



VARTHANA FINANCE PRIVATE LIMITED

MOST IMPORTANT

September 15, 2022

Sub – Information update regarding your loan/s with us.

Dear Varthana Customer,

Greetings from Varthana Finance.

This is a reminder to our earlier communication dated December 6, 2021 sent to you and is in reference to a circular issued by the Reserve Bank of India on 12th Nov'21 clarifying norms to be followed by all lending institutions with regards to classification of loans (advances) and reporting their status. Please note that the provisions of the said circular shall now come into effect from **October 1, 2022** and we believe that as a customer you should be aware of these since they have a far-reaching impact on your credit worthiness and your financial wellbeing which is directly contingent on your repayment behavior. We urge you to carefully read through the subsequent paragraphs and make yourself familiar with the norms.

A) Due date / Repayment date, Default and Overdue.

All loans availed by you from us have a specific date on which you need to make repayment towards the installment due for that particular loan. This is called the 'DUE DATE' or the 'REPAYMENT DATE'. This date is clearly mentioned in the loan schedule of your agreement as well as the loan amortization schedule, which you have received from us on availing the loan/s. Failure to make payment on the due date is termed as 'DEFAULT' and makes your account 'OVERDUE'. The entire due amount (pending EMI's + penal charges + bounce charges) that remain unpaid is termed as 'OVERDUE AMOUNT'.

For example, if the due date for your loan is 15th and you have not paid this installment on 15th, your account will be in default and will be flagged as overdue by 1 day. If you keep it unpaid till the 30th/31st of that month, your account is overdue by 16/17 days. Suppose you still haven't paid till the 14th of next month, your account is overdue by 30/31 days (depending upon the previous month being 30/31 calendar days.)

You must know that a default or keeping a loan in overdue is viewed negatively by all lending institutions and restricts your ability to avail further loans. An overdue account is charged a penal charges at a much higher rate for the no. of days it remains in overdue, in addition to the bounce charges. Further the lender may initiate suitable recovery measures including legal actions for recovering the overdue amount

THUS, WE ENCOURAGE YOU TO MAKE PAYMENT OF YOUR INSTALLMENTS ON THEIR RESPECTIVE DUE DATES THROUGH THE BANKING CHANNEL (ECS / RTGS / NEFT / UPI CHANNEL).

If there is an overdue amount in your loan (due to previous defaults), we request you to make payment of the entire overdue amount immediately. Please get in touch with your relationship manager / collection personnel or contact us on details mentioned at the end of this letter to know the due date / overdue amount towards your loan/s.

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B) Classification of an account as Special Mention Account (SMA) & Non-Performing Account (NPA)

As per the guidelines, a lending institution will now be required to classify all its overdue loans as either SMA or NPA depending upon the no. of days for which the due amount has remained unpaid. Such classification will be done on the basis of status of the loan as on the due date and not on the month end date.

Please refer to the below table for understanding the various sub-categories under SMA & NPA and the basis of classification under these categories.

No. of days for which the Principal or interest or any other amount (penal charges / bounce charges) remaining overdue (wholly or partially)	SMA sub-Categories
Between 1 to 30 days (both days inclusive)	SMA-0
Between 31 to 60 days (both days inclusive)	SMA-1
Between 61 to 90 days (both days inclusive)	SMA-2
91 days and above	NPA

Example 1 – Due date of your loan is 10th October 2022 and you have no EMI pending for previous months -

- If you fail to pay this EMI on the 10th October 2022 your account will be classified as SMA-0 on the same date
- If you fail to pay this EMI alongwith penal charges and bounce charges till 10th November 2022 your account will be classified as SMA-1
- If you fail to pay this EMI alongwith penal charges and bounce charges till 10th December 2022, your account will be classified as SMA-2
- If you fail to pay this EMI alongwith the penal charges and bounce charges till 8th January 2023, your account will be classified as NPA on 9th January 2023

Example 2 - Due date of your loan is 10th October 2022 and you have 2 unpaid EMIs for 10th Aug & 10th Sep –

- Your account will be classified as SMA-1 on 1st October 2022.
- If you fail to pay your oldest pending installment (10th Aug) by 9th October 2022, your account will be classified as SMA-2 on 10th October
- If you fail to pay your oldest pending installment + penal and bounce charges by 8th November 2022, your account will be classified as NPA on 9th November 2022.

