

**Nalwa Sons Investments Limited**

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**Policy for treatment of Wilful Defaulters and Large Defaulters**

**Document Control Sheet**

<b>Document Name</b>	Wilful Defaulters and Large Defaulters Policy
<b>Name of Company</b>	Nalwa Sons Investments Limited
<b>Policy Authorization by</b>	Board of Directors
<b>Review of the policy</b>	Annually
<b>Board Approval date</b>	August 13,2024

## 1. Background

Nalwa Sons Investments Limited (“NSIL” or “the Company”) is committed to conducting its business activities lawfully and in a manner that is consistent with its compliance obligations. The Policy on Wilful Defaulters has been framed in accordance with the requirements of RBI Circular on bearing number RBI/DoR/2024-25/122 DoR.FIN.REC.No.31/20.16.003/2024-25 dated July 30, 2024, on Treatment of Wilful Defaulters and Large Defaulters – NBFCs. The above updated Master Direction on Wilful and Large Defaulters serves as a comprehensive guideline delineating the regulatory framework and procedures for classification of borrowers as defaulters (i.e. under wilful and large defaulters).

## 2. Objectives

The objective of this Policy is to establish a process for identifying and classifying entities/individuals as Wilful Defaulters and Large Defaulters, to impose appropriate corrective and punitive measures, including the publication of photographs of Wilful Defaulters where necessary and to strengthen credit discipline and prevent fraudulent practices.

### **The key objectives of this Policy are to:**

- Establish a clear, fair, and transparent mechanism for identifying and classifying borrowers and guarantors as wilful defaulters or large defaulters;
- Ensure adherence to the principles of natural justice throughout the classification process;
- Define specific preventive measures against wilful defaulters;
- Put in place a robust system for reporting and disseminating credit information on wilful defaulters and large defaulters to credit information companies;
- Monitor end-use of funds and prevent diversion or siphoning of credit facilities;
- Ensure compliance with all applicable RBI Directions on the subject.

## 3. Definitions

- 3.1. In this Policy unless the contrary intention appears, and/or the context otherwise requires, the following terms shall have the meaning assigned to them hereinbelow:

“**Borrower**” shall mean the person who has availed credit facility from the Company;

“**Director**” shall mean 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;

“**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.

“**Guarantor**” shall mean a person / entity who has guaranteed the credit facility;

“**Identification Committee**” shall mean the committee constituted by a Company for identifying a Wilful Defaulter;

“**Large Defaulter**” shall mean 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 RBI from time to time).;

“**Promoter**” means a person who has been named as such in a prospectus or is identified by the company in the annual return, and has

- (i) control over the affairs of the company, directly or indirectly, whether as a shareholder, director or otherwise; and/or
- (ii) in accordance with whose advice, directions or instructions, the board of directors of the company is accustomed to act;

“**Review Committee**” means the committee constituted by the Company for the purpose of reviewing the proposal of the Identification Committee;

“**Siphoning of funds**” shall be construed to have occurred if any funds availed using credit facility from Company are utilised for purposes unrelated to the operations of the Borrower;

“**Wilful Default**”:

- (i) by a Borrower shall be deemed to have occurred when the Borrower defaults in meeting payment/ repayment obligations to the Company 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 Company;
  - (c) the Borrower has siphoned off the funds availed under the credit facility from Company;
  - (d) the Borrower has disposed of immovable or movable assets provided for the purpose of securing the credit facility without the approval of the Company; and/or
  - (e) the Borrower or the Promoter has failed in its commitment to the Company to infuse equity despite having the ability to infuse the equity although the Company 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 Company, 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 Company or has failed in commitment to Company to infuse equity despite having the ability to infuse the equity, although the Company has provided loans or certain concessions to the Borrower based on this commitment.

“**Wilful Defaulter**” shall mean

- (i) a Borrower or a Guarantor who has committed Wilful Default and the outstanding amount is Rs. 25 lakh and above, or as may be notified by RBI 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), subject to the provisions of para 4 (1) (c) of RBI Directions. In case of entity (other than companies), persons who are in charge and responsible for the management of the affairs of the entity.
- 3.2. Words and expressions used herein and not defined in these Policy, but defined in RBI Directions, the Reserve Bank of India Act, 1934 or the Banking Regulation Act, 1949 or the Credit Information Companies (Regulation) Act, 2005, or the Companies Act, 2013, shall have the meanings assigned to them in those Acts.

#### **4. GOVERNANCE FRAMEWORK**

- 4.1. Identification Committee: Identification Committee shall be constituted to identify a Wilful Defaulter and shall comprise of:
- Chairperson: Non Executive Director; and
  - Members: Non Executive Director and Chief Financial Officer
- 4.2. Review Committee: Review Committee shall be formed for reviewing the proposal of the Identification Committee and shall comprise of:
- Chairperson: Whole Time Director; and
  - Members: Two independent directors

#### **5. IDENTIFICATION AND CLASSIFICATION OF WILFUL DEFAULTERS**

- 5.1. As and when any Borrower’s account with an outstanding balance of Rs. 25 lakhs and more is classified as non-performing assets (“NPA”) or on occurrence of any of the events noted above in an existing NPA account, Identification Committee shall examine whether same is a case of Wilful Default in terms of RBI Directions and in case of Wilful Default, take prompt steps to get the Borrower classified as a Wilful Defaulter, as per the procedure laid down hereunder:
- (i) Identification of the Wilful Default should be made keeping in view the track record of the Borrowers and should not be decided on the basis of isolated transactions/ incidents and the default to be categorised as wilful must be intentional, deliberate and calculated and meeting the conditions as laid down under the definition of Wilful Defaulter provided above.
  - (ii) Identification Committee shall examine the evidence related to the Wilful Default and if Identification Committee is satisfied that an event of Wilful Default has occurred, it shall issue a show-cause notice to Borrower/ Guarantor/ Promoter / Director/ persons who are in charge and responsible for the management of the affairs of the entity, and call for the

submissions from them within 21 days of issuance of show cause notice. Company shall disclose to them all materials and information on which show cause notice is based.

