
GUIDELINES ON WILFUL DEFAULTERS AND LARGE DEFAULTERS**PART I - PRELIMINARY****1. INTRODUCTION AND EXECUTIVE SUMMARY**

The rising NPA scenario poses a significant threat to the Indian economy, thus necessitating tightening of the regulatory norms to effectively tackle defaulters, including wilful defaulters and large defaulters. In its serious and series of efforts to control this crisis, the Reserve Bank of India (RBI) continues to create a “robust yet fair” mechanism in declaration of defaulting borrowers as wilfull defaulter or large defaulters with Credit Information Companies (CICs) and others.

In a step towards further strengthening the existing guideline and making it non-discriminatory, transparent and following the principles of natural justice, for classifying a borrower as wilfull defaulter, the Reserve Bank of India (RBI) have issued the fresh updated guidelines as **“Master Direction of Treatment of Wilful Defaulters and Large Defaulters” under their Master Circular No. DoR.FIN.REC.No.31/20.16.003/2024-25 dated 30/07/2024 (hereinafter referred to as “Master Circular dated 30/07/2024”) which forms a part of Para 3.1.A.6 read with Clause 111 (Guidelines on Wilful Defaulters) of Chapter XIV (Miscellaneous Instructions) of the Master Direction - Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021” (hereinafter referred to as “RBI-HFC Directions, 2021).**

The above updated Master Direction on Wilfull and Large Defaulters serves as a comprehensive guideline delineating the regulatory framework and procedures for classification of borrowers as defaulters (i.e. under wilfull and large defaulters). **Accordingly, HFCs (including us) have been directed to put in place a “Board approved Policy” as per the procedural guidelines/notes contained in the said Master Circular dated 30/07/2024. The new direction is envisioned to play a crucial role in maintaining the integrity of the financial system by outlining the measures and consequences for those borrowers who deliberately default on their financial obligations.**

The Master Circular on Treatment of Wilful Defaulters and Large Defaulters dated 30/07/2024, establishes a system to identify and disseminate credit information regarding wilful defaulters and large defaulters to banks and financial institutions, to restrict their access to finance. The regime recognises “*all banks and financial institutions (including housing finance companies)*” to which money is owed by “*individuals, juristic persons, other forms of business enterprises*” as Lenders. Further, the primary objective of this Master Direction is to provide for a non-discriminatory and transparent procedure, having regards to the principles of natural justice, for classifying a borrower as a wilfull defaulter by the lenders. The directions also aim to put in place a system to disseminate credit information about wilfull

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defaulters for cautioning lenders to ensure that further institutional finance is not made available to such intentional/habitual defaulters.

2. APPLICABILITY

As per Clause 2(1) of the Master Circular dated 30/07/2024, “the provisions regarding wilful defaulters contained in the said circular shall apply to the “lenders” as defined in the directions (and also later defined in this policy). Further, as per Clause 2(4) of the Master Circular dated 30/07/2024, the provisions regarding large defaulters contained in the said circular shall apply to all entities regulated by RBI, irrespective of whether they fall within the definition of “lender” as provided in this directions (and later in this policy) or not.

3. DEFINITIONS

In these Directions, unless the context or subject otherwise requires, -

- (1) **“borrower”** means one who has availed credit facility from a lender.
- (2) **“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.
- (3) **“credit information company”** (CIC) means a company that has been granted a certificate of registration under Section 5 of the Credit Information Companies (Regulation) Act, 2005.
- (4) **“director identification number (DIN)”** shall have the meaning assigned to it under the Companies Act, 2013.
- (5) **“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.
- (6) **“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;

