

ART Venture Finance (India) Private Limited

Policy for Treatment of Wilful Defaulters and Large Defaulters

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Reviewed By	AVP — Risk Management (Sanchit Gupta)
Recommended By	Chief Investment Officer
Approved By	Board of Directors

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1.0	01.07.2026	First Version — aligned to RBI Master Direction RBI/DoR/2024-25/122 dated 30 July 2024	Annually or upon regulatory change

Disclaimer:

This document is confidential and intended solely for ART Venture Finance (India) Private Limited, its employees, officers, directors, and authorised representatives. It is available to the RBI and other regulatory authorities upon request.

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1. Background

The Reserve Bank of India, through its Master Direction on Treatment of Wilful Defaulters and Large Defaulters — RBI/DoR/2024-25/122 DoR.FIN.REC.No.31/20.16.003/2024-25 dated 30 July 2024 ("RBI Master Direction") — has mandated Non-Banking Financial Companies to adopt a Board-approved policy to identify, classify, and report wilful defaulters and large defaulters in a fair, transparent, and consistent manner.

ART Venture Finance (India) Private Limited ("AVF" or "the Company") is a non-deposit taking NBFC-ICC registered with the Reserve Bank of India, providing alternative lending (working capital loans, term loans, and project finance), equity investments, and convertible instruments to tech-enabled, innovative businesses in India on a B2B basis.

In line with the RBI Master Direction, AVF has formulated this Policy to ensure a non-discriminatory and transparent procedure, having regard to the principles of natural justice, for classifying a borrower as a wilful defaulter or large defaulter. This Policy applies exclusively to AVF's alternative lending book. Equity investments and convertible instruments pre-conversion do not give rise to repayment obligations and are therefore outside the scope of this Policy.

2. Objectives

- To define Wilful Default and Large Default in accordance with the RBI Master Direction dated 30 July 2024.
- To establish a structured framework for the identification, examination, and declaration of wilful defaulters and large defaulters in AVF's lending portfolio.
- To ensure timely and accurate reporting of wilful defaulters and large defaulters to RBI and credit information companies (CICs) in the prescribed format.
- To implement appropriate penal measures for wilful defaulters and restrict further credit exposure.
- To safeguard the integrity of AVF's lending process and protect the interests of its stakeholders.
- To ensure borrowers are given a fair opportunity to be heard before any classification is made.

3. Definitions

The following terms shall have the meanings set out below, consistent with the RBI Master Direction:

1. Borrower: A company or entity that has availed a credit facility from AVF under an alternative lending arrangement.

2. Credit Facility: Any fund-based or non-fund-based lending facility extended by AVF to a borrower, including working capital loans, term loans, and project finance. Equity investments and convertible instruments pre-conversion are not credit facilities for the purposes of this Policy.

3. Director: A director of a company that has been classified as a large defaulter or wilful defaulter, who was associated with the company at the time when the acts of omission or commission led to the default.

4. Diversion of Funds: Occurs when:

- (a) Short-term working capital funds are used for long-term purposes not in conformity with the terms of the sanctioned credit facility;
- (b) Funds are deployed for creation of assets other than those for which credit was sanctioned;
- (c) Funds are transferred to subsidiaries, group companies, or other entities without the prior written approval of AVF;
- (d) Funds are routed through any entity other than AVF without prior written permission;
- (e) Funds are invested in other companies or entities by way of acquiring equity or debt instruments without AVF's prior approval; or
- (f) There is a shortfall in the deployment of funds vis-à-vis amounts disbursed or drawn under the credit facility, and the difference is not accounted for.

5. Guarantor: A person or entity who has guaranteed the credit facility extended by AVF.

6. Large Defaulter: A defaulter with an outstanding amount of Rs. 1 Crore and above where: (a) a suit has been filed; or (b) the account has been classified as doubtful or loss in accordance with RBI IRAC norms.

7. Promoter: A person named as such in a prospectus or identified by the company in its annual return, who has control over the affairs of the company — directly or indirectly — whether as a shareholder, director, or otherwise; or in accordance with whose advice, directions, or instructions the Board of Directors of the company is accustomed to act.

