

Who are included?

1. All deposit taking NBFCs
2. All non-deposit taking NBFCs with asset size greater or equal to Rs 1,000 cr (includes Core Investment Companies, Infra Debt Funds, Infra Fin Cos, MFIs)

Who are excluded?

1. All non-deposit taking NBFCs with asset size less than Rs 1000 cr.
2. Housing Finance Companies
3. Government NBFCs (till they switch over to the revised min CRAR requirements of 15% by Mar'22).
4. PDs

What parameters will be tracked to invoke PCA norms?

1. NBFCs (D and ND): Capital to Risk Weighted Assets Ratio (CRAR), Tier I Capital Ratio and Net NPA Ratio (NNPA).
2. CICs: Adjusted Net Worth/Aggregate Risk Weighted Assets, Leverage Ratio and NNPA

What would be the periodicity of PCA review?

1. Typically, these would be based on annual statements, but RBI can at any time of the year demand a review based on evolving situation.

What is the risk threshold for invoking PCA?

1. NBFCs (D and ND):

	Risk Threshold-1	Risk Threshold-2	Risk Threshold-3
CRAR	CRAR <15% to \geq 12%	CRAR <12% but \geq 9%	CRAR <9%
Tier I Capital Ratio	Tier 1 Capital Ratio <10% but \geq to 8%	T1 capital ratio <8% but \geq to 6%	T1 capital ratio <6%
NNPA Ratio (including NPIs)	>6% but \leq 9%	>9% but \leq 12%	>12%

2. CICs

	Risk Threshold-1	Risk Threshold-2	Risk Threshold-3
Adjusted Net Worth / Aggregate Risk Weighted Assets	ANW/RWA <30% but \geq 24%	ANW/RWA <24% but \geq 18%	ANW/RWA <18%
Leverage Ratio	\geq 2.5 times but <3 times	\geq 3 times but <3.5 times	\geq 3.5 times
NNPA Ratio (including NPIs)	>6% but \leq 9%	>9% but \leq 12%	>12%

What happens when a risk threshold is breached?

PCA norms will be activated. The intensity of measures will depend on the threshold breached (1/2/3).

	Mandatory actions	Discretionary actions
Risk Threshold 1	<ul style="list-style-type: none"> Restriction on dividend distribution/remittance of profits; Promoters/shareholders to infuse equity and reduction in leverage; Restriction on issue of guarantees or taking on other contingent liabilities on behalf of group companies (only for CICs) 	<u>Common menu</u> <ul style="list-style-type: none"> Special Supervisory Actions Strategy related Governance related Capital related Credit risk related Market risk related HR related Profitability related Operations/Business related Any other.
Risk Threshold 2	In addition to mandatory actions of Threshold 1, <ul style="list-style-type: none"> Restriction on branch expansion 	
Risk Threshold 3	In addition to mandatory actions of Threshold 1 & 2, <ul style="list-style-type: none"> Appropriate restrictions on capital expenditure, other than for technological upgradation within Board approved limits Restrictions/reduction in variable operating costs 	

When can an institution come out of PCA norms?

The following conditions needs to be met (as assessed by RBI):

- if no breaches in risk thresholds for 4 continuous quarterly financial statements, one of which should be Annual Audited Financial Statement
- Supervisory comfort of the RBI, including an assessment on sustainability of profitability of the institution.

When will these norms come into effect?

October 1, 2022, based on the financial position of NBFCs on or after March 31, 2022.

Key terms:

Capital to Risk Weighted Assets Ratio (CRAR) = (Eligible Tier 1 and Tier 2 Capital Funds)/(Credit Risk RWA+ Market Risk RWA+ Operation Risk RWA)

Tier 1 Capital: Tier I capital consists mainly of share capital and disclosed reserves and it is a financial institution's highest quality capital because it is fully available to cover losses.

Net NPA = Gross NPA - (Balance in Interest Suspense account + DICGC/ECGC claims received and held pending adjustment + Part payment received and kept in suspense account + Total provisions held).



TruQuest is a knowledge series launched by TruBoard Partners providing succinct updates and views on:

- Liquidity outlook
- India's macro-economic view
- Trends within the Infrastructure, Real Estate and Renewable Energy sectors
- Impact analysis of new regulations and policies on lending and capital flow



TruBoard provides bespoke solutions for capital providers to better manage their investments and maximise returns. TruBoard brings in a combination of domain expertise and artificial intelligence to the mainstream of financial analysis, enabling speedy and effective decision making. TruBoard's core area of operations are Credit Monitoring, Real Asset Management, Retail Loan Servicing and Collection, and Dispute Resolution and Advisory.

Website:

www.truboardpartners.com

Email Id:

research@truboardpartners.com

Disclaimer:

The data and analysis covered in this report of TruQuest has been compiled by TruBoard VT Pvt Ltd (TruBoard) based upon information available to the public and sources believed to be reliable. Though utmost care has been taken to ensure its accuracy, no representation or warranty, express or implied, is made that it is accurate or complete. TruBoard has reviewed the data so far as it includes current or historical information which is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Information in certain instances consists of compilations and/or estimates representing TruBoard's opinion based on statistical procedures, as TruBoard deems appropriate. Sources of information are not always under the control of TruBoard. TruBoard accepts no liability and will not be liable for any loss of damage arising directly or indirectly (including special, incidental, consequential, punitive or exemplary) from use of this data, howsoever arising, and including any loss, damage or expense arising from, but not limited to any defect, error, imperfection, fault, mistake or inaccuracy with this document, its content.

