Vivardhana Micro Finance Limited

Chennai

MEMORANDUM TO THE BOARD

Date: 01-03-2021

Agenda:

The Accounting Policies and Disclosure Norms of the company for the period 2021-2022 are placed to the board for approval. The Policy shall come in to force from 01-04-2021 on approval by the Board and shall be valid till 31-03-2022

The Board is requested to pass necessary resolution for approving the policy as per the annexure enclosed.

Managing Director & CEO

VIVARDHANA MICROFINANCE LIMITED

(VMFL)

CHENNAI

ACCOUNTING POLICIES AND DISCLOSURE NORMS

2021-2022

POLICY DOCUMENT ON

ACCOUNTING POLICIES & DISCLOSURE NORMS

PREAMBLE

One of the important functions of the Financial System is to lend money to the needful to achieve economic objectives. The Reserve Bank of India is empowered to issue licenses to Non-Banking Finance Companies (NBFC) and further to issue directives/advices on loans and advances and other aspects including provisioning of assets and disclosure in the financial statements of the Company.

RBI directives can be studied in detail in various Master Circulars issued from time to time.

This policy document on Accounting Policies and Disclosures outlines the guiding principles in respect of accounting method and disclosures to be made by the company Vivardhana Micro Finance Limited (VMFL) in its financial statements prepared annually and audited by the statutory auditors.

COMPANY PROFILE

Vivardhana Micro Finance Limited ('VMFL') is a micro finance institution (NBFC) having valid Certificate of Registration with Reserve Bank of India ('RBI') under current RBI classification as Micro Finance Institution ('MFI').

SIGNIFICANT ACCOUNTING POLICIES

The financial statements need to be prepared and presented in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP). . The financial statements have to comply with the mandatory accounting standards as prescribed under Section 133 of the Act, read with Companies (Accounting Standards) Rules, 2006 and Rule 3(2) of the Companies (Indian Accounting Standards) Rules, 2015 along with relevant provisions of the Act. It also has to comply with the provisions of the Master Direction - Non-Banking Financial Company –Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 issued by the Reserve Bank of India vide Notification No. DBNR. PD. 007/03.10.119/2016-17 dated September 01, 2016, as amended from time to time and Non Banking Financial Company – Micro Finance Institution (Reserve Bank) Directions, 2011 issued vid Notification DNBS. PD.No.234 dated December 02, 2011, as amended from time to time. Accounting Standards and Guidance Notes issued by the Institute of Chartered Accountants of India (referred to in these Directions as "ICAI") shall be followed insofar as they are not inconsistent with any of these Directions. The financial statements shall be prepared on accrual basis under the historical cost convention except interest on loans classified as non-performing assets, which is accounted for on realization basis.

1) Accounting Year

The Balance sheet and Profit and Loss account shall be prepared as on March 31 every year.

2) Revenue Recognition:

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and revenue can be reliably measured.

a) Interest income on loan portfolio is recognized on accrual basis taking into account amount outstanding and rate applicable except in the case of non-performing assets where it is recognized, upon realization, as per the prudential norms of RBI and any such income recognized before the asset became non-performing and remaining unrealized is reversed

b) Loan processing fee received upfront are considered to be accrued at the time of entering in to binding agreement upon its receipt and are recognized accordingly

c) Interest on term deposits has been accrued on the time proportionate basis, using the underlying interest rate

d) Other income is recognized on accrual basis

3) Income from investments

(1) Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on cash basis:

Provided that the income from dividend on shares of corporate bodies shall be taken into account on accrual basis when such dividend has been declared by the corporate body in its annual general meeting and the applicable NBFC's right to receive payment is established.

(2) Income from bonds and debentures of corporate bodies and from Government securities/bonds shall be taken into account on accrual basis:
Provided that the interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears.

(3) Income on securities of corporate bodies or public sector undertakings shall be taken into account on accrual basis.

4) Accounting of investments

Investments which are readily realizable and intended to be held for not more than a year from the date on which such investments are made, are classified as current investments. All other investments are classified as long-term investments.

Current investment shall, for the purpose of valuation be grouped into the following categories, viz.
(a) Equity shares;
(b) Preference shares;
(c) Debentures and bonds;
(d) Government securities including treasury bills;
(e) Units of mutual funds; and
(f) Others.

Current investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for that category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

Long-term investments are carried at acquisition/amortised cost. Investment in debentures which are, in substance, in the nature of credit substitutes are classified as a part of loans towards financing activities and are measured in accordance with the criteria applied for the measurement of loans towards financing activities. Provision is made for diminution other than temporary on an individual investment basis.