**Explanation:** Director(s) / persons who are in charge and responsible for the management of the affairs of the entity means who were associated with the company / entity at the time when the acts of omission or commission by the company / entity led to the default.

- (iii) After considering the submissions and where satisfied, the Identification Committee shall make a proposal to the Review Committee for classification as a Wilful Defaulter by explaining the reasons in writing.
- (iv) The Borrower/ Guarantor/ Promoter/ Director / persons who are in charge and responsible for the management of the affairs of the entity shall thereafter be suitably advised about the proposal to classify them as Wilful Defaulter along with the reasons therefore.
- (v) Company will provide Borrower / Guarantor / Promoter / Director / persons who are in charge and responsible for the management of the affairs an opportunity make a written representation to Review Committee within 15 days of such a proposal from the Identification Committee.
- (vi) The proposal of the Identification Committee along with the written representation received shall be considered by the Review Committee.
- (vii) Review Committee shall provide an opportunity for a personal hearing also to the Borrower / Guarantor / Promoter / Director / persons who are in charge and responsible for the management of the affairs of the entity. However, if the opportunity is not availed or if the personal hearing is not attended by Borrower / Guarantor / Promoter / Director / persons who are in charge and responsible for the management of the affairs of the entity, Review Committee shall, after assessing the facts or material on record, including written representation, if any, consider the proposal of the Identification Committee and take a decision.
- (viii) As the above classification process is an in-house proceeding, the Borrower / Guarantor / Promoter / Director/ persons in charge and responsible for the management of affairs shall not have the right to be represented by a lawyer.
- (ix) The Review Committee shall pass a reasoned order and the same shall be communicated to the Wilful Defaulter.

**Explanation:** If the Identification Committee concludes that the Borrower/ Guarantor/ Promoter / Director / persons who are in charge and responsible for the management of the affairs of the entity, do not qualify for classification as a Wilful Defaulter, such cases need not be referred to the Review Committee.

- 5.2. Show Cause Notice: Chief Financial Officer/Whole Time Director shall be authorized to issue the show-cause notice and serve the written order on behalf of the Identification Committee and Review Committee respectively.
- 5.3. Review of accounts for identification of Wilful Default: In respect of accounts where 'Wilful Default' was not observed during the initial examination as mentioned at para 5.1 above, the aspects regarding 'Wilful Default' shall be subsequently re-examined in terms of this Policy annually.

## **6. PUBLISHING PHOTOGRAPHS OF PERSONS CLASSIFIED AS WILFUL DEFAULTER**

- 6.1. Company may publish the photographs of only those Borrowers, including proprietors / partners / Directors / Guarantors of Borrower firms / companies, who have been declared as Wilful Defaulters following the mechanism set out in the RBI Directions and this Policy. This shall not apply to the non-whole time directors who are exempted from being considered as Wilful Defaulters unless the special conditions, in accordance with RBI Directions, are satisfied.
- 6.2. The decision to publish the photographs of Wilful Defaulters shall be non-discriminatory and shall not be based on any other factors such as race, colour, sex, language, religion, political or other opinion, economic status, place of birth or any of them.
- 6.3. Company may publish the photographs of Wilful Defaulter on via such media as deemed appropriated.

## **7. TERMS OF COMPROMISE AND SETTLEMENTS**

- 7.1. Any account included in list of Wilful Defaulter (LWD), where the Company has entered into a compromise settlement with the Borrower, shall be removed from the LWD only when the Borrower has fully paid the compromise amount.
- 7.2. Till such time as only part payment is made, name of the Borrower shall not be removed from the LWD even if the outstanding amount becomes less than the threshold of Rs.25 lakh or as notified by RBI from time to time.
- 7.3. The compromise settlement with the Wilful Defaulter shall be based on the board approved policy related to credit risk management.
- 7.4. The compromise settlement shall be without prejudice to the continuation of criminal proceedings against the Wilful Defaulter.

## **8. FORENSIC AUDIT AGAINST WILFUL DEFAULTER**

- 8.1. Depending upon the nature of the Borrowers' acts underlying the Wilful Default and the quality of evidence available with the Company in the normal course, the Company shall consider commissioning a forensic audit of the affairs of the Borrowers and their books of accounts, in respect of accounts with an outstanding above a threshold of INR 25,00,000/- (Indian Rupees Twenty Five Lakhs only).

## **9. REGULATIONS**

- 9.1. Company will strictly adhere to various conditions and requirements as mentioned under RBI Directions or as may be stipulated by RBI from time to time in this regard.

## **10. POLICY REVIEW AND UPDATES**

- 10.1. The implementation of this Policy shall be monitored and reviewed Annually by the Board of the Company.