large Defaulters”.

1.2 The purpose of this policy is to implement a structured and systematic approach for the identification, classification, management, and reporting of wilful and large defaulters within the Company. This approach fosters transparency, accountability, and regulatory compliance, thereby strengthening risk management practices and supporting the financial stability of the Company. Specific objectives include:

- a. To identify and categorize defaulters in accordance with RBI guidelines.
- b. To implement a fair and transparent mechanism for classifying and managing wilful defaulters.
- c. To establish legal and financial repercussions for identified wilful defaulters.
- d. To formulate a non-discriminatory policy that clearly sets out the criteria based on which photographs of people classified and declared as wilful defaulter shall be published.
- e. To take preventive measures to minimize defaults and ensure the end-use of funds.
- f. To ensure regular reporting to RBI-authorized Credit Information Companies (CICs).

2. SCOPE

2.1 This policy applies to all departments and employees of the Company involved in the credit management process. It includes:

- Definitions and criteria for identifying wilful and large defaulters in accordance with RBI guidelines.
- Procedures for the identification, classification, and management of defaulters.
- Mechanisms for fair and transparent classification and management of wilful defaulters.
- Preventive measures to minimize defaults and ensure the proper end-use of funds.
- Legal and financial repercussions for identified wilful defaulters.
- Board governance and oversight to ensure adherence to this policy.

2.2 Definitions

All the terms and expressions used herein and not defined below shall draw inference from the Companies Act, 2013 and/or RBI regulations as issued from time to time.

- a) “ **Borrower**” means one who has availed credit facility from a lender.
- b) “ **Credit Facility** ” means any fund based or non-fund-based facility, including off-balance sheet items like derivatives, guarantees and letters of credit, which a lender has extended to the borrower.

- c) “**Credit Information Company**” (CIC) means a company that has been granted certificate of registration under Section 5 of the Credit Information Companies (Regulation) Act, 2005.
- d) “**Director**” means the director of a company which was classified as a large defaulter/ wilful defaulter and who was associated with the Company at the time when the acts of omission or commission by the Company/ its directors led to the default.
- e) “**Diversion of Funds**” means and includes the under- noted occurrences:
- (i) utilisation of short-term working capital funds for long-term purposes not in conformity with the terms of sanction of credit facility;
 - (ii) deploying funds availed using credit facility for the creation of assets other than those for which the credit was sanctioned;
 - (iii) transferring funds availed using credit facility to the subsidiaries/group companies or other entities, by whatever modality, without approval of the lender/ all the lenders in the consortium;
 - (iv) routing of funds through any lender other than the lender or members of consortium without prior written permission of the lender or all the lenders of consortium;
 - (v) investing funds availed using credit facility in other companies/entities by way of acquiring equities/debt instruments without the approval of lender or all the lenders of consortium; and
 - (vi) shortfall in the deployment of funds vis-à-vis the amounts disbursed/ drawn under the credit facility and the difference not being accounted for.
- f) “**Identification Committee**” means;
- In case of NBFCs, an officer not more than one rank below the MD/ CEO as chairperson and two senior officials, not more than two ranks below the chairperson of the committee, as members.
- g) “**Large Defaulter**” means:
- A defaulter with an outstanding amount of ₹1 crore and above, and –
- (i) where suit has been filed; or
 - (ii) whose account has been classified as doubtful or loss (in accordance with the instructions issued by the Reserve Bank from time to time)
- h) “**Lender**” means an AIFI, a bank, or NBFC which has granted a credit facility to the borrower.
- i) “**Review Committee**” means the committee constituted by a lender for the purpose of reviewing the proposal of the Identification Committee and shall comprise of
- In case of NBFCs, the MD/ CEO as chairperson with two independent directors or non-executive directors or equivalent officials serving as members.
- j) “**Siphoning of Funds**” shall be construed to have occurred if any funds availed using credit facility from lenders are utilised for purposes unrelated to the operations of the borrower.

k) **“Wilful defaulter”** means

(i) a borrower or a guarantor who has committed wilful default and the outstanding amount is ₹25 lakh and above, or as may be notified by Reserve Bank of India from time to time, and

(ii) where the borrower or a guarantor committing the wilful default is a company, its promoters and the director (s)*. In case of entity (other than companies), persons who are in charge and responsible for the management of the affairs of the entity.

