



# **KIFS FINANCIAL SERVICES LIMITED**

## **CREDIT RISK POLICY**

## **1 INTRODUCTION**

KIFS Financial Services Limited (hereinafter “KIFS”) is a Non-Bank Finance Company. It is the objective of KIFS to become a credible, relevant and leading financier in its chosen segments of business. In doing so, KIFS aspires to help the loan against shares, securities, margin funding, which are potentially one of the key pillars of a strong economy, grow. In pursuing its business, KIFS 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 KIFS’ 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.

It is also an objective of this policy that KIFS 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 KIFS – shareholders, management, staff and clients. It is reiterated that all times KIFS 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 KIFS, 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 KIFS has delegated credit approval authority to the Investment Committee. Additionally, the Board may from time to time, and based on their judgement of business requirements also delegate credit approval authority to individuals.

## **4 INVESTMENT COMMITTEE (IC)**

i) Role:- The IC is the operative credit approval authority for KIFS. All proposals, other than those approved by individual(s) to whom the Board has specifically granted credit approval authority must be presented to, and approved by the IC.

Additionally, the IC 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 is also expected to keep itself updated on emerging threats to KIFS’ 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.

ii) Composition:- The composition of the IC will be as approved by the Board from time to time.

iii) Quorum:– The quorum for the IC shall consist of 2 members.

iv) Meeting Frequency:- The Investment shall meet atleast once in a quarter.

## **5 PORTFOLIO NORMS**

In evaluating credit proposals, the IC 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 as well as the larger team 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 metros and their suburbs. However, we need to ensure that we do not have an inordinate concentration on small geographical areas.

## **6 FINANCING TENOR:**

The final maturity of financings provided by KIFS will be as mutually agreed on by both the parties i.e. borrower and lender.

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

## **7 CREDIT APPROVAL PROCESS FLOW**

KIFS 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
4. Completion of KYC
5. Execution of Security Documentation
6. Disbursal of financing

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

KIFS 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 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**

KIFS' 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, as may be applicable.

– 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:-

1) Background of client

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

3) 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.

4) 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.

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

6) 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.

7) Security structure:- This should detail the security on offer. While the IC 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.

Debt Service Reserve Account (DSRA) and Escrow Account mechanisms are expected to be part of most security packages. Any specific deviation from expected security structure for a type of financing that may open KIFS up to additional risk must be highlighted in the CA.

8) Discussion on enforceability of security.

9) 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.

10) Key terms and conditions of the financing. The IC 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. Investment Committee (IC):**

- 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.

**D. Know Your Client (KYC):**

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 KIFS are expected to put in place a separate KYC policy that is to be fulfilled.

**E. Perfection of Security and Execution of Documentation:**

Our standard documents (Loan Agreement; Funding Agreements, Agreement for funding against securities, Guarantees 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 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 approval conditions must be approved by the IC. The CEO has the authority to approve minor deviations which (as confirmed by the Legal Counsel) will not materially impact KIFS' security position. Similarly, the CEