

AQUILA FINANCE LIMITED

AUCTION POLICY

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(History of the Document	Adopted by	Date of Adoption/Review
Originally Adopted	Board of Directors	10-06-2023
Review	Board of Directors	27-04-2024
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I. INTRODUCTION AND OBJECTIVE

Aquila Finance Limited ("the Company") is engaged in the business of lending against various forms of collateral security, primarily comprising gold ornaments, used vehicles, and immovable properties. This Recovery and Auction Policy is established to provide a structured, transparent, and fair framework for the recovery of dues and the subsequent auction of securities, which is to be undertaken strictly as a measure of last resort. The policy is formulated in compliance with the Reserve Bank of India's "Guidelines on Fair Practices Code for NBFCs" and other applicable statutory and regulatory requirements. The primary objectives are to safeguard the Company's financial health by ensuring the quality of its loan assets and compliance with NPA norms, to encourage borrowers to regularize their accounts through persuasive and soft recovery measures, and to ensure that all recovery and auction proceedings are conducted with utmost efficiency, transparency, and in accordance with the law, thereby protecting the interests of both the Company and its borrowers.

II. SCOPE AND APPLICABILITY

This Policy comprehensively governs the recovery and auction processes for all secured loan portfolios of the Company. It specifically delineates the procedures for Gold Loans, Mortgage Loans secured by immovable property, and Used Vehicle Loans. The principles enshrined herein shall also apply to any other secured loan products that the Company may offer from time to time, ensuring a uniform and standardized approach to recovery and realization of security across the organization.

III. ORGANIZATIONAL STRUCTURE

The Company shall maintain a dedicated Recovery Department at its Head Office, which shall be headed by a sufficiently senior and experienced officer. This department will be entrusted with the end-to-end responsibility for initiating, supervising, coordinating, and monitoring all recovery and auction activities. The Department shall function under the overall control and supervision of the Managing Director. Its key responsibilities include the identification of accounts requiring recovery action, ensuring strict adherence to this Policy and all legal stipulations, coordinating with the Legal, Compliance, and Operations departments, managing empaneled auctioneers, advocates, and recovery agents,

maintaining comprehensive records, and providing periodic Management Information System (MIS) reports to the senior management and the Board.

IV. PART I: GOLD LOAN RECOVERY AND AUCTION

The core business of the Company involves lending against the collateral security of gold ornaments. The inherent strength of such security lies in the emotional attachment of the borrower, which typically ensures prompt repayment. However, for a small proportion of accounts where borrowers fail to liquidate their loans despite all soft recovery efforts, the Company is compelled to resort to auction of the pledged gold.

Accounts are identified for auction when 75% of the interest due from the date of disbursement remains unpaid by the end of the contracted tenure of the loan, classifying them as 'Auctionable Pledges'. A grace period of up to four months from the expiry of the loan tenure may be afforded for the borrower to settle the outstanding interest. Accounts not regularized within this grace period shall be listed for auction without further notice. In exceptional circumstances, such as the detection of spurious or low-quality gold ornaments subsequent to disbursement, accounts may be taken up for auction even before the lapse of the contracted tenure, with the prior written approval of the MD. For such spurious gold, the borrower must be notified via Registered AD post to settle the loan within 30 days. The purity must be re-verified internally, and for disputes or potential losses exceeding ₹1 Lakh, the services of an external appraiser must be obtained. If the borrower fails to comply, the gold shall be auctioned on an "as is where is" basis. If such gold remains unsold at auction, the lot shall be melted into bars, assayed for purity, and put up for re-auction with a fresh reserve price, a process that must be certified by an Internal Auditor.

A critical component of the process is communication with the borrower. A reminder notice in the regional language shall be sent via ordinary post six months after disbursement for loans with a tenure exceeding six months. Upon a loan becoming 'Auctionable', a formal demand notice shall be sent via Registered AD post, calling for immediate payment of the full dues. If this notice is returned undelivered, a final 7-day notice shall be served, and a certificate of delivery shall be procured from the post office. Finally, a notice intimating the specific date and place of the impending auction shall be sent to the borrower via Registered AD.