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- (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.
- (7) **“guarantor”** is a person/ entity who has guaranteed the credit facility.
- (8) **“identification committee”, in case of NBFC (including HFCs alike us)** shall be an officer not more than one rank below the CEO as chairperson and two senior officials, not more than two ranks below the chairperson of the committee, as members.
- (9) **“independent director”** shall have the meaning assigned to it under the Companies Act, 2013
- (10) **“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).
- (11) **“lender”** means an AIFI, a bank, or NBFC (including HFCs) which has granted a credit facility to the borrower.
- (12) **“nominee director”** means a director nominated by a lender, a regulatory authority, or the Central or a State Government.
- (13) **“non-banking financial company (NBFC)”** means all NBFCs falling under NBFC-Middle Layer (NBFC-ML) and above layers as per Scale Based Regulatory framework.
- (14) **“professional director”** means a director as referred to in para 1.6 of the Master Circular UBD.CO.BPD.MC.No.8/12.05.001/2013-14 on Board of Directors – UCBs dated July 1, 2013 (as modified from time to time).
- (15) **“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.

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- (16) **“review committee”** means the committee constituted by a lender for the purpose of reviewing the proposal of the Identification Committee and **in case of NBFCs including HFCs (alike us)** shall comprise of, the MD/CEO as chairperson, and two independent directors or non-executive directors or equivalent officials serving as members. (Note: **The Review Committee shall not be comprised of members who are part of the Identification Committee.**)
- (17) **“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.
- (18) **“wilful default”**
- (A) 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:
 - (i) the borrower has the capacity to honour the said obligations;
 - (ii) the borrower has diverted the funds availed under the credit facility from lender;
 - (iii) the borrower has siphoned off the funds availed under the credit facility from lender;
 - (iv) the borrower has disposed of immovable or movable assets provided for the purpose of securing the credit facility without the approval of the lender;
 - (v) 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
 - (B) 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.
- (19) **“wilful defaulter”** means
- (A) 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 RBI from time to time, and

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- (B) 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)(d) below. In case of entity (other than companies), persons who are in charge and responsible for the management of the affairs of the entity.

PART II – TREATMENT OF WILFUL DEFAULTERS

4. GENERAL REQUIREMENTS

(1) Mechanism for Identification and Classification of Wilful Defaulters:

SHCL shall identify and classify a person as a ‘**wilful defaulter**’ by following the procedure enumerated in the Master Directions, and accordingly included in this policy. The identification of the wilful default shall 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 categorized as wilful must be intentional, deliberate, calculated and meeting the conditions set out in Para 3(18) above. Further, the below mentioned process shall be followed prior to identification and classification as “wilful defaulters”:

- (A) The evidence of wilful default in respect of credit facility/ies granted by SHCL shall be examined by an “Identification Committee” comprising of the following members”:

(B)

Name	Designation	Status
Shri Vivek Kapoor	CFO	Member/Chairperson
Shri Anup Kirtan	Dy. Chief Manager	Member
Shri K D Bhattacharya	Astt. Chief Manager	Member

- (i) If the 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. SHCL 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.

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- (ii) 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.
- (iii) 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.
- (iv) An opportunity shall be provided to borrower/ guarantor/ promoter/ director/persons who are in charge and responsible for the management of the affairs of the entity for making a written representation to Review Committee within 15 (fifteen) days of such a proposal from the Identification Committee.
- (v) The proposal of the Identification Committee along with the written representation received shall be considered by the Review Committee.
- (vi) The “Review Committee” of SHCL shall comprise of the following members

Name	Designation	Status
Shri D J Bagchi	CEO	Member/Chairperson
Shri Sadhan Sarkar	Independent Director	Member
Smt. Sudha Sarowgi	Independent Director	Member

- (vii) The 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 the borrower/ guarantor/ promoter/ director/ persons who are in charge and responsible for the management of the affairs of the entity, the 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.

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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.

- (C) **SHCL, enshrined on this Board approved Policy, designate the following officials of the company to issue show-cause notice on behalf of the Identification Committee and issue order on behalf of the Review Committee:**

Committee	Name of the Member/Official	Purpose/Powers
Identification Committee under this policy	Shri Vivek Kapoor (CFO)	Issue of Show-cause Notice pursuant to compliance to the laid regulatory process.
Review Committee under this policy	Shri D J Bagchi (CEO)	Serve written Order pursuant to compliance of the laid regulatory procedures.