8. Siphoning of Funds: Occurs if funds availed using a credit facility from AVF are utilised for purposes unrelated to the operations of the borrower, such that the funds cannot be traced to the sanctioned purpose and the assets are not available in the borrower's unit.

9. Wilful Default: A borrower shall be deemed to have committed wilful default if:

(i) **Deliberate Non-Payment:** The borrower defaults in repayment obligations to AVF despite having the capacity to pay.

(ii) **Diversion of Funds:** The borrower utilises borrowed funds for purposes other than those sanctioned by AVF.

(iii) **Siphoning of Funds:** The borrower utilises funds in a manner that cannot be traced to the sanctioned purpose and assets are not available in the borrower's unit.

(iv) **Disposal of Secured Assets:** The borrower disposes of or removes secured assets without AVF's knowledge or consent.

(v) **Non-Infusion of Equity:** The borrower or promoter has failed to fulfil a commitment to infuse equity despite having the ability to do so, where AVF extended loans or concessions based on that commitment.

A guarantor shall be deemed to have committed wilful default if the guarantor does not honour the guarantee when invoked by AVF despite having sufficient means to make payment, or has disposed of assets provided as security without AVF's approval, or has failed to fulfil a committed equity infusion despite having the ability to do so.

4. Scope and Applicability

This Policy applies to all credit exposures of AVF under its alternative lending products — including working capital loans, term loans, and project finance — and covers:

- Borrowers — companies and entities that have availed credit facilities from AVF
- Co-borrowers — entities jointly and severally liable under the credit facility
- Guarantors — persons or entities that have guaranteed the credit facility
- Promoters and whole-time directors of borrower companies

This Policy does not apply to equity investee companies or holders of convertible instruments prior to conversion, as these instruments do not create repayment obligations. If a convertible instrument is not converted and the repayment obligation is not met, the relevant borrower may be assessed under this Policy at that stage.

5. Governance Structure

5.1 Wilful Defaulter Identification Committee (WDIC)

Composition:

- Chief Investment Officer (Chairperson)
- AVP — Risk Management
- Legal and Compliance Officer

Role:

- Examine evidence of wilful default or large default following preliminary screening
- Issue show-cause notices to the relevant borrower, guarantor, promoter, or director
- Consider submissions received and, where satisfied, make a proposal to the Review Committee for classification as a wilful defaulter, with written reasons
- Maintain complete records of all proceedings

Note: At AVF's current scale, the WDIC functions as the Identification Committee. As the lending book grows and the organisation expands, a more formally constituted committee — separate from the day-to-day credit function — shall be established. The Board shall review this annually.

5.2 Review Committee

Composition:

- A Director of the Board (Chairperson — not a member of the WDIC)
- One Independent Director or Board nominee
- One senior executive of AVF not part of the WDIC

Role:

- Review recommendations received from the WDIC
- Provide the borrower, guarantor, promoter, or director an opportunity for personal hearing
- Take a final decision on classification as a wilful defaulter by passing a reasoned written order
- Communicate the final order to the relevant party

6. Criteria for Identification of Wilful Defaulters and Large Defaulters

S.No	Norm / Criteria	Interpretation
1	Applicability	Borrowers, co-borrowers, and guarantors under AVF's alternative lending facilities. Not applicable to equity investee companies or holders of convertible instruments pre-conversion.
2	Exclusions	A director other than a whole-time director, including an independent director or nominee director, shall not be considered a wilful defaulter unless it is conclusively established that: (i) the wilful default took place with their consent or connivance; or (ii) they were aware of the wilful default as revealed from Board or committee meeting minutes but did not record their objections.
3	Assessment Level	Borrower level — assessed across all credit facilities extended by AVF to the borrower.