***Note:**

A director other than whole-time director, including an independent director/ nominee director, shall not be considered as wilful defaulter unless it is conclusively established that:

- (i) The wilful default by the borrower or the guarantor has taken place with their consent or connivance or
- (ii) he/ she was aware of the fact of wilful default by the borrower or the guarantor, as revealed from the proceedings recorded in the minutes of the meeting of the Board or a Committee of the Board, but has not recorded his/ her objections to the same.

l) “Wilful Default”:

(i) by a borrower shall be deemed to have occurred when the borrower defaults in meeting payment/ repayment obligations to the lender and any one or more of the following features are noticed:

- (A) the borrower has the capacity to honour the said obligations.
- (B) the borrower has diverted the funds availed under the credit facility from lender.
- (C) the borrower has siphoned off the funds availed under the credit facility from lender;
- (D) the borrower has disposed of immovable or movable assets provided for the purpose of securing the credit facility without the approval of the lender.
- (E) The borrower or the promoter has failed in its commitment to the lender to infuse equity despite having the ability to infuse the equity, although the lender has provided loans or certain concessions to the borrower based on this commitment and other covenants and conditions.

(ii) by a guarantor shall be deemed to have occurred if the guarantor does not honour the guarantee when invoked by the lender, despite having sufficient means to make payment of the dues or has disposed of immovable or movable assets provided for the purpose of securing the credit facility, without the approval of the lender or has failed in commitment to the lender to infuse equity despite having the ability to infuse the equity, although the lender has provided loans or certain concessions to the borrower based on this commitment.

3. TREATMENT OF WILFUL DEFAULTERS

3.1 Mechanism for Identification and Classification of Wilful Defaulters

It is the company's responsibility to identify and classify individuals or entities as 'wilful defaulters' by adhering to the outlined procedures. The identification process considers the borrower's track record and ensures that the default is intentional, deliberate, and calculated, meeting the conditions of "Wilful Default."

1. Evidence Scrutiny:

- An Identification Committee will scrutinize the evidence of wilful default.
- If satisfied, the committee will issue a show-cause notice to the borrower/guarantor/promoter/director/persons responsible for the management, calling for submissions within 21 days. All materials and information on which the notice is based will be disclosed.

2. Proposal to Review Committee:

- After considering the submissions, if the Identification Committee is satisfied, it will propose the classification as a wilful defaulter to the Review Committee, providing written reasons.
- The concerned parties will be advised of the proposal and given reasons.

3. Opportunity for Representation:

- The concerned parties will have 15 days to make a written representation to the Review Committee.
- The Review Committee will consider the proposal and the written representation, providing an opportunity for a personal hearing. If not availed, the committee will assess the facts and take a decision.

4. Final Decision:

- The Review Committee will pass a reasoned order, which will be communicated to the wilful defaulter.
- If the Identification Committee concludes that the parties do not qualify as wilful defaulters, the case need not be referred to the Review Committee.

5. Guidelines and Notices:

- We will formulate guidelines, based on board-approved policy, designating the rank of the official who will issue the show-cause notice and serve written orders on behalf of the committees.
- The notices and orders will clearly state the approval of the competent authority and identify its members.

6. Directors' Classification:

- A director other than a whole-time director, including an independent or nominee director, will not be considered a wilful defaulter unless it is conclusively established that the default occurred with their consent or they were aware of it and did not object.

7. Reporting:

- The name of a non-whole-time director/independent director/nominee director classified as a wilful defaulter will be reported, indicating their status.

Review of Accounts for Identification of Wilful Default

1. Examination of NPAs:

- We will examine the 'wilful default' aspect in all Non-Performing Assets (NPA) accounts with an outstanding amount of ₹25 lakh and above or as notified by the Reserve Bank of India.
- If wilful default is observed, we will complete the classification process within six months of the account being classified as an NPA.

2. Periodic Re-examination:

In accounts where wilful default was not initially observed, we will re-examine the aspects periodically as per the board-approved

The below diagram illustrates the classification of Wilful Defaulter.

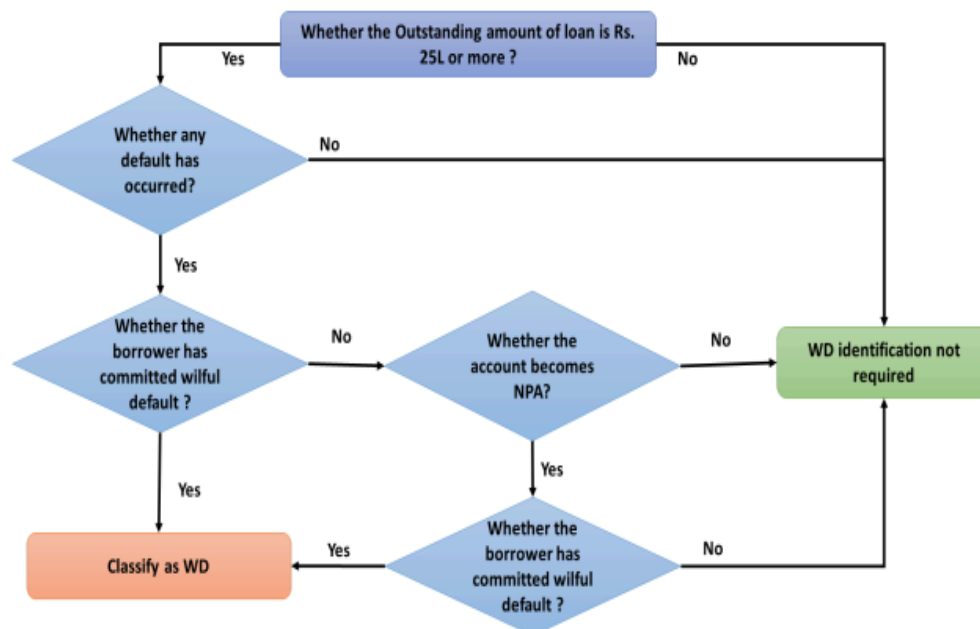


Fig 1: Classification of Wilful Defaulter (WD)

4. SPECIFIC MEASURES AGAINST WILFUL DEFAULTERS

Initiation of Criminal Proceedings We will examine the facts and circumstances of each case to determine whether initiating criminal proceedings against wilful defaulters under applicable law is warranted. If criminal proceedings are initiated, the removal of the wilful defaulter's name from the List of Wilful Defaulters (LWD) will not affect the continuation of these proceedings.

4.2 Publishing Photographs of Wilful Defaulters We will formulate a non-discriminatory, board-approved policy that clearly sets out the criteria for publishing photographs of individuals classified and declared as wilful defaulters.

4.3 Penal and Other Measures (a) The following penal measures will be implemented:

- **No Additional Credit:** No additional credit facility will be granted to a wilful defaulter or any associated entity.
- **Credit Bar Duration:** The bar on additional credit facilities will be effective for one year after the wilful defaulter's name is removed from the LWD.
- **New Ventures:** No credit facility will be granted for floating new ventures for five years after the wilful defaulter's name is removed from the LWD.
- **Restructuring Ineligibility:** Wilful defaulters or associated entities will not be eligible for restructuring of credit facilities. After removal from the LWD, they may be eligible for restructuring, subject to specific conditions.

Explanation:

- If the wilful defaulter is a company, any other company will be deemed associated if it is a subsidiary, joint venture, or associate company as defined under the Companies Act, 2013.
- If the wilful defaulter is a natural person, all entities in which they are associated as promoter, director, or responsible for management will be deemed associated.
- Penal provisions will cease to apply to associated entities when they are no longer associated with the wilful defaulters.
- In cases where existing promoters are replaced by new promoters, and the borrower company is delinked from erstwhile promoters/management, restructuring may be considered based on viability, without prejudice to criminal proceedings against the erstwhile promoters/management.

(b) Incorporation of Covenant:

- We will incorporate a covenant in the credit facility agreement that the borrower shall not induct a person whose name appears in the LWD on its board or as a person responsible for management.
- If such a person is found, the borrower must take expeditious steps for their removal.
- No renewal, enhancement, or provision of fresh credit facilities or restructuring will be allowed while the name of the promoter/director/person responsible for management remains in the LWD.

4.4 Initiation of Legal Action We will initiate legal action against borrowers/guarantors for foreclosure/recovery of dues expeditiously.

4.5 Provision for a Transparent Mechanism We will establish a transparent mechanism for the entire process of identifying wilful defaulters to ensure fair application of penal provisions and eliminate discretion.

4.6 Role of Internal Audit Internal auditors will specifically review adherence to instructions for classifying a borrower as a wilful defaulter. The Audit Committee will periodically review cases of wilful default, recommend steps to prevent such occurrences, and ensure early detection. The review will focus on identifying root causes and addressing deficiencies in the classification process.

4.7 Liability of a Guarantor

(1) As per Section 128 of the Indian Contract Act, 1872, the liability of the guarantor is coextensive with that of the principal debtor unless otherwise provided by the contract.

(2) When a default occurs in payment/repayment by the principal debtor, the Company can proceed against the guarantor.

5. PREVENTIVE AND MONITORING MEASURES

5.1 Credit Appraisal:

It is essential to conduct a thorough credit appraisal to ensure the integrity and reliability of our borrowers. Our credit appraisal process includes the following steps:

1. Verification of Directors and Guarantors:

- We verify whether the names of any directors, guarantors, or persons in charge of managing the entity appear on the list of large defaulters or LWD (Large Wilful Defaulters).
- This verification is done by referencing their Director Identification Number (DIN), Permanent Account Number (PAN), or other relevant identifiers.

2. Independent Confirmation of Identity:

- In cases where there is doubt due to identical names, we do not rely solely on declarations from the borrowing company.
- Instead, we use independent sources to confirm the identity of the directors and other key individuals involved in the management of the entity.

By implementing these measures, we ensure that our credit appraisal process is robust and reliable, thereby minimizing the risk of lending to defaulters and maintaining the integrity of our loan portfolio.

5.2 Monitoring the End-Use of Funds:

For the company it is crucial to closely monitor the end-use of funds to ensure they are utilized for their intended purposes. This involves obtaining certifications from borrowers confirming the proper use of funds. In cases where borrowers provide incorrect certifications, we must consider initiating appropriate legal proceedings, including criminal actions if necessary.

Loan Policy Document Requirements

Our loan policy document must include requirements and measures to ensure the end-use of funds. These measures include:

1. **Scrutiny of Financial Reports:** Conducting meaningful scrutiny of quarterly progress reports, operating statements, and balance sheets of borrowers.
2. **Inspection of Assets:** Regularly inspecting the assets charged to us as security.
3. **Scrutiny of Accounts:** Periodically scrutinizing borrowers' books of accounts and 'no-lien' accounts maintained with other lenders.
4. **Site Visits:** Conducting periodic visits to the assisted units.
5. **Stock Audits:** Implementing a system of periodic stock audits, especially in cases of working capital finance.
6. **Management Audits:** Performing periodic comprehensive management audits of our credit function to identify systemic weaknesses in credit administration.

Project Financing

In cases of project financing, we must ensure the end-use of funds by obtaining certifications from Chartered Accountants. However, we should not solely rely on these certifications. It is essential to strengthen our credit risk management system and internal controls to enhance the quality of our loan portfolio. Additionally, for short-term corporate or clean loans, we must conduct due diligence and limit such loans to borrowers with proven integrity and reliability.

5.3 Role of Internal and Statutory Auditors:

5.3.1 Addressing Falsification of Accounts

If the company observes any falsification of accounts by borrowers and find auditors negligent or deficient in their audit, we will consider lodging a formal complaint against the statutory auditors with the National Financial Reporting Authority (NFRA) or the Institute of Chartered Accountants of India (ICAI) to ensure accountability.

5.3.2 Reporting to Authorities

Pending disciplinary action by NFRA or ICAI, we will forward complaints to the Reserve Bank (Department of Supervision, Central Office) and the Indian Banks' Association (IBA). Before reporting, we will ensure the involvement of the concerned auditors and provide them an opportunity to be heard, following normal procedures and recording the process.

5.3.3 Caution List of Auditors

Based on information from lenders, the IBA will prepare a caution list of such auditors for circulation among companies, which we must consider before assigning any work to them.

5.3.4 Certification for End-Use of Funds

To monitor the end-use of funds, if we require specific certification from borrowers' auditors regarding diversion or siphoning of funds, we will award a separate mandate to the auditors. We will ensure appropriate covenants in loan agreements to facilitate this mandate.

5.3.5 Engaging Own Auditors

To prevent diversion or siphoning of funds, we are free to engage our own auditors for specific certification without relying solely on the borrowers' auditors.

5.3.6 Forensic Audits

Depending on the nature of the borrowers' acts and the quality of evidence, we will consider commissioning a forensic audit of the borrowers' affairs and books of accounts for accounts with outstanding amounts above a threshold set by our board-approved policy.

6.RESponsibility For Correct Reporting

6.1 Ensuring Accuracy

The Company is responsible for reporting correct information and ensuring the accuracy of facts and figures.

6.2 Cross-Checking Information

While furnishing information to Credit Information Companies (CICs), we will ensure the accuracy of directors' particulars, cross-checking with the Registrar of Companies' database wherever possible.

7.REPORTING OF GUARANTORS

7.1 Reporting Defaults

The Company report to CICs the details of guarantors who have failed to honor commitments when invoked, classifying them as large defaulters or wilful defaulters as applicable, following the format in Annex I and II.

8.Reporting of Directors

8.1 Reporting Director Details

For business enterprises registered under the Companies Act, 2013, we will report the full names of directors in the Director column of Annex I and II to facilitate better identification, subject to the provisions of these directions.

8.2 Including Director Identification Number (DIN)

To ensure correct identification of directors and avoid wrongful denial of credit facilities due to similar names, we will include the Director Identification Number (DIN) in the data submitted to CICs.

9. POLICY REVIEW AND BOARD APPROVAL

9.1 This policy has been reviewed and approved by the Board of Directors of Abans Finance Private Limited. All changes or amendments will be subjected to board review to ensure compliance with evolving RBI guidelines.

9.2 The Company shall conduct an annual policy review to incorporate changes in RBI guidelines, industry best practices, or changes in The Company's internal risk management practices. Updates shall be communicated to all relevant departments for effective implementation.

Annex I

Format for submission of List of Large Defaulters of ₹1 crore and above (suit- filed and non-suit filed accounts) to all CICs on monthly basis.

(All entities regulated by Reserve Bank shall report this data to CICs – Please refer para 9 of chapter III of this Master Direction)

Field	Field Name	Type	Max Field Length	Description	Remarks
1.	Reporting Cycle	Alpha Numeric	5	Month for which the data is reported	The reporting cycle data for month of January 2024, should be filled as 'JAN24'
2.	Member ID	Alpha Numeric	10	The field is required to include Reporting Member Code as assigned by CICs.	Contains ID of the member reporting the data
3.	Member Name	Character	200	Name of the member	Must contain the name of the member who is reporting the data.
4.	Member Branch	Character	30	Branch name of the member	Name of the branch should be fed.
5.	STATE	Character	35	Name of state	Name of state in which branch is situated.
6.	Borrower Name	Alpha Numeric	1000	Minimum length of the Name should be 2 characters for individual borrowers and 4 characters for non-individual.	The legal name of the borrower to be reported.
7.	Borrower PAN	Alpha Numeric	10	Must be 10 characters. The first five characters must be letters, followed by four numbers, and followed by a letter.	Permanent Account Number (PAN) as defined by the Income Tax Department
8.	Borrower Address	Alpha Numeric	1000	Permanent Address / Registered address of the borrower	

9.	Outstanding Amount	Numeric	8	Should be a Numeric Value	Outstanding amount in ₹ lakh (rounded-off)
10.	Suit Status	Numeric	2	Valid Values 01 - Suit filed 02 – Non-Suit Filed	Indicates whether suit has been filed or not.
11.	Asset Classification	Character	5	Valid Values For Non-Suit Filed Accounts. 'DOUBT' for doubtful accounts. 'LOSS' for loss accounts. For Suit Filed Accounts 'DOUBT' for doubtful accounts. 'LOSS' for loss accounts. 'SUBST' for substandard accounts. 'STD' for standard accounts.	Asset classification
12.	Asset Classification Date	Alpha Numeric	5	Month in which the account was classified as 'DOUBT'/'LOSS'/'SUBSTD'/'STD' in the format 'mmmyy' where mmm stand for the first 3 characters of the month. The date of classification 'march 2000' should be filled up as 'MAR00'.	Indicates the date of asset classification
13.	Other Member	Character	1000	The names may be fed in abbreviated form e.g., BOB for Bank of Baroda, SBI for State Bank of India etc.	The names of other lenders from whom the borrower has availed credit facility should be indicated.
14.	Director/ Promoter Name	Character	1000	Minimum length of name should be 2 characters	Name of Director/Promoter.

15.	Director/ Promoter DIN	Alpha Numeric	8	DIN Number length should be 8	DIN of the Director/ Promoter.
16.	Director/ Promoter PAN	Alpha Numeric	10	Must be a minimum of 10 characters. The first five characters must be letters, followed by four numbers, and followed by a letter.	PAN of the Director/Promoter.
17.	Guarantor Name	Charact er	1000	Minimum length of name should be 2 characters	Full name of the Guarantor should be indicated.
18.	Guarantor CIN	Alpha numeric	21	Corporate identification number of guarantor entity	Only in case of legal entities
19.	Guarantor PAN	Alpha Numeric	10	Must be a minimum of 10 characters. The first five characters must be letters, followed by four numbers, and followed by a letter.	In case of individual /legal entities

NOTE:

- Reporting structure of the data would be row level, which would enable members/ lenders to report multiple directors and guarantors of the borrower.
- A director other than whole-time director, including an independent director/ nominee director shall not be included.
- In case of Government undertakings, instead of giving names of Chairman/Director, etc., a legend 'Govt. of _____ undertaking' should be mentioned.

Separate files for suit filed and non-suit filed accounts shall be submitted.

Annex II

Format for submission of data on cases of wilful default (suit-filed and non-suit filed accounts) to all CICs on a monthly basis.

(Lender as defined as per the definitions of this policy shall report this data to CICs)

Field	Field Name	Type	Max Field Length	Description	Remarks
1.	Reporting Cycle	Alpha Numeric	5	Month for which the data is reported.	The reporting cycle data for month of January 2024, should be filled as 'JAN24'.
2.	Member ID	Alpha Numeric	10	The field is required to include Reporting Member Code as assigned by CICs.	Contains ID of the member reporting the data.
3.	Member Name	Character	200	Name of member	Must contain the name of the member who is reporting the data.
4.	Member Branch	Character	30	Branch name of the member	Name of the branch of the member to be fed.
5.	STATE	Character	35	Name of state	Name of state in which member branch is situated.
6.	Borrower Name	Alpha Numeric	1000	Minimum length of the Name should be 2 characters for individual borrowers and 4 characters for non-individual.	The legal name of the borrower to be reported.
7.	Borrower PAN	Alpha Numeric	10	Must be 10 characters. The first five characters must be letters, followed by four numbers, and followed by a letter.	Permanent Account Number (PAN) as defined by the Income Tax Department
8.	Borrower Address	Alpha Numeric	1000	Permanent Address / Registered address of the borrower	

9.	Outstanding Amount	Numeric	8	Should be a Numeric Value	Outstanding amount in ₹lakh (Rounded off)
10.	Suit Status	Numeric	02	Valid Values 01 - Suit filed 02 – Non-Suit Filed	Indicates whether suit has been filed or not.
11.	Other Member	Character	1000	The names may be fed in abbreviated form e.g., BOB for Bank of Baroda, SBI for State Bank of India etc.	The names of other lenders from whom the borrower has availed credit facility should be indicated.
12.	Director/ Promoter Name	Character	1000	Minimum length of name should be 2 characters.	Full name of Director/ Promoter should be indicated.
13.	Director/ Promoter DIN	Alpha Numeric	8	DIN Number length should be 8	8-digit Director/ Promoter Identification Number of the Director.

14.	Director/ Promoter PAN	Alpha Numeric	10	Must be 10 characters. The first five characters must be letters, followed by four numbers, and followed by a letter.	PAN of the Director /Promoter.
15.	Guarantor Name	Character	1000	Minimum length of name should be 2 characters	Full name of guarantor
16.	Guarantor CIN	Alpha Numeric	21	Corporate identification number of guaran tor entity	Only in case of legal entities
18.	Guarantor PAN	Alpha Numeric	10	Permanent accoun t number	In case of individual / legal entities

NOTE:

- Reporting structure of the data would be row level, which would enable members/ lenders to report multiple directors and guarantors of the borrower.
- The data / information should be submitted through Secure File Transfer Protocol (SFTP).
- Separate files for suit filed and non-suit filed accounts shall be submitted.