- (D) The show-cause notice and the order served by the above designated officials shall clearly state that this has the approval of the competent authority, i.e., Identification/Review Committee and must identify its members.
- (E) 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:
- the wilful default by the borrower or the guarantor has taken place with their consent or connivance or
 - 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.
- (F) The name of a non-whole-time director/ independent director/ nominee director who has been classified as a wilful defaulter shall be reported as per Annex II of Master Circular dated 30/07/2024, indicating that he/she is a non-whole-time director/ independent director/ nominee director.

(2) **Review of accounts for identification of wilfull default**

- (A) SHCL shall examine the 'wilful default' aspect in all Non-Performing Assets (NPA) accounts with **outstanding amount of ₹25 lakh and above** or as may be notified by RBI from time to

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time. If wilful default is observed in the internal preliminary screening, SHCL shall complete the process of classification/ declaring the borrower as a wilful defaulter by following the mechanism set out in Para 4(1) above, within six (6) months of the account being classified as Non-Performing Assets (NPA) [in accordance with the instructions regarding asset classification issued by the RBI from time to time]

- (B) In respect of accounts where 'wilful default' was not observed during the initial examination as mentioned at Para 4(2)(a) above, the aspects regarding 'wilful default' shall be subsequently re-examined by SHCL on every 6 (six) months basis.

5. SPECIFIC MEASURES AGAINST WILFUL DEFAULTERS

(1) Initiation of Criminal proceedings by SHCL

Based on the facts and circumstances of each case, SHCL to 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.

(2) Publishing of photographs of wilfull defaulters

A non-discriminatory and standard approach shall be adhered to in respect of publishing of photographs of persons classified and declared as wilfull defaulter. Further, to make the process, transparent, just and fair, the Order issued by the Review Committee shall mention the publishing of photograph of the wilful defaulters, and accordingly set a timeline of **30 (thirty) days** (from date of the Order) to the wilfull defaulter to repay (in part of full), else SHCL shall publish their photographs pursuant to a final meeting of the Chairpersons of the Identification and the Review Committee, who shall meet to take a final call i.e either to publish or permit an extension of time, all based on a reasoned review embedded on ground realities and to grant the other side, fair opportunity under the principles of natural jsutice.

(3) Penal and other measures against wilfull defaulters

- (A) The penal measures mentioned below shall be implemented by SHCL:
- (i) No additional credit facility shall be granted by SHCL to a wilful defaulter or any entity with which a wilful defaulter is associated.

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- (ii) The bar on additional credit facility to a wilful defaulter or any entity with which a wilful defaulter is associated shall be effective for a period of **one (1) year** after the name of wilful defaulter has been removed from the List of Wilful Defaulters (LWD) by SHCL/Other Lenders
- (iii) No credit facility shall be granted by SHCL for floating of new ventures to a wilful defaulter or any entity with which a wilful defaulter is associated for a period of **five (5) years** after the name of wilful defaulter has been removed from the LWD by SHCL/Other Lenders.
- (iv) Wilful defaulters or any entity with which a wilful defaulter is associated shall not be eligible for restructuring of credit facility. Subsequent to removal of the name of wilful defaulter from the LWD, the wilful defaulter or any entity with which a wilful defaulter is associated shall be eligible for restructuring, subject to the provision contained in Para 5(3)(a)(ii) above.

