THAR COMMERCIAL
Finance Private Limited

Summary of Policy

Policy Name	**Credit Risk Policy**
Issue and Effective date	April 1, 2019
Date of Current Review	8th July 2022
Date of next review	On or before 7th July 2023
Periodicity of review	Annual
Owner / Contact	Compliance Officer
Approver	Board of Directors

CREDIT RISK POLICY

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1. INTRODUCTION

M/s. Thar Commercial Finance Private Limited (hereinafter “TCFPL”) is a Non-Deposit taking Systemically Important Non-Banking Finance Company duly registered with Reserve Bank of India (“RBI”). The main target client segment is in the Micro, Small and Medium Enterprises (MSME) and retail individual. TCFPL focus to provide tailored based loan products to fulfill their client financial needs for short term, medium term or long term.

It is the objective of TCFPL to become a credible, relevant and leading financier in its chosen segments of business. In doing so, TCFPL aspires to help the MSMEs, which are potentially one of the key pillars of a strong economy, grow.

In pursuing its business, TCFPL will operate according to the highest ethical and compliance standards and constantly seek to follow best practices in the Industry. Under no circumstances will contravention of laws and relevant regulations be tolerated.

2. OBJECTIVE OF THE CREDIT RISK POLICY

The Credit Risk Policy is the governing document for our credit appraisal, approval, post-approval monitoring and enforcement. This should be the reference document on any issues related to credit approval or process connected to the same.

The purpose is to ensure that TCFPL financing portfolio remains of sound quality, that portfolio growth is supported and that we manage credit risk in a manner that minimizes creation of Non-Performing Assets (NPAs).

The policy must be read and followed in line with the relevant laws and regulations governing our business. In the case of any conflict or divergence between this policy and relevant regulations and laws, the regulations and laws will override this policy.

The Credit Risk Policy must also be read with other risk and process guidelines of TCFPL as relevant.

The policy will continue to be amended from time to time in the light of changing business and economic environment. The policy must be reviewed every 12 months and any amendments approved by the Board.

The present amendment of the Credit Risk Policy (July 13, 2021) is a major one and seeks to ensure that our credit processes are able to keep abreast in the growth of our business as well as incorporate some of the experience that TCFPL has gained over the last few years of operations.

It is also an objective of this policy that TCFPL continues to provide financings where the returns reflect the risk taken, and are positive from a Return on Equity and Return on Capital Employed perspectives.

Our business seeks to be profitable and add value to all stakeholders in TCFPL - shareholders, management, staff and clients.

It is reiterated that all times TCFPL and its staff will follow the necessary regulations and guidelines issued by relevant regulators like the Reserve Bank of India, Ministry of Finance etc. In case of any conflict between this policy and a regulation, the regulation is to be followed strictly.

3. CREDIT APPROVAL AUTHORITY

Credit Approval Authority resides ultimately with the shareholders of TCFPL, acting through the duly constituted Board. In operational terms, all credit approval and delegation of credit approval authority lies with the Board.

It may be noted that credit approval authority includes not merely the approval of a credit proposal but also any subsequent deviation from approved credit terms.

The Board of TCFPL has delegated credit approval authority to the Investment Committee / Credit Committee constituted by the Board consisting senior level staff members for approving Credit Exposure of > **One Crores and ≤ Ten Crores**. Credit Exposure of >Ten Crores shall be approved by the Board Members only.

For Credit Exposure ≤ 1 (One) Crore, the Board has delegated credit approval authority to Chief Financial Officer and Company Secretary in their Individual Capacity.

4. INVESTMENT COMMITTEE (IC) / CREDIT COMMITTEE (CC)

A. Role: The Investment Committee (IC) or Credit Committee (CC) used interchangeably is the operative credit approval authority for TCFPL. All proposals, other than those approved by individual(s) to whom the Board has specifically granted credit approval authority and having exposure of more than 1 Crore and Upto 10 Crores must be presented to, and approved by the IC/CC.