Example 3 – Due date of your loan is 10th October 2022 and you have 3 unpaid EMIs for 10th July, 10th Aug & 10th Sep

- Your account will be classified as SMA-2 on 1st October 2022.
- If you fail to pay your oldest pending installment + penal and bounce charges by 8th October 2022, your account will be classified as NPA on 9th October 2022

You must know that all lending institutions verify the repayment behavior of a customer with the database of various credit bureaus, prior to sanctioning of loans. Customers having satisfactory repayment patterns and not having any of their loans classified as either SMA or NPA have a very high probability of getting their loans sanctioned. Classification under the SMA category severely damages the credit rating of a customer thereby increasing their risk perception making

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banks and finance companies averse to financing them. You should also note that finance companies initiate stringent measures under SARFAESI on NPA accounts and there is a risk of clients losing their mortgaged property.

C) Upgradation / Reclassification of accounts categorized as NPAs

As explained in the previous paragraph, an account shall be classified as NPA if its installment alongwith other dues, remains unpaid for a period of more than 90 days.

As per the circular, the account shall now be upgraded out of NPA only when the entire overdue (pending EMI's + penal charges + bounce charges) of that account are paid. Till such time the account shall continue to remain classified as NPA. It may be noted that part payments will not qualify the account for upgrading to out of NPA category.

For example, if an account has 4 installments overdue and if the Customer pays only 1 installment, then the account shall continue to be classified as NPA till the time all overdues including penal charges and bounce charges remain unpaid.

Please see the below table for a better understanding of how accounts are classified on the due date

Due Date	EMI of all loans (Rs.)	Paid	Total overdues (indicative) (Rs.)	Overdue days	Classification
10-Oct-2022	50,000	No	50,000	1	SMA-0
10-Nov-2022	50,000	No	1,10,000 (Previous EMI + penal charges + bounce charges)	31	SMA-1
10-Dec-2022	50,000	No	1,65,000 (Previous 2 EMI's + penal charges + bounce charges)	61	SMA-2
10-Jan-2023	50,000	No	2,30,000 (Previous 3 EMI's + penal charges + bounce charges)	92	NPA

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Now with the background of the above table, let us see the circumstances under which an account can get upgraded

Due Date	Total Overdues	Present classification	Paid on due date	Eligible for upgrade	Explanation
10-Oct-2022	50000	SMA-0	No	No	All overdues are not paid
			Part paid	No	Classification will be SMA-0 since only partial overdues are paid.
			Full	Yes	Classification will be STANDARD since all overdues are paid.
10-Nov-2022	110000	SMA-1	No	No	All overdues are not paid
			Part paid	Partial	Classification will be SMA-1 or SMA-0 (depending on overdue days) since only partial overdues are paid
			Full	Yes	Classification will be STANDARD since all overdues are paid
10-Dec2022	165000	SMA-2	No	No	All overdues are not paid
			Part paid	Partial	Classification will be SMA-2/SMA-1/SMA-0 (depending on overdue days) since only partial overdues are paid
			Full	Yes	Classification will be STANDARD since all overdues are paid.
10-Jan-2023	230000	NPA	No	No	All overdues are not paid
			Part paid	Partial	Classification will be NPA/SMA-2/SMA-1/SMA-0 (depending on overdue days) since only partial overdues are paid
			Full	Yes	All overdues paid. Classification will be STANDARD

SPECIAL NOTE - It is also important for you to know that if you have more than one loan account and if any one account gets classified as NPA, all the other accounts get classified as NPA and shall remain in the same category till the entire overdues of all your loan accounts are paid. Hence it is necessary to ensure that you do not let any of your accounts to be categorized as NPA to avoid your entire exposure being so categorized.

It is necessary for you to note that as long as the account/s remain classified as NPA or SMA, your existing lender reserves the right to initiate recovery measures including legal actions under Sec 138 of Negotiable instruments Act / Arbitration and SARFAESI proceedings against you and other co-applicants of the loan to protect its interest. You must also know that no lending institution will consider financing you in the near future thus hampering the growth aspirations you may have for your business.

These clarifications shall come into effect from October 1, 2022. We therefore urge you to thoroughly understand the above

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paragraphs and ensure to make repayments on the due dates and clear all the overdues immediately (if any) before your next due date to maintain an acceptable credit behavior.

In case you wish to peruse the entire circular, you may visit the RBI page on www.rbi.org.in and search for 'Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications' dated November 12, 2021 bearing reference number RBI/2021-2022/125/DOR.STR.REC.68/21.04.048/2021-22 under the Notifications section.

You may also contact us through any of the below touchpoints for any clarifications.

- Call our Customer Helpline 080-68455777
- Email us at care@varthana.com
- SMS "Hello" to 92932 92932

Thanking you and assuring you of our best services at all times. Yours Sincerely

For Varthana Finance Pvt Ltd

Chandra Kumar CS (Chief Human Resource Officer & Head – Customer Experience)

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