

TREATMENT OF WILFUL DEFAULTERS AND LARGE DEFAULTERS POLICY

BACKGROUND:

Meenakshi Mercantiles Limited is an NBFC registered with the Reserve Bank of India (RBI). The Company is classified as a Middle layer NBFC pursuant to Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023.

This policy is being framed and adopted as per the Master Directions on Treatment of Wilful Defaulters and Large Defaulters in Non-Banking Financial Companies issued on 30th July, 2024.

Keeping in view the RBI Guidelines as cited above, the following internal guiding principle are therefore laid out by the Board of Directors of Meenakshi Mercantiles Limited. This policy should always be read in conjunction with RBI guidelines, directives, circulars, and instructions.

OBJECTIVE:

The aim of this policy is to establish a robust framework for identifying, monitoring, and managing wilful and large defaulters of the Company. This policy aims to strengthen the financial health of the organization, to put in place a system to disseminate credit information about wilful defaulters, prevent recurrence of defaults and facilitate timely recovery of dues. It plays a crucial role in maintaining the integrity of the financial system by outlining the measures and consequences for the borrowers who deliberately default on their financial obligations. The policy aligns with the appropriate guidelines of Reserve Bank of India (RBI).

DEFINITIONS:

“**Board**” means Board of Directors of the Company.

“**Company**” means Meenakshi Mercantiles Limited.

“**Senior Management**” The Key Managerial Personnel of the Company and the employees who are categorized as the Senior Management by the Audit Committee of the Company.



“Borrower” means one who has availed credit facility from a lender.

“Policy” means Treatment of Wilful Defaulters and Large Defaulters Policy.

“RBI” means Reserve Bank of India.

“Large Defaulter” means a defaulter with an outstanding amount of Rs. 1 crore and above and –

- (i) Where suit has been filed; or
- (ii) Whose account has been classified as doubtful or loss.

“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), or in case of entity (other than companies), persons who are in charge and responsible for the management of the affairs of the entity.

IDENTIFICATION AND CLASSIFICATION OF WILFUL AND LARGE DEFAULTERS:

The 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. The default to be categorised as wilful must be intentional, deliberate, calculated and meeting the conditions set out in the directions.

The Board approved Policy on Treatment of Wilful and Large Defaulters delineating roles and responsibilities of Board/Board Committees and Senior Management of the company. This Policy also incorporate measures for ensuring compliance with principles of natural justice in a time-bound manner which at a minimum shall include:

- To issue a Show Cause Notice (SCN) 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. Lenders shall disclose to them all materials and information on which show cause notice is based.
- After considering the submissions and being satisfied, proposal of classification as wilful defaulter shall be made by explaining the reasons in writing.



- 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 therefor.
- To establish a structured process for issuing SCNs and reviewing responses before declaring individuals or entities as defaulters.
- To disclose the amount related to default reported in the company for the respective year in their Financial Statements – Notes to Accounts.
- Senior Management shall be responsible for implementation of the Wilful and Large Defaulter policy approved by the Board of the company. A periodic review of incidents of defaults shall also be placed before Board / Audit Committee of Board (ACB), as appropriate, by the Senior Management of the company.

ACTION AGAINST WILFUL AND LARGE DEFAULTERS:

Criminal Proceedings

Based on the facts and circumstances, lenders can examine whether initiation of criminal proceedings against wilful defaulters under the provisions of the applicable law, is warranted. In cases where criminal proceedings have been initiated, removal of the name of a wilful defaulter from the List of Wilful Defaulters (LWD) shall be without prejudice to the continuation of criminal proceedings against the wilful defaulter.

Publishing of photographs

The lenders shall formulate a non-discriminatory board-approved policy that clearly sets out the criteria based on which the photographs of persons classified and declared as wilful defaulter shall be published.

Credit Restrictions

The Lender shall report the defaulter's details to the credit bureaus (CIBIL) and other regulatory authorities and restrict further access to credit facilities within the organization. The lender shall also communicate to the other Financial institutions to prevent further lending to the defaulter.