Additionally, the IC/CC will also be responsible for monitoring and reviewing the existing portfolio and taking action in response to changes in the credit-worthiness of existing borrowers or specific financings. The IC/CC is also expected to keep itself updated on emerging threats to TCFPL operating environment and also other issues relevant to the portfolio's credit profile. For this purpose, the primary source of information will be on the ground origination and credit teams.

B. Composition :- The composition of the IC/CC will be as approved by the Board from time to time consisting Senior level staff members of TCFPL.

C. Quorum :- The quorum for the IC/CC shall consist of 2 members.

D. Meeting Frequency :- The Investment shall meet at least once in a Month.

5. PORTFOLIO NORMS

In evaluating credit proposals, the IC/CC will also be keeping in mind certain exposure norms. These are in addition to the norms on single borrower and group exposures and similar guidelines that have been imposed by the Reserve Bank of India (RBI).

The norms below are suggestive in nature, barring specific prescriptive norms:-

- **Correlation across Borrowers and Financings**: On an ongoing basis, the IC / CC as well as the Authorized Senior Staff Personnel should endeavor to ensure that we get the full benefits of portfolio diversification on our exposures. It is recommended that any correlations with other exposures e.g. multiple borrowers selling to the same client; geographical etc. be kept in mind while providing approvals.

- **Geographic Concentration:** It is recognized that a major proportion of our business will come from the Mumbai and their suburbs, South Gujarat and few region of Madhya Pradesh. However, we need to ensure that we do not have an inordinate concentration on small geographical areas.

- **Sector Norms:** All financings must be given a Sector Classification. The Board has agreed to have following sector cap for various type of exposure available with the Company.

Sr. No.	Sector	Sector Limit (in %)
1.	Real Estate (Project Funding) - Secured against the Project Unit	50%
2.	Secured Business Loan (Working Capital Facilities)	10%
3.	Unsecured Business Loan (Working Capital Facilities)	20%
4.	School Fess Funding (Education Loan)	10%
5.	Gold Loan	5%
6.	Asset Financing - Solar Project Financing / Other Assets Financing	5%

- If any sector crosses the limits as prescribed, the same should be highlighted to the IC and the IC should seek a sector limit from the Board.

- **Unsecured Borrowings:**

6. FINANCING TENOR:

The final maturity of financings provided by TCFPL will adhere to the following limits.

- Secured Financing : 5 years or 60 Months

- Unsecured Financing : 3 Years or 36 Months

Any deviation from the above will need to be specifically approved by the TCFPL Board.

7. CREDIT APPROVAL PROCESS FLOW

TCFPL offers a large variety of financing solutions for its clients. In brief the process is to include the following steps:

1. Eligibility check & Reputation/Anti-Money Laundering Checks

2. Credit Appraisal (CA)

3. Investment Committee / Credit Committee

4. Completion of KYC

5. Execution of Security Documentation

6. Disbursal of financing

All financing and creation of security will be in line with TCFPL license conditions and relevant laws and regulations.

TCFPL is open to financing all types of client entities provided they have the requisite authority and legal power to avail of financing. This includes Individuals, Hindu HUF, Trusts, Partnership firms, Limited Liability Partnership Firm, Private / Public Company etc. High risk entities like Trusts and Partnership firms should be subject to greater scrutiny while evaluating their financing proposal.

A. Client Suitability: Eligibility and Reputation/Anti-Money Laundering Review

TCFPL objective is to partner bona-fide businesses and provide financing solutions to them. As such, prior to detailed work on the credit proposal, client suitability must be clearly established. Client suitability has to be checked through multiple criteria - which may evolve over time but must cover issues of reputation and regulatory risk, and the any concerns over money-laundering activities.

- Regulator Notices – List of defaulters/watch-lists issued by relevant regulatory bodies and exchanges viz. RBI, Government of India (especially Department of Corporate Affairs), SEBI, Competition Commission of India, Registrar of Companies, NSE/BSE/Other exchanges, NCLT and other debt recovery institutions.

- Press Check - Review of Press and Social Media for adverse publicity and news about the potential borrower.

- Global crime and Default Databases – To the extent available for public use.

Any issues or findings of concern or a NIL findings comment are mandatorily part of the credit proposal.

