## 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 ≥ 12% | CRAR <12% but ≥9% | CRAR <9% |
| Tier I Capital Ratio | Tier 1 Capital Ratio <10% but ≥ to 8% | T1 capital ratio <8% but ≥ to 6% | T1 capital ratio <6% |
| NNPA Ratio (including NPIs) | >6% but ≤ 9% | >9% but ≤12% | >12% |

2. CICs

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

<table>
<tr><th></th><th>Mandatory actions</th><th>Discretionary actions</th></tr>
<tr><td>Risk Threshold 1</td><td><ul><li>Restriction on dividend distribution/remittance of profits;</li><li>Promoters/shareholders to infuse equity and reduction in leverage;</li><li>Restriction on issue of guarantees or taking on other contingent liabilities on behalf of group companies (only for CICs)</li></ul></td><td rowspan="3"><u>Common menu</u><ul><li>Special Supervisory Actions</li><li>Strategy related</li><li>Governance related</li><li>Capital related</li><li>Credit risk related</li><li>Market risk related</li><li>HR related</li><li>Profitability related</li><li>Operations/Business related</li><li>Any other.</li></ul></td></tr>
<tr><td>Risk Threshold 2</td><td>In addition to mandatory actions of Threshold 1,<ul><li>Restriction on branch expansion</li></ul></td></tr>
<tr><td>Risk Threshold 3</td><td>In addition to mandatory actions of Threshold 1 & 2,<ul><li>Appropriate restrictions on capital expenditure, other than for technological upgradation within Board approved limits</li><li>Restrictions/reduction in variable operating costs</li></ul></td></tr>
</table>

### When can an institution come out of PCA norms?

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

1. if no breaches in risk thresholds for 4 continuous quarterly financial statements, one of which should be Annual Audited Financial Statement
2. 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

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

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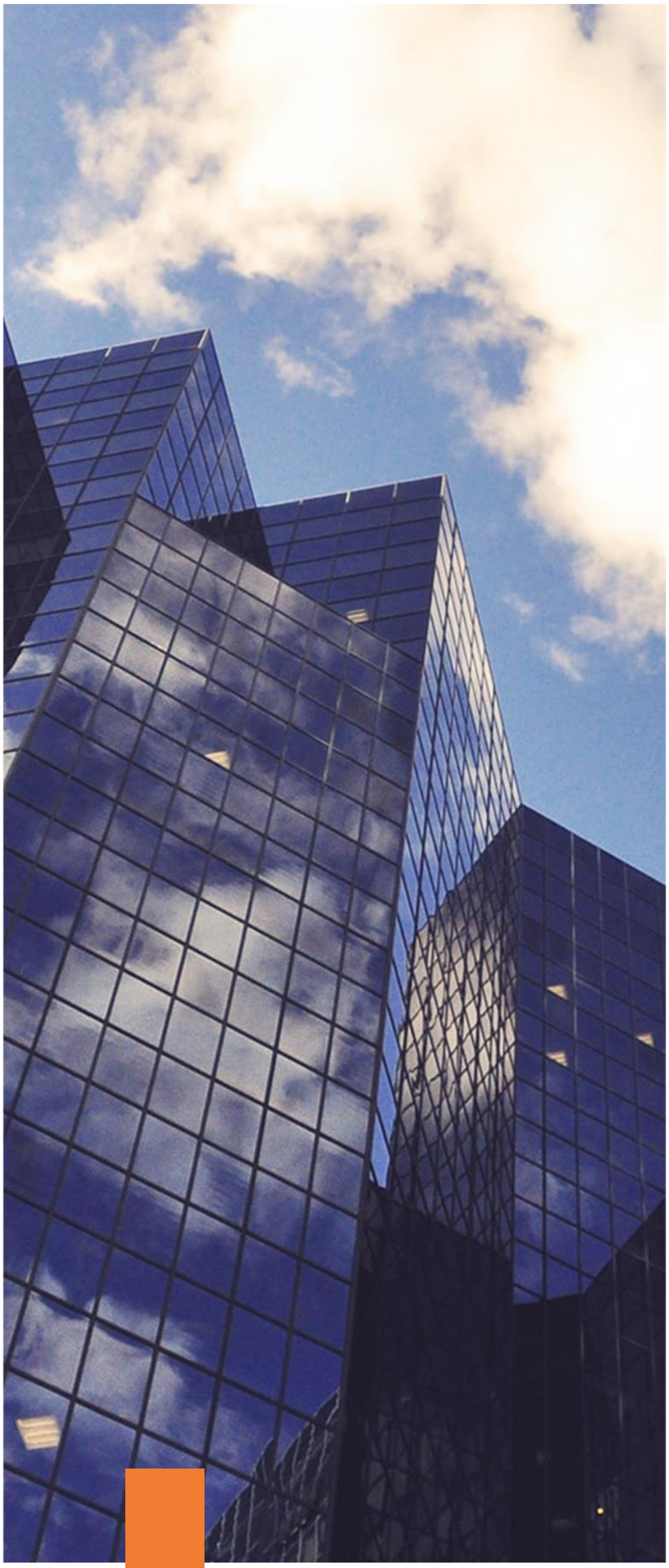

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