4	NPA Status	Borrower must be classified as NPA (90+ days past due) before wilful default classification proceedings are initiated.
5	Aggregate Threshold	All non-performing borrower accounts with aggregate fund-based or non-fund-based outstanding of Rs. 25 Lakh or more shall be considered for wilful default assessment.
6	Large Defaulter Threshold	Outstanding amount of Rs. 1 Crore and above, where: (a) a suit has been filed; or (b) the account has been classified as doubtful or loss as per RBI IRAC norms.

7. Procedure for Declaration of Wilful Default

The identification of wilful default shall be based on the track record of the borrower and shall not be decided on the basis of isolated incidents or transactions. The default to be categorised as wilful must be intentional, deliberate, and calculated, meeting the conditions defined in Section 3. Identification of wilful default is solely at the discretion of AVF, subject to compliance with this procedure.

- (i) Cases observed as potential wilful default during preliminary screening, together with supporting evidence, shall be placed before the WDIC for examination.
- (ii) If the WDIC is satisfied that an event of wilful default may have occurred, it shall issue a show-cause notice to the borrower, guarantor, promoter, director, or person in charge of the management of the entity, calling for their submissions within 21 days of the notice. All materials and information on which the notice is based shall be disclosed to the relevant parties.
- (iii) After considering the submissions received, the WDIC — if satisfied — shall make a written proposal to the Review Committee for classification as a wilful defaulter, setting out the reasons in detail.
- (iv) The borrower, guarantor, promoter, director, or relevant person shall be advised of the WDIC's proposal and the reasons therefor.
- (v) The relevant party shall be given an opportunity to make a written representation to the Review Committee within 15 days of the proposal from the WDIC.
- (vi) The Review Committee shall consider the WDIC's proposal together with any written representation received.
- (vii) The Review Committee shall provide an opportunity for a personal hearing. If the opportunity is not availed, the Review Committee shall — after assessing all facts and material on record, including any written representation — consider the WDIC's proposal and pass a reasoned written order, which shall be communicated to the wilful defaulter.
- (viii) The Legal and Compliance Officer shall issue show-cause notices and serve written orders on behalf of the WDIC and the Review Committee respectively. All notices and orders shall clearly identify the committee that issued them and shall state that they carry the approval of the competent authority.

8. Penal Measures

Once a borrower is formally declared a wilful defaulter by the Review Committee, the following measures shall apply:

8.1 No Further Funding

AVF shall not grant any new or additional credit facilities to a wilful defaulter, or to any entity with which a wilful defaulter is associated. Existing facilities may be recalled at AVF's discretion.

8.2 Restriction on New Venture Funding

No additional funding shall be extended for new ventures floated by the wilful defaulter, or to new ventures where the borrower, its entrepreneurs, promoters, or whole-time directors (whose names appear in the List of Wilful Defaulters) are involved — in cases where AVF has identified siphoning or diversion of funds, misrepresentation, falsification of accounts, or fraudulent transactions. This restriction shall apply for a period of 5 years from the date of removal of the relevant party's name from the List of Wilful Defaulters, or as subsequently amended by the RBI.

8.3 Criminal Proceedings

Based on the facts and circumstances of each case, AVF shall examine whether initiation of criminal proceedings against the wilful defaulter is warranted under applicable law. Where criminal proceedings have been initiated, removal of a wilful defaulter's name from the List of Wilful Defaulters shall be without prejudice to the continuation of such proceedings.

8.4 Loan Agreement Covenants

All loan agreements entered into by AVF shall include covenants providing that:

- (a) The borrower shall not induct onto its Board, or appoint as a person in charge of its management, any person whose name appears in the List of Wilful Defaulters. If such a person is already appointed, the borrower shall take immediate and effective steps for their removal.
- (b) Under no circumstances shall AVF provide any renewal, enhancement, fresh credit facility, or restructuring of existing facilities to such a borrower while the name of its promoter, director, or person in charge of its management remains in the List of Wilful Defaulters.

8.5 Legal Action

Legal action — including initiation of recovery proceedings, foreclosure, invocation of security, or proceedings under applicable law — shall be initiated expeditiously against wilful defaulters and guarantors wherever warranted.