B. Credit Appraisal / Credit Proposal (CA):

Credit Appraisal or Credit Proposal, used interchangeably (CA) is the document which will form the basis of discussions and decision of the IC.

CAs are to be prepared by the relevant originator/structurer. The author of the credit proposal will be held responsible for the accuracy of the information provided in the CA.

Each proposal must cover, inter alia:-

a) Background of client

b) Nature of financing including specifics on the structure and instrument

c) Client financial strength, leverage levels, promoter strength, credit history (of client and promoter's CIBIL ratings), business and cashflow analysis, debt profile including other lenders and details of borrowing. This should include description of interaction with the borrower and the originator's impression.

d) Group exposure:- In cases where we have more than one financing to a client group or are dealing with more than one client group entity, the entire group exposure should be clearly laid out. There should be a clear justification that the group exposure remains acceptable and also does not create client concentration risk for our portfolio.

e) Repayment sources:- Primary, Secondary (and Tertiary if applicable)

f) Key risks and mitigants:-
- Reputation / Anti-Money Laundering risks if any else NIL comment
- Financial
- Regulatory
- Structure and instrument risk - especially around any subordination of our rights in an enforceability situation.

g) Security structure:- This should detail the security on offer. While the IC/CC will decide on the final security structure, it is expected that most financings will be provided on the basis of at least 1.5 times cover. Coverage below 1.5 times must be highlighted to the IC.

h) Discussion on enforceability of security.

i) Returns analysis:- At least IRR of the financing; going forward our objective is to also provide a Return on Assets (ROA) and Return on Equity (ROE) on each transaction.

j) Key terms and conditions of the financing.

The IC/CC may, if it deems suitable provide a specific format in which Credit Proposals are to be presented.

The above list of information required in the CA is not exhaustive. Authors of the CA are expected to provide all relevant information needed by the IC for making a credit decision.

The CA, alongwith any additional conditions that the IC may impose as part of the approval process will be the source document on the basis of which the financing will be provided and security structure executed.

The CA is to be circulated to the IC atleast 3 business days prior to the IC meeting.

C. <u>Investment Committee (IC):</u>

- Decisions of the IC are deemed to be valid only if the quorum is present.

- IC meetings will be minuted in detail and these minutes will form the basis of approvals.

- IC decision on a credit proposal will incorporate the CA, any follow-up questions and conditions that the IC or its members impose in writing and any comments made during the IC meeting.

- IC minutes are to be circulated to the IC members, Company Secretary, Head of Compliance and the Author of the CA PRIOR to the process of documentation starting.

- Minutes of IC Meeting shall be presented in the next Board Meeting.

D. <u>Know Your Client (KYC):</u>

Clients must furnish all authenticated documents necessary for completing the KYC process. This includes all charter and incorporation documents, proof of address and business, financial statements and also the KYC documents for important stakeholders and authorized signatories.

The Board and/or the CEO of TCFPL are expected to put in place a separate KYC policy that is to be fulfilled.

E. <u>Perfection of Security and Execution of Documentation:</u>

Our standard documents (Loan Agreement; Mortgage Agreements; Pledge Agreements; Deed of Guarantees; Hypothecation Agreement etc.) will be the basis of security documentation.

Legal Counsel (in house or external counsel) will suitably modify our standard documents to incorporate the credit approval conditions of the IC/CC and also any relevant regulatory clauses that are deemed necessary for the financing. It is expected that there will be some negotiation with the client on the drafting of the security documents.

Any deviations in the documents from the IC/CC approval conditions must be approved by the IC/CC.

The Compliance Officer has the authority to approve minor deviations which (as confirmed by the Legal Counsel) will not materially impact TCFPL security position. Similarly, the Compliance Officer may allow disbursal of financing pending minor security perfection issues.

It is to be ensured by the back-office team that the finalized security document cannot be amended or otherwise changed in any manner by the borrower prior to execution.

After the perfection of security documentation and the necessary filings have been completed, the senior most staff has to put a note confirming that documentation is complete into the client files.