The auction process must be widely publicized to ensure transparency and competitive bidding. The list of accounts to be auctioned shall be displayed at the concerned branch for a minimum of 15 days prior to the scheduled auction date. Furthermore, the auction shall be advertised in one vernacular and one national newspaper at least four days before the event. The advertisement must explicitly state that the gold is being sold on an "as is where is" basis and specify the identification documents required for participation.

The reserve price for the gold is a crucial determinant of a successful auction. For standard gold, the reserve price shall not be less than 85% of the 30-day average closing price of 22-carat gold as declared by the India Bullion and Jewellers Association Ltd. (IBJA). The Head of the Recovery Department shall propose the reserve price, which shall be recommended by the CFO and receive final approval from the MD&CEO. For spurious or low-quality gold, the reserve price shall be fixed based on the reconfirmed assessed purity and prevailing market realities. The pledged gold shall be segregated into convenient lots to facilitate bidding and enhance the potential for better realization.

All auctions shall be conducted through professional auctioneers empaneled by the Company with the approval of the Board. In locations where such auctioneers are not available, the services of competent lawyers may be utilized. A reasonable Earnest Money Deposit (EMD) shall be collected from all participants as per internally approved guidelines. To maintain integrity, persons with known criminal backgrounds shall be barred from participating, and strategies shall be implemented to prevent the formation of cartels among bidders. It is strictly mandated that the Company, including any of its related entities, shall not participate in the bidding process to ensure an arm's length relationship.

Following the auction, the successful bidder is required to pay 25% of the bid amount, inclusive of the EMD, on the day of the auction itself. The remaining balance must be settled within three working days. The physical delivery of the gold ornaments shall be effected only upon the full receipt of the payment along with any applicable taxes, and a proper acknowledgement must be obtained from the bidder. The accounting entries for the auction proceeds must be completed in the borrower's loan account within 15 working days of the full receipt of funds. Any surplus amount realized from the auction, after clearing all dues of the Company, shall be refunded to the borrower within 30 days via an account payee cheque or electronic transfer, subject to any other lawful lien the Company may have on the surplus for unrelated liabilities of the borrower. In the event of a shortfall, legal action for recovery may be initiated subsequent to a cost-benefit analysis and upon receiving the approval of the MD&CEO. A comprehensive post-auction intimation, detailing the net weight of gold, total dues, amount realized, and the resultant surplus or deficit, shall be dispatched to the borrower within 60 days of the auction.

V. PART II: MORTGAGE LOAN RECOVERY AND AUCTION

For mortgage loans secured by immovable property, the Company shall adopt a graduated recovery approach. In the early stages of default, specifically after the non-payment of two or more installments, soft recovery measures such as telephone calls, emails, and personal visits shall be initiated. Should these measures fail to elicit the desired response, a formal recall notice shall be issued to the borrower and guarantor via Registered AD post, demanding the full repayment of the outstanding dues within 15 days.

The loan agreement for mortgage loans shall contain a clause for the settlement of disputes through arbitration. In cases of persistent default, the Company shall refer the dispute to an Arbitral Tribunal as per the agreed terms. The Company shall maintain a panel of arbitrators, who shall be advocates with a minimum of ten years of practice or individuals who have held a judicial position. Furthermore, the Company shall engage advocates with more than three years of practice to represent its interests in courts and other legal forums.

Upon obtaining the necessary legal order, the Company shall take possession of the secured immovable property. The property shall be securely fenced, its borders clearly identified, and a notice board shall be affixed stating the Company's possession. A detailed inventory of the property and its contents shall be prepared at the time of possession in the presence of witnesses.

For the auction of the mortgaged property, an independent registered valuer shall be engaged to determine the fair market value, which will form the basis for the Base Price. The Head of the Recovery Department shall recommend this Base Price, which requires the final approval of the MD&CEO. Prior to the auction, a Registered AD notice shall be served to the borrower and guarantor, providing a final seven-day opportunity to settle the

dues and reclaim the asset. The auction shall be publicly advertised in two newspapers, one vernacular and one national, with a notice period of at least 15 days. The property shall be sold to the highest bidder. The successful bidder must pay 15% of the bid amount immediately and the remaining balance within five working days. Failure to comply will result in the forfeiture of the advance amount and the property will be put up for re-auction.