8.6 Associated Entities

Where the wilful defaulter is a company, the following entities shall be deemed associated:

- (a) A subsidiary company as defined under Section 2(87) of the Companies Act, 2013.
- (b) A company falling within the definition of a joint venture or associate company under Section 2(6) of the Companies Act, 2013.

Where the wilful defaulter is a natural person, all entities in which that person is associated as a promoter, director, or person in charge of management shall be deemed associated. The penal provisions above shall cease to apply to associated entities when they are no longer associated with the wilful defaulter.

Where existing promoters are replaced by new promoters under the RBI's Prudential Framework for Resolution of Stressed Assets (dated 7 June 2019, as amended) and the borrower is fully delinked from the erstwhile promoters, AVF may consider restructuring such accounts on the basis of viability, without prejudice to the continuation of criminal proceedings against the erstwhile promoters.

9. Reporting of Wilful Defaulters and Large Defaulters

9.1 Reporting of Large Defaulters

AVF shall submit information on large defaulters to all credit information companies (CICs) at monthly intervals in the format prescribed by RBI, including:

- (a) A list of suit-filed accounts of large defaulters; and
- (b) A list of non-suit-filed accounts of large defaulters whose accounts have been classified as doubtful or loss under RBI IRAC norms.

For calculating the Rs. 1 Crore threshold, unapplied interest shall be included. In suit-filed accounts, the threshold relates to the amount for which suits have been filed. Suit-filed accounts include accounts where SARFAESI proceedings or any other recovery proceedings are initiated and pending, including accounts where resolution or liquidation proceedings have been initiated under the Insolvency and Bankruptcy Code, 2016.

9.2 Reporting of Wilful Defaulters

AVF shall submit information on wilful defaulters to all CICs at monthly intervals, including:

- (a) A List of Wilful Defaulters (LWD) in respect of suit-filed accounts; and
- (b) An LWD in respect of non-suit-filed accounts.

Removal from LWD: The removal of a wilful defaulter's name from the LWD shall be communicated to all CICs promptly and not later than 30 days from the date when the outstanding amount falls below the threshold of Rs. 25 Lakh, or such other threshold as notified by the RBI from time to time.

9.3 Compromise Settlements

Any account included in the LWD where a compromise settlement is initiated shall be removed from the LWD only when the borrower has fully paid the agreed compromise amount. Partial payment shall not trigger removal. All compromise settlements shall be without prejudice to the continuation of criminal proceedings against the wilful defaulter.

9.4 Transfer of Defaulted Loans

Before transferring a defaulted loan with outstanding of Rs. 25 Lakh and above — irrespective of NPA classification — to another lender or Asset Reconstruction Company (ARC), AVF shall conduct a comprehensive internal investigation from a wilful default perspective. Where wilful default is identified, AVF shall complete the classification process and report the borrower in the LWD to CICs before transferring the asset. The transferee lender or ARC shall be informed that the account has been classified as a wilful default.

9.5 Accounts Resolved Under IBC or RBI Resolution Framework

Where an account included in the LWD subsequently undergoes resolution under the Insolvency and Bankruptcy Code, 2016, or under the RBI's Prudential Framework for Resolution of Stressed Assets, resulting in a change in management and control, the name of the borrower, guarantor, promoter, or director classified as a wilful defaulter shall be removed from the LWD after implementation of the resolution plan. Penal measures shall cease to apply to the entity or business enterprise after implementation. However, penal measures shall continue to apply to erstwhile promoters, directors, guarantors, and persons who were in charge of the management of the entity, and to the entities they are associated with.

9.6 Accuracy of Reporting

AVF shall be responsible for ensuring the accuracy of all information reported to CICs — including names, Director Identification Numbers (DINs), PAN details, and outstanding amounts — cross-checking where possible with the database of the Registrar of Companies.

9.7 Reporting of Guarantors and Directors

Details of guarantors who have failed to honour guarantees when invoked shall be reported to CICs as large defaulters or wilful defaulters as applicable. In the case of borrowing companies, the full names and DINs of directors shall be reported to CICs to facilitate accurate identification and prevent wrongful denial of credit facilities to persons with similar names.