Explanation:

- (a) If the wilful defaulter is a company, another company will be deemed to be associated with it, if that company is –
 - (i) a ‘subsidiary company’ as defined under clause 2 (87) of the Companies Act, 2013.
 - (ii) falls within the definition of a ‘joint venture’ or an ‘associate company’ under clause (6) of section 2 of the Companies Act, 2013.
- (b) If the wilful defaulter is a natural person, all entities in which he is associated as promoter, or director, or as one in charge and responsible for the management of the affairs of the entity shall be deemed to be associated.
- (c) The penal provisions mentioned above, shall cease to be applicable on the associated entities when they are no longer associated with the wilful defaulters.
- (d) In cases where the existing promoters are replaced by new promoters in terms of directions contained in circular of RBI under ‘Prudential Framework for Resolution of Stressed Assets’ dated June 7, 2019 (as amended from time to time) and the borrower company is totally delinked from such erstwhile promoters/ management, SHCL may take a view on restructuring such accounts based on their viability, without prejudice to the continuance of criminal proceedings against the erstwhile promoters/ management.

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(B) Incorporation of covenant

- (i) SHCL shall incorporate a covenant in the agreement while extending credit facility to a borrower that it shall not induct a person whose name appears in the LWD on its Board or as a person in charge and responsible for the management of the affairs of the entity.
- (ii) In case such a person is found to be on its Board or as a person in charge and responsible for the management of the affairs of the entity, the borrower would take expeditious and effective steps for removal of such a person from the Board or from being in charge of its management.
- (iii) Under no circumstances shall SHCL renew/ enhance/ provide fresh credit facilities or restructure existing facilities provided to such a borrower so long as the name of its promoter and/or the director (s) and/or the person in charge and responsible for the management of the affairs of the entity remains in the LWD.

(C) Initiation of Legal Action

SHCL shall, wherever warranted, initiate legal action against the borrowers/ guarantors for foreclosure/ recovery of dues expeditiously.

(D) Provision for transparent mechanism

SHCL shall put in place a transparent mechanism for the entire process of identification of wilful defaulters so that the penal provisions are applied in a fair manner and the scope for discretion is obviated, and that the entire process of declaration in fair and non-discretionary with regards to the principles of natural justice, for classifying a borrower as wilful defaulter.

(E) Role of Internal Audit

- (i) SHCL shall require their internal auditors to specifically look into adherence to instructions for classifying a borrower as a wilful defaulter.
- (ii) The Audit Committee of SHCL shall periodically review the cases of wilful default and recommend steps to be taken to prevent such occurrences and their early detection should these occur. The review shall focus on identifying root causes of wilful default and addressing deficiencies, if any, in the wilful defaulter classification process adopted by SHCL.

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(F) Liability of a Guarantor

- (i) As per Section 128 of the Indian Contract Act, 1872, the liability of the guarantor is coextensive with that of the principal debtor unless it is otherwise provided by the contract.
- (ii) When a default shall happen in making payment/repayment by the principal debtor, SHCL shall also proceed against the guarantor without exhausting the remedies against the principal debtor.
- (iii) Where SHCL and/or any lender has made a claim on the guarantor on account of the default made by the principal debtor, the liability of the guarantor is immediate.
- (iv) In case the said guarantor refuses to comply with the demand made by SHCL, such guarantor shall also be considered for classification as a wilful defaulter by following the mechanism as set out in Para 4 of this policy.
- (v) While dealing with the wilful default of a single borrowing company in a Group, SHCL will consider the track record of the individual company, with reference to its repayment performance to all its lenders. In cases where guarantees furnished by the companies within the Group on behalf of the wilfully defaulting units are not honoured when invoked by SHCL/other lenders, such Group companies should also be considered for classification as wilful defaulter by following the mechanism set out in Para 4 of this policy.

PART III – REPORTING OF WILFUL DEFAULTERS AND LARGE DEFAULTERS

6. Reporting and Dissemination of Credit Information on Large Defaulters

- (1) SHCL shall submit the following information as per Annex I of the Master Circular dated 30/07/2024, to all Credit Information Companies (CICs) in respect of the large defaulters at monthly intervals or at such shorter intervals as per regulations from time to time.
 - (A) List of suit filed accounts of large defaulters; and
 - (B) List of non-suit filed accounts of large defaulters whose account has been classified as doubtful or loss (in accordance with the instructions issued by the RBI from time to time).

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- (2) For calculating the threshold of ₹1 crore, the unapplied interest, if any, shall also be included. In the case of suit-filed accounts, the threshold shall relate to the amount for which the suits have been filed.
- (3) The CICs shall provide access to the list of non-suit filed accounts of large defaulters to all credit institutions as defined in the Credit Information Companies (Regulation) Act, 2005.
- (4) The CICs shall display the list of suit-filed accounts of large defaulters on their website.
- (5) The responsibility to comply with Para 6(3) and 6(4) above lies with the respective CICs.

Explanation:

- (a) For the purposes of these Directions, the term 'suit filed accounts' shall mean those accounts in respect of which SHCL has approached courts or tribunals (including under Insolvency and Bankruptcy Code, 2016) for recovery of their dues, and proceedings are pending.
- (b) Accounts shall be treated as suit filed if any application, appeal or execution is pending in continuation of the original recovery proceedings.
- (c) Suit filed accounts shall be deemed to include accounts in which SARFAESI proceedings or any other proceedings for recovery of the dues from the borrower or any other person liable to make payment of a debt under Acts governing co-operative societies are initiated and pending, and shall include the account of a debtor against whom resolution or liquidation proceedings have been initiated and are continuing.

7. Reporting and Dissemination of Credit Information on Wilful Defaulters

- (1) SHCL/Other Lenders or the ARCs to which the account has been transferred, shall submit at monthly intervals, information in Annex II to all CICs in respect of the wilful defaulters as defined in Para 3(19) of these directions:
 - (A) a list of wilful defaulters (LWD) in respect of suit filed accounts
 - (B) a LWD in respect of non-suit filed accounts
- (2) SHCL shall inform all CICs the removal of the name of the wilful defaulter from the LWD, promptly and not later than 30 days, from the date when the outstanding amount falls below the threshold of ₹25 lakh or as notified by RBI from time to time, subject to the provision in Para 8(2) below.

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- (3) Every CIC shall display the suit-filed and non-suit filed accounts of LWD on its website.
- (4) SHCL shall continue to furnish updates pertaining to historical data submitted to CICs, in the event of any change in its classification by RBI/NHB, as a result of review under scale based regulation criteria applicable for NBFCs (including HFCs).

8. Treatment of compromise settlements

- (1) Any account included in LWD, where SHCL 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. Further, in cases SHCL decides to cancel the settlement due to non-adherence to the terms of the settlement and revises the amount payable by the borrower, the reporting shall be with reference to the revised amount.
- (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 ₹25 lakh or as notified by RBI from time to time.
- (3) The compromise settlement with the wilful defaulter shall be in terms of the existing Board approved **“POLICY FOR COMPROMISE SETTLEMENTS AND TECHNICAL WRITE-OFFs OF STRESSED ASSETS** dated 09/02/2024 of SHCL, and that the policy must include guidelines on staff accountability examination, reporting of the compromise/ settlement to the board, higher upfront payment if any, etc.
- (4) The compromise settlement shall be without prejudice to the continuation of criminal proceedings against the wilful defaulter.

9. Treatment of defaulted loans sold to the other lenders and ARCs

- (1) Before transferring a defaulted loan with outstanding of ₹25 lakh and above, irrespective of its classification as NPA, to other transferees, the SHCL shall internally conduct a comprehensive investigation from a wilful default perspective. This process need not necessarily involve a two-stage committee but should ensure a thorough examination of wilful default aspects for each defaulted loan.
- (2) In a case where wilful default is observed, SHCL shall complete the process of classification of the borrower as wilful defaulter as per mechanism set out in Para 4(1) above, and report it in the LWD to CICs, before selling the asset to other lenders/ ARCs.