F. <u>Execution of Security Documentation:</u>

Security documentation is the primary responsibility of the back-office support team. The Company Secretary & Compliance officer will nominate the specific individuals/teams who will be responsible for execution of security documentation. The origination/structuring staff responsible for managing the client relationship and originating the financing proposal must provide all necessary assistance in perfecting the security.

Responsibility for drafting and finalizing the security documents lies with the Legal Counsel and Company Secretary cum Compliance Officer. Any material deviation from the Legal Counsel's drafting must be approved by the IC/CC.

Scanned copies of the security documentation must be stored in the client folders / LMS and easily accessible to the team at all times. The original documents must at all times be secured in the safe and logged under "Four Eye Principle".

It is also the responsibility of the documentation team to ensure that the necessary filings with regulators or government agencies are done within the prescribed time periods.

After the perfection of security documentation and the necessary filings have been completed, the senior most staff has to put a note confirming that documentation is complete into the client files.

G. <u>Disbursal of Financing:</u>

Disbursal of the financing will be done by the Finance and Accounts team. This is done on the basis of a confirmation from the Documentation team that documentation is complete and any Conditions Precedent (CP) has been completed.

In making the disbursal, it is to be ensured that disbursal of funds is made to an account of the Borrower. Any disbursal to a third party must be approved on the basis of a detailed rationale by the CEO/CFO/CS.

8. <u>ONGOING MONITORING AND CLIENT ENGAGEMENT: ANNUAL REVIEW</u>

Ensuring that the TCFPL team remains fully engaged with the client and in a position to remain updated about credit developments with the client is critical to maintaining a high quality credit portfolio.

a) <u>Ongoing Client Engagement:</u>

It is expected that atleast once a calendar quarter, each originator/structurer will conduct a detailed client discussion and review covering all issues that impact the client credit profile. Additionally, the originator/structurer must fulfil the following duties:

1) Ensure we receive audited and unaudited financials from the company as mandated in our agreements, but in any case not less than once every six months.

   Analyse the said financials and related performance data and highlight major developments - positive and negative to the Board and CEO.

2) Monitor the press and social media for any adverse reporting.

3) Loans will be added to the watch list in the case of any significant internal/external rating downgrade, significant payment delays or any other material news and an action such as increasing the collateral cover, accelerating the loan repayment, loan recall etc. may be taken.

b) <u>Monitoring:</u>

We need to monitor the value of security against which financing has been provided as well as the conduct of the client regularly. Timely action has to be taken in case there is any deterioration either in enforceability or value.

Type of Security	Items to be monitored	Action to be taken	Responsibility
Listed securities (bonds; shares)	• Price of security • Liquidity of security • Regulatory issues	• Margin calls for cash or share top up in line with credit approval conditions to be sent to client • In cash margin calls have been made and client is in default, action to be taken to enforce and liquidate security to recover our dues • Detailed report on value to be circulated on a daily basis. • Any significant development in liquidity of the underlying, or regulatory/reputation issues must be immediately highlighted to the Company Secretary. • Company Secretary shall present such information in the next IC Meeting.	Joint responsibility of the Origination team and Documentation team.
Land and other real estate	Value of land and title search at least every two years	ANY adverse change in the value or title needs to be highlighted to the Company Secretary. Action to be taken to seek top up in security or other steps as necessary to ensure that our security value remains in line with approval conditions. Company Secretary shall present such information in the next IC Meeting.	Joint responsibility of the Origination team and Documentation team.
Personal Guarantees	• CIBIL rating to be checked every 6 months. • Net - Worth	Any adverse changes to be highlighted to the CEO / Company Secretary and action taken to mitigate new risks	Joint responsibility of the Origination team and Documentation

	Certificate from a Chartered Accountant to be provided every 2 years.		team.
Loan servicing behavior	• Timely payment of interest and principal installment. • Flow of funds through their accounts.	Any delays beyond 7 days must be highlighted to Company Secretary & Company Secretary shall draw attention to the Board / Investment Committe.	Joint responsibility of the Origination team and Documentation team.

c) Watchlist:

Specific clients, client groups or transactions that have experienced a deterioration in risk profile - financial, reputation, legal, structural will be placed on a ***Watch List*** by the IC/CC.