On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses, is recognised in the profit and loss statement

5) Accounting of expenditure

Expenses are accounted on an accrual basis. Provision has been made for all known losses and liabilities on the date of financial statements.

6) Accounting of taxes

Income Tax expenses comprises of current tax and deferred tax (asset or liability).

Current tax is the amount of tax payable on the taxable income for the year determined in accordance with the provisions of the Income Tax Act, 1961. Income taxes are accrued in the same year that the related income and expenses arise. A provision is made for Income tax based on the tax liability computed, after considering tax allowances and exemptions. Provisions are recorded when it is estimated that a liability due to disallowances or other matters is probable.

Deferred tax is recognized on timing differences, being the difference between taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax is measured using the tax rates and the tax laws enacted or substantively enacted as at the reporting date. Deferred tax liabilities are recognized for all timing differences. Deferred tax assets are recognized for timing differences of items other than unabsorbed depreciation and carry forward of losses only to the extent that reasonable certainty exist that sufficient future taxable income will be available against which these can be realized. However, if there are unabsorbed depreciation and carry forward of losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that there will be sufficient future taxable income available to realize the assets. Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Company has a legally enforceable right for such set-off. Deferred tax assets are reviewed at each Balance Sheet date for their realisability.

7) Employee Benefits

<u>A) Short-Term Employee Benefits:</u>

Short-Term Employee Benefits for services rendered by employees are recognized during the period when the services are rendered.

<u>B) Post Employment Benefits:</u>

a) Defined Contribution Plan

<u>Provident Fund & Employee State Insurance Scheme</u>

All eligible employees of the Company are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Company contribute monthly at a stipulated percentage of the covered employees' salary. Contributions are made to Employees Provident

Fund Organisation in respect of Provident Fund, Pension Fund and Employees Deposit Linked Insurance Scheme at the prescribed rates and are charged to Statement of Profit & Loss at actuals.

The Company recognizes contribution payable to Employees State Insurance Scheme as defined contribution plan and is charged as an expense based on the amount of contribution required to be made and when services are rendered by the employees.

b) Defined Benefit Plan

Gratuity

The Company provides for gratuity covering eligible employees under which a lumpsum payment is paid to vested employees at retirement, death, incapacitation or termination of employment, of an amount reckoned on the respective employee's salary and his tenor of employment with the Company. The Company accounts for its liability for future gratuity benefits based on actuarial valuation determined at each Balance Sheet date by an Independent Actuary using Projected Unit Credit Method. Actuarial gains / losses are immediately taken to statement of profit and loss and are not deferred.

c) Accumulated leave

The Company shall make payment of earned leave accumulated till December in the month of January of the following year. No leave shall be carried forward to the next year.

8) Asset Classification Norms

Loan portfolio is classified into 'Performing and non-performing' assets in accordance with Non-Banking Financing Company-Micro Finance Institutions (NBFC-MFIs) Directions issued by RBI.

Qualifying Assets

The Asset Classification Norms to be followed in respect of "Qualifying Assets" shall be

i. Standard asset means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;

ii. Nonperforming asset means an asset for which, interest/principal payment has remained overdue for a period of 90 days or more.

Overdue refers to interest and /or instalment remaining unpaid from the day it became receivable

Other Assets

(1) The Asset Classification Norms to be followed in respect of Other Assets (15% of Net Assets) would be

(i) Standard assets;
(ii) Sub-standard assets;
(iii) Doubtful assets; and
(iv) Loss assets.

(2) The class of assets referred to above shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the upgradation.

(3) (i) Standard asset shall mean the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business;

(ii) "Sub-standard asset" shall mean:

(a) an asset which has been classified as non-performing asset for a period not exceeding 18 months;

(b) an asset where the terms of the agreement regarding interest and / or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms :

(iii) "doubtful asset" shall mean:

a. a term loan, or
b. a lease asset, or
c. a hire purchase asset, or
d. any other asset,
which remains a sub-standard asset for a period exceeding 18 months;

(iv) loss asset shall mean:

(a) an asset which has been identified as loss asset by the non-banking financial company or its internal or external auditor or by the Bank during the inspection to the extent it is not written off; and

(b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.

(v) Non-Performing Asset (referred to in these Directions as "NPA") shall mean:

(a) an asset, in respect of which, interest has remained overdue for a period of six months or more;

(b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;

9) Cash and cash equivalents

The Company considers all highly liquid financial instruments, which are readily convertible into cash and have original maturities of three months or less from the date of purchase, to be cash equivalents.

<u>Cash flow statement</u>
Cash flows are reported using the Indirect Method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments and item of income or expenses associated with investing or financing cash flows. The cash flows from regular revenue generating, investing and financing activities of the company are segregated. The Cash flow forms part of the financial statements.