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- (3) The details of the reporting done must be conveyed to “transferee” lenders/ ARCs and they shall be responsible for reporting it to the CICs thereafter.
 - (4) Sale to other lenders/ARCs shall not be treated as recovery for the purpose of calculating the threshold limit for classification as wilful defaulter and reporting to CICs, as the loan amount is not yet fully recovered.
 - (5) The “transferee” lenders/ ARCs shall continue to report the account as a wilful defaulter until the balance remaining to be recovered in their account plus the amount written off by the “transferor” lender falls below the threshold of ₹25 lakh or as notified by RBI from time to time, subject to the provisions contained in Para 8 above.
10. **Treatment of accounts where resolution is done under Insolvency and Bankruptcy Code (IBC)/ Resolution framework guidelines issued by the Reserve Bank**
 - (1) In case an account which is included in LWD and has subsequently undergone liquidation or where the resolution [either under IBC or under the Prudential Framework for Resolution of Stressed Assets dated June 7, 2019 (as amended from time to time) issued by the RBI] results in a change in the management and control of the entity/ business enterprise, the name of such a borrower or guarantor who were classified as wilful defaulter [which includes in case of a company, its promoters and the director (s), and in case of entity (other than companies), persons who are in charge and responsible for the management of the affairs of the entity], shall be removed from the LWD after implementation of the resolution plan under IBC or aforesaid prudential framework.
 - (2) The penal measures as detailed in Para 5(3)(a) shall **not** be applicable to such entities/ business enterprises after implementation of the resolution plan under IBC or aforesaid prudential framework.
 - (3) The penal measures detailed in Para 5 3)(a)(ii) and (iii) shall continue to apply to the erstwhile promoter(s)/ director(s)/ guarantor(s)/ persons who were in charge and responsible for the management of the affairs of the entity/ business enterprise, and to the entities they are associated as a promoter or director or as one in charge and responsible for its management.
11. **Responsibility for Correct Reporting**
 - (1) SHCL, to its best effort basis shall report the correct information and also ensure the accuracy of facts and figures that is maintained by SHCL and also shared with all.

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- (2) SHCL 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.

12. Reporting of Guarantors

SHCL shall report to CICs the details of guarantors who have failed to honour the commitments thereunder when invoked, as large defaulters/wilful defaulters, as the case may be. The details shall be reported as per Annex I and II of the Master Circular dated 30/07/2024

13. Reporting of Directors

- (1) In case of business enterprises registered as companies under the Companies Act, 2013, SHCL shall also report in the Director column of Annex I and II of the Master Circular dated 30/07/2024, the full names of the Directors to facilitate better identity of persons concerned, subject to the provisions of these directions.
- (2) In order to ensure that Directors are correctly identified and in no case, persons whose names appear to be similar to the names of Directors appearing in the LWD are wrongfully denied credit facilities on such grounds, SHCL shall include the Director Identification Number (DIN) as one of the fields in the data submitted in Annex I and II of the Master Circular dated 30/07/2024, by them to CICs.

PART IV – PREVENTIVE MEASURES AND ROLE OF AUDITORS

14. Preventive Measures

(1) Credit appraisal

- (A) While carrying out the credit appraisal, SHCL shall verify as to whether the name of any of the Directors of a company/ Guarantors/ Persons in charge of the Management of Affairs of the entity appears in the list of large defaulters/ LWD by way of reference to DIN/ PAN, etc.
- (B) In case of any doubt arising on account of identical names, SHCL shall use independent sources for confirmation of the identity of Directors rather than seeking a declaration from the borrowing company.

(2) Monitoring End Use of Funds

- (A) SHCL 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, SHCL shall consider

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initiating appropriate legal proceedings, including criminal proceedings wherever necessary, against the borrowers.