Legal Action

The Lender shall, whenever wanted, initiate legal action against the borrowers/ guarantors for foreclosure/ recovery of dues expeditiously.



REPORTING:

All the entities regulated by the Reserve Bank, including 'lenders', shall submit information to all credit information companies (CICs) in respect of the large defaulters at monthly intervals –

- (i) a list of suits filed accounts of wilful/large defaulters; and
- (ii) a list of non-suits filed accounts of wilful/large defaulters whose account has been classified as doubtful or loss.

The CICs shall display the list of suit-filed accounts of wilful/large defaulters on their website.

The Company shall also report the wilful/large defaulters in the return CRILC mentioning the name of the wilful/large defaulters along with the details of the borrower.

The responsibility for reporting correct information and also ensuring the accuracy of facts and figures rests with the concerned lender. The lenders while furnishing information to CICs shall ensure the accuracy of the particulars of the directors, and wherever possible, by cross-checking with the database maintained by the Registrar of Companies.

MONITORING END USE OF FUNDS:

The Company shall closely monitor the end-use of funds and obtain certificates from borrowers certifying that the funds have been utilised for the purpose for which they were obtained. In case of the wrong certification by the borrowers, the regulated entities shall consider initiating appropriate legal proceedings, including criminal proceedings wherever necessary, against the borrowers.

The requirements and related appropriate measures in ensuring the end-use of funds by the lenders shall form a part of their loan policy document. An illustrative list of measures for monitoring and ensuring end-use of funds by lenders are:

- (i) Meaningful scrutiny of quarterly progress reports/ operating statements/ balance sheets of the borrowers;
- (ii) Regular inspection of borrower's assets charged to the lender as security;
- (iii) Periodic scrutiny of borrower's books of accounts maintained with other lenders;
- (iv) Periodic visits to the assisted units;

In case of project financing, regulated entities should ensure end use of funds by, inter alia, obtaining certification from the Chartered Accountants for the purpose. The regulated entities must, however, not just depend on the certificates issued by the Chartered Accountants but also strengthen their credit risk management system and internal controls to enhance the quality of their loan portfolio. Further, in all cases,



especially in the case of short-term corporate/ clean loans, such an approach must be supplemented by 'due diligence' on the part of regulated entities themselves, and to the extent possible, such loans must be limited only to those borrowers whose integrity and reliability are above board.

ROLE OF STATUTORY AUDITORS:

In case any falsification of accounts on the part of the borrowers is observed by the lender, and the auditors are found to be negligent or deficient in conducting the audit, the lender shall consider lodging a formal complaint against the statutory auditors of the borrowers with the National Financial Reporting Authority (NFRA)/ Institute of Chartered Accountants of India (ICAI) to enable them to examine and fix accountability of the auditor.

Pending disciplinary action by NFRA/ ICAI, the complaints shall be forwarded to the Reserve Bank (Department of Supervision, Central Office) and Indian Banks' Association (IBA). Before reporting to the Reserve Bank and IBA, lenders shall satisfy themselves of the involvement of concerned auditors and also provide them with an opportunity of being heard. In this regard, the lenders should follow normal procedures and processes, which shall be suitably recorded.

With a view to monitoring the end-use of funds, if the lender desires a specific certification from the borrowers' auditors regarding diversion/siphoning of funds by the borrowers, the lender should award a separate mandate to the auditors for the purpose. To facilitate such certification by the auditors, the lenders shall ensure that appropriate covenants in the loan agreements are incorporated to enable the award of such a mandate by the lenders to the auditor.

In addition to the above and with a view to preventing diversion/ siphoning of funds by the borrowers, the lenders are free to engage their own auditors for such specific certification without relying on certification given by borrowers' auditor.

Depending upon the nature of the borrowers' acts underlying the wilful default and the quality of evidence available with the lenders in the normal course, the lender 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 fixed by the board approved policy of the lender.

REVIEW:

The Board is hereby authorized to review the Treatment of Wilful Defaulter and Large Defaulter Policy of the Company on a periodical basis, so as to keep the same updated as per the market/ regulatory trends in the Country.