VI. PART III: USED VEHICLE LOAN RECOVERY AND AUCTION

In the case of used vehicle loans, borrowers in continuous default may be permitted to surrender the vehicle voluntarily. Alternatively, the Company may repossess the vehicle by obtaining interim orders from a court or arbitral tribunal, or through peaceful means if there is a reasonable apprehension that the vehicle may be alienated to the detriment of the Company's interests. Upon repossession, a detailed inventory and condition report of the vehicle must be prepared, and the vehicle must be stored in a secure facility to prevent any further depreciation in its value.

The Base Price for the used vehicle shall be determined by referring to reputable online sale platforms, independent vehicle valuers, or the insurable value of the vehicle. This Base Price requires the recommendation of the Head of Recovery and the approval of the MD&CEO. A Registered AD notice shall be sent to the borrower, granting a final seven-day opportunity to clear the outstanding dues. The auction shall be advertised in at least one local newspaper and on the Company's website or other online portals. The vehicle shall be sold on an "as is where is" basis. The successful bidder is obliged to pay 15% of the bid amount immediately upon the fall of the hammer and must remit the balance within five working days.

VII. GENERAL PROVISIONS

The Company may utilize established third-party online auction portals to widen participant reach and ensure a transparent and competitive bidding environment. The Company shall ensure that such service providers adhere to fair and secure practices. Furthermore, the Company may engage professional recovery agents, who must have a minimum of three years of experience in debt collection, to assist in the recovery process. The conduct of these agents must always be professional, ethical, and non-coercive, in strict adherence to the guidelines issued by the Reserve Bank of India.

The proceeds from the sale of any asset shall be appropriated in a specific order: first, towards the costs and expenses incurred in the recovery and sale of the asset; second, towards the interest and other charges due; and finally, towards the principal amount. A detailed notice of the sale, the appropriation of proceeds, and the resulting surplus or deficit shall be sent to the borrower and guarantor. Any surplus amount shall be refunded to the rightful owner within 30 days of the sale. The Recovery Department is responsible for maintaining all registers, records, copies of notices, and auction details in a secure and systematic manner for a minimum period of eight years, or as mandated by law, and these records shall be subject to periodic internal audit.

VIII. REVIEW AND AMENDMENTS

This Policy shall be reviewed by the Board of Directors of the Company at least once a year to ensure its continued relevance and effectiveness. The Board reserves the right to amend, modify, or substitute this Policy in whole or in part by passing a resolution in its meeting or through circulation.

IX. EMPOWERMENT AND SEVERABILITY

The Managing Director & CEO of the Company is hereby empowered to issue necessary internal instructions, guidelines, and circulars for the effective implementation and operationalization of this Policy. In unforeseen circumstances where a deviation from the terms of this Policy is necessitated, such deviation must be approved by the Credit Committee of the Company, comprising the MD&CEO, Head of Credit, and Head of Operations, and shall subsequently be brought to the notice of the Board for review and formal ratification. If any portion of this Policy is rendered inoperative or unenforceable due to changes in law, regulation, or by a decision of a competent authority, the validity and enforceability of the remaining provisions shall not be affected, and they shall continue to remain in full force and effect. Any actions taken by the Company in good faith under the provisions of this Policy prior to any such change shall remain valid and binding.

X. DEFINITIONS AND EFFECTIVE DATE

For the purpose of this Policy, "AD" refers to Acknowledgement Due; "IBJA" refers to the India Bullion and Jewellers Association Ltd.; and "NPA" shall have the meaning assigned to it under the relevant Reserve Bank of India guidelines. This Policy shall come into effect from the date of its approval by the Board of Directors of Aquila Finance Limited.

BY THE ORDER OF THE BOARD OF DIRECTORS

For AQUILAN FINANCE LTD.