Watch List items are to be placed under enhanced monitoring, and as a rule all steps should be taken to ensure the earliest possible repayment of our dues.

An update on the Watch List items is to be provided by the relevant Originator / Structurer at every IC/CC meeting. An update must be sent to the Board and Company Secretary if it seems to be very urgent.

d) Annual Review:

An annual review is to be conducted on all Client Groups. Each review should incorporate all group entities we deal with and various facilities therein.

In cases where there is a multi-year facility provided to a client, the focus of the review should be on any developments since the approval or last review rather than a repetition of the same information.

9. ENFORCEMENT OF SECURITY AND RECOVERY ACTIONS

In cases where client has failed to meet their debt servicing requirements, TCFPL may need to enforce security and recover its dues. Important aspects to be followed in such an event:

1) In all action being undertaken for recovery, TCFPL will strictly follow the law of the land and will act as a responsible member of the community. While ensuring that our rights are protected and dues recovered, we will treat our counter-parties with respect and fairness.

2) Enforcement of security including disposal of assets pledged to us needs to be specifically approved by the Company Secretary or IC.

3) Litigation for recovery of our dues has to be approved specifically by the IC/Board.

4) There should be no delay in taking action to dispose off the marketable securities.

5) For the purpose of disposal of real-estate assets, it is recommended that atleast 2 intermediaries are used for the sale so that we can realize the best possible value on the security.

Annexure I

TCFPL offers a number of financing products to its clients.

The list below may not be exhaustive as the nature of financing instruments and structures undergoes changes reflective of evolving markets. However, these should cover a majority of the financing products. Final decision on the structure and product will lie with the IC.

a) **Promoter funding -** Funding is offered to promoter/promoting entities for companies, against collaterals acceptable to TCFPL. These loans are usually availed for the purpose of undertaking changes in the capital structure of the operating company or enhancing the promoter shareholding.

b) **Loan Against Shares (LAS) -** Funding is provided to clients (non-promoter) against a pledge of listed and unlisted equity shares. This is usually required for meeting gaps in working capital.

c) **Loan Against Property (LAP) -** Funding is provided to clients against a mortgage on immovable property(s).

d) **Construction Finance -** Funding is provided to real estate developers for construction purposes against collateral such as property, hypothecation of cash flows, etc. as acceptable to TCFPL.

e) **Acquisition Finance -** Funding provided to companies for acquiring other companies. These will usually be secured by a mix of cash-flows and assets.

f) **Bridge Funding -** Funding provided to companies to finance the expansions in most part, at existing companies.

g) **Debt Syndication & Capital Advisory -** TCFPL can facilitate discussions with other lenders for the purpose of Debt Syndication and also provide inputs for structuring of debt. We have a competent team offering comprehensive debt solutions to meet client requirements. These activities will be carried on strictly in line with regulatory licenses and approvals.

h) **Gold Loan -** Funding is provided to clients against pledge / hypothecation of their gold ornaments or jewellery

i) **School Fees Funding / Education Loan -** Funding is provided to parents for their children school fees.

Annexure II – Evaluation of Security

1. Valuation of the Real estate such as land, ready property etc. by the Independent Valuer appointed by TCFPL.

2. Listed shares would be valued based on the price prevailing in the market.

3. Unlisted shares will be valued on the basis of the book value, latest valuation if available or multiples of EBIDTA, PAT etc. as suitable.

4. Fixed and/or current assets would be valued based on the net block in the balance sheet of the company, whose assets are being taken as security.

5. The following factors shall also be considered for evaluation of Security:

A. <u>In case of Listed Shares</u>

1. Corporate Governance of the listed company
2. Liquidity of the collateral/security
3. Market capitalization of the Company
4. Beta of the stock
5. Leverage Ratios
6. Financials
7. Promoter holding and pledge
8. Sector risk

B. <u>In case of Real Estates</u>

1. Type of Property
2. Location of property
3. Construction stage
4. Trends of real estate price in the area
5. Government approved rate