10) Property, Plant and Equipment

Property, Plant and Equipment are carried at cost less accumulated depreciation / amortization and impairment losses, if any. The cost of Property, Plant and Equipment comprises its purchase price net of any trade discounts and rebates, any import duties and other taxes (other than those subsequently recoverable from the tax authorities), any directly attributable expenditure on making the asset ready for its intended use, other incidental expenses and interest on borrowing attributable to acquisition of qualifying fixed assets up to the date the asset is ready for intended use.

11) Depreciation

Fixed assets are intended to be depreciated on Straight Line Method (SLM) over the useful life of assets as prescribed under Schedule II to the Companies Act, 2013. For the assets acquired/disposed during the year, depreciation/ amortization will be charged on pro-rata basis.

12) Impairment of Assets

The carrying amounts of assets are reviewed at each balance sheet date to ascertain impairment based on internal / external factors. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the net selling price of the assets or their value in use. After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life. A previously recognized impairment loss is increased or reversed depending on changes in circumstances. However, the carrying value after reversal is not increased beyond the carrying value that would have prevailed by charging usual depreciation if there was no impairment.

13) Current- Non current Classification

All assets and liabilities are classified as current and non-current

<u>Assets</u>: An asset is classified as current when it satisfies any of the following criteria:

i. It is expected to be realized in, or intended for sale or consumption in, the company's normal operating cycle
ii. It is held primarily for the purpose of being traded; or
iii. It is expected to be realized within 12 months after the reporting date

Current assets include the current portion of non-current assets. All other assets are classified as non-current

<u>Liabilities</u>: A liability is classified as current when it satisfies any of the following criteria:

i. It is expected to be settled in the company's normal operating cycle
ii. It is held primarily for the purpose of being traded
iii. It is due to be settled within 12 months after the reporting date; or
iv. The company does not have an unconditional right to defer settlement of the liability for atleast 12 months after the reporting date

Current liabilities include the current portion of non-current liabilities. All other liabilities are classified as non-current

14) Provisioning Policy:

Qualifying Assets

The aggregate loan provision to be maintained at any point of time shall not be less than the higher of

a) 1% of the outstanding loan portfolio or

b) 50% of the aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan instalments which are overdue for 180 days or more.

Other Assets

The provisioning requirement in respect of other assets shall be as under:

(i) Loss Assets: The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding shall be provided for;

(ii) Doubtful Assets

(a) 100% provision to the extent to which the advance is not covered by the realisable value of the security to which the applicable NBFC has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis;

(b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. Estimated realisable value of the outstanding) shall be made on the following basis:-

Period for which the asset has been considered as doubtful	Per cent of provision
Up to one year	20
One to three years	30
More than three years	50

(iii) Sub-standard assets A general provision of 10 percent of total outstanding shall be made.

Standard asset provisioning: The Company shall make provision for standard assets at 0.25 percent of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet.

16) Provisions, Contingent Liabilities & Contingent Assets

Provisions are recognized only when the Company has present, legal or constructive obligations as a result of past events, for which it is probable that an outflow of economic benefit will be required to settle the transaction and a reliable estimate can be made for the amount of the obligation.

Contingent liability is disclosed for

(i) possible obligations which will be confirmed only by future events not wholly within the control of the Company, or

(ii) present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

Contingent assets are not recognized in the financial statements since this may result in the recognition of income that may never be realized.

DISCLOSURES IN THE BALANCE SHEET

(1) The Company shall separately disclose in its balance sheet the provisions made as per the RBI Directions without netting them from the income or against the value of assets.

(2) The provisions shall be distinctly indicated under separate heads of account as under:-
(i) provisions for bad and doubtful debts; and
(ii) provisions for depreciation in investments.

(3) Such provisions shall not be appropriated from the general provisions and loss reserves held, if any.

(4) Such provisions for each year shall be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves may be written back without making adjustment against them.

(5) The company shall disclose its Capital Adequacy Ratio (CAR) consisting of Tier I and Tier II capital. The CAR shall not be below 15% of its aggregate risk weighted assets and the total of Tier II capital shall not exceed 100% of its Tier I capital during the year at any point.

(6) The Company shall disclose its Qualifying assets as a percentage of Total Assets for the current year and previous year. The qualifying assets shall be as specified in the RBI Master Circular – Non Banking Financial Company – Micro Finance Institutions (NBFC-MFIs)-Directions RBI/2015-16/49 DNBR (PD) CC No 047/03.10.119/2015-16 dated 1st July 2015.