10. Preventive Measures and Role of Auditors

10.1 Preventive Measures at Credit Appraisal

At the credit appraisal stage, AVF shall:

- Verify whether the name of any director, guarantor, or person in charge of the management of the borrower entity appears in the List of Large Defaulters or List of Wilful Defaulters, using DIN and PAN references.
- Where any doubt arises due to similar names, use independent sources for identity confirmation rather than relying solely on a declaration from the borrower.

10.2 Monitoring End-Use of Funds

- AVF shall monitor the end-use of all disbursed funds and obtain periodic certifications from borrowers confirming that funds have been utilised for the sanctioned purpose.
- Loan agreements shall include covenants enabling AVF to commission independent certification by the borrower's auditors — or AVF's own auditors — regarding the utilisation, diversion, or siphoning of funds.
- In cases where incorrect certification is provided by the borrower, AVF shall consider initiating appropriate legal proceedings, including criminal proceedings, where warranted.

10.3 Role of Internal Audit

- The internal auditors shall specifically review adherence to this Policy's procedures for classification of borrowers as wilful defaulters, and report findings to the Board.
- The Board — or the Audit Committee where constituted — shall review cases of wilful default quarterly, focusing on root cause analysis and prevention of recurrence.

10.4 Role of Statutory Auditors

- Where falsification of accounts by a borrower is observed and the borrower's auditors are found to be negligent or deficient, AVF shall consider lodging a formal complaint against those auditors with the National Financial Reporting Authority (NFRA) or the Institute of Chartered Accountants of India (ICAI).
- Pending disciplinary action by NFRA or ICAI, AVF shall forward the complaint to the Reserve Bank of India (Department of Supervision, Central Office) and the Indian Banks' Association (IBA), after providing the concerned auditors an opportunity to be heard.
- For accounts with outstanding of Rs. 5 Crore and above, AVF shall consider commissioning a forensic audit of the borrower's affairs and books of accounts, depending on the nature of the wilful default and the quality of evidence available.

10.5 Role of Third Parties

Where third parties engaged by AVF — including legal advisors, valuation firms, or technical consultants — are found to have played a role in a credit sanction or disbursement and are found negligent, deficient, or complicit in facilitating a wilful default, AVF shall forward the details of such third parties to the Indian Banks' Association (IBA) for record, after providing them an opportunity to be heard and satisfying itself of their involvement.

11. Borrower Rights and Fair Practices

- No borrower, guarantor, promoter, or director shall be classified as a wilful defaulter without being given due notice and a fair opportunity to present their case, consistent with the principles of natural justice.
- All materials and information forming the basis of a show-cause notice shall be disclosed to the relevant party before the notice is issued.
- The borrower, guarantor, promoter, or director shall have the right to submit written representations and, where requested, to appear for a personal hearing before the Review Committee.
- The Review Committee's final order shall be a reasoned written order and shall be communicated to the wilful defaulter.
- All proceedings — including notices, submissions, hearing records, and orders — shall be documented and maintained on record by the Legal and Compliance Officer.
- AVF shall not make public communications regarding a wilful default classification before the final Review Committee order is passed and communicated to the relevant party.

12. Policy Review

This Policy shall be reviewed annually by the Board of Directors, or earlier if required due to changes in RBI regulations — including amendments to the Master Direction on Treatment of Wilful Defaulters and Large Defaulters. Any amendments shall be approved by the Board of Directors by resolution and recorded in the version history. The amended Policy shall be circulated to all relevant employees and shall be available to the RBI upon request.

Certification

This Policy for Treatment of Wilful Defaulters and Large Defaulters has been reviewed by the AVP — Risk Management, recommended by the Chief Investment Officer, and approved by the Board of Directors of ART Venture Finance (India) Private Limited, in compliance with RBI Master Direction RBI/DoR/2024-25/122 dated 30 July 2024.

Authorised Signatory	[Name / Designation]
Date of Board Approval	[Date]
Place	Gurugram, Haryana

This document should be reviewed by qualified legal counsel before publication. It does not constitute legal advice.