- (B) The requirements and related appropriate measures in ensuring the end-use of funds by SHCL shall form a part of their loan policy document. An illustrative list of measures for monitoring and ensuring end-use of funds by SHCL are:
- (i) Meaningful scrutiny of quarterly progress reports/ operating statements/ balance sheets of the borrowers;
 - (ii) Regular inspection of borrowers' assets charged to the lender as security;
 - (iii) Periodic scrutiny of borrowers' books of accounts and the 'no-lien' accounts maintained with other lenders;
 - (iv) Periodic visits to the assisted units;
 - (v) System of periodic stock audit, in case of working capital finance;
 - (vi) Periodic comprehensive management audit of the 'credit' function of SHCL, so as to identify the systemic weaknesses in their credit administration.
- (C) In cases of project financing, SHCL shall ensure end use of funds by, *inter alia*, obtaining certification from the Chartered Accountants for the purpose. SHCL 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, SHCL in its existing policy does not lend under short term corporate /clean loans, and accordingly, the guidance note on such loans in the Master Circular dated 30/07/2024 (Refer 17(2)(c) under Monitoring End Use of Funds) has not be included in this policy. It shall be included, if, as and when, SHCL decides to offer such credit facilities.

15. Role of Statutory Auditors

- (1) In case any falsification of accounts on the part of the borrowers is observed by SHCL, and the auditors are found to be negligent or deficient in conducting the audit, SHCL 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.
- (2) 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, SHCL shall satisfy themselves of the involvement of concerned auditors and also provide them with an

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opportunity of being heard. In this regard, SHCL shall follow normal procedures and processes, which shall be suitably recorded.

- (3) Based on such information received from SHCL, IBA shall, in turn, prepare a caution list of such auditors for circulation among all the lenders, who must consider this aspect before assigning any work to them.
- (4) With a view to monitoring the end-use of funds, if SHCL desires a specific certification from the borrowers' auditors regarding diversion/siphoning of funds by the borrowers, SHCL shall award a separate mandate to the auditors for the purpose. To facilitate such certification by the auditors, SHCL shall ensure that appropriate covenants in the loan agreements are incorporated to enable the award of such a mandate by SHCL to the auditor.
- (5) In addition to the above and with a view to preventing diversion/siphoning of funds by the borrowers, SHCL shall engage their own auditors for such specific certification without relying on certification given by borrowers' auditor.
- (6) 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, SHCL 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.

16. Role of third parties

- (1) SHCL shall comply to the directions prescribed in Para 4.2 of the Master Directions on Frauds Risk Management in NBFCs (including Housing Finance Companies) dated July 15, 2024 (as updated from time to time), wherein, in case of wilful defaults also, there should be some accountability for the third parties engaged, subject to them playing a vital role in credit sanction/disbursement and found to be negligent or deficient in their work or have facilitated the wilful default by the borrower.
- (2) SHCL pursuant to proper non-discriminatory examination and pursuant to providing the third party a fair and just opportunity to be heard and/or submit his statements/submissions in the matter, and when being absolutely assured of negligence/deficiency of a third party as a outcome of the due process including its proper recording, forward the details of these third parties to the Indian Banks' Association (IBA) for records. This requirement shall be applicable to all lenders as defined under this Master Direction, irrespective of their membership status with IBA. Based on such information, IBA shall, in turn, prepare caution lists of such third parties and circulate to all the

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regulated entities of Reserve Banks who shall consider this aspect before assigning any work to them.

17. FORMAT FOR SUBMISSION OF DATA

The format for submission of data on cases of wilfull default of Rs.25 lakh & above (suit filed and non-suit filed) to all CICs (on monthly or more frequent basis) shall be as per the field structure suggested by RBI in Appendix-XVII(a) of *RBI-HFC Directions, 2021*. In case of “NIL” data, the same shall be confirmed through a letter/email as per convenience of CICs.

This Policy on “Guidelines on Wilful Defaulters and Large Defaulters” comes into immediate effect and rescinds the erstwhile policy in this respect i.e. “Guidelines on Wilful Defaulters” dated 14/08/2024.

(D J Bagchi)
CEO

Place : Kolkata
Date : May 29, 2025

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