(7) Information on Net Interest Margin for the year along with the Average lending rate and Average effective cost of borrowing shall be disclosed. The calculation shall be as per Pricing of Credit guidelines prescribed in master direction issued by the Reserve Bank of India no DNBR.PD.008/03.10/119/2016-17.

(8) The table in the format shown below shall form part of the Schedule to the Balance Sheet

				(₹ in lakhs)
		Particulars		
		Liabilities side	**Amount outstanding**	**Amount overdue**
(1)		**Loans and advances availed by the non-banking financial company inclusive of interest accrued thereon but not paid :**		
	(a)	Debentures : Secured		
		: Unsecured		
		(other than falling within the meaning of public deposits*)		
	(b)	Deferred Credits		
	(c)	Term Loans		
	(d)	Inter-corporate loans and borrowing		
	(e)	Commercial Paper		
	(f)	Public Deposits*		
	(g)	Other Loans (specify nature)		
		* Please see Note 1 below		
(2)		**Break-up of (1)(f) above (Outstanding public deposits inclusive of interest accrued thereon but not paid) :**		
	(a)	In the form of Unsecured debentures		
	(b)	In the form of partly secured debentures i.e. debentures where there is a shortfall in the value of security		
	(c)	Other public deposits		
		* Please see Note 1 below		

	Assets side			Amount outstanding
(3)	**Break-up of Loans and Advances including bills receivables [other than those included in (4) below] :**			
	(a)	Secured		
	(b)	Unsecured		
(4)	**Break up of Leased Assets and stock on hire and other assets counting towards AFC activities**			
	(i)	Lease assets including lease rentals under sundry debtors :		
		(a)	Financial lease	
		(b)	Operating lease	
	(ii)	Stock on hire including hire charges under sundry debtors :		
		(a)	Assets on hire	
		(b)	Repossessed Assets	
	(iii)	Other loans counting towards AFC activities		
		(a)	Loans where assets have been repossessed	
		(b)	Loans other than (a) above	
(5)	**Break-up of Investments**			
	Current Investments			
	1.	Quoted		
		(i)	Shares	
			(a) Equity	
			(b) Preference	
		(ii)	Debentures and Bonds	

		(iii)	Units of mutual funds	
		(iv)	Government Securities	
		(v)	Others (please specify)	
	2.	Unquoted		
		(i)	Shares	
			(a) Equity	
			(b) Preference	
		(ii)	Debentures and Bonds	
		(iii)	Units of mutual funds	
		(iv)	Government Securities	
		(v)	Others (please specify)	
	Long Term investments			
	1.	Quoted		
		(i)	Share	
			(a) Equity	
			(b) Preference	
		(ii)	Debentures and Bonds	
		(iii)	Units of mutual funds	
		(iv)	Government Securities	
		(v)	Others (please specify)	
	2.	Unquoted		
		(i)	Shares	
			(a) Equity	
			(b) Preference	
		(ii)	Debentures and Bonds	
		(iii)	Units of mutual funds	
		(iv)	Government Securities	
		(v)	Others (please specify)	
		(vi)		

(6)	**Borrower group-wise classification of assets financed as in (3) and (4) above :** Please see Note 2 below					
	Category			**Amount net of provisions**		
				Secured	**Unsecured**	**Total**
	1.	**Related Parties ****				
		(a)	Subsidiaries			
		(b)	Companies in the same group			
		(c)	Other related parties			
	2.	Other than related parties				
	Total					

(7)	**Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted) :** Please see note 3 below				
	Category			**Market Value / Break up or fair value or NAV**	**Book Value (Net of Provisions)**
	1.	Related Parties **			
		(a)	Subsidiaries		
		(b)	Companies in the same group		
		(c)	Other related parties		
	2.	Other than related parties			
	Total				
	** As per Accounting Standard of ICAI (Please see Note 3)				

(8)	**Other information**				
	Particulars				**Amount**
	(i)	Gross Non-Performing Assets			
		(a)	Related parties		
		(b)	Other than related parties		
	(ii)	Net Non-Performing Assets			
		(a)	Related parties		
		(b)	Other than related parties		
	(iii)	Assets acquired in satisfaction of debt			

Notes :	
1.	As defined in point xix of paragraph 3 of Chapter -2 of these Directions.
2.	Provisioning norms shall be applicable as prescribed in these Directions.
3.	All Accounting Standards and Guidance Notes issued by ICAI are applicable including for valuation of investments and other assets as also assets acquired in satisfaction of debt. However, market value in respect of quoted investments and break up / fair value / NAV in respect of unquoted investments shall be disclosed irrespective of whether they are classified as long term or current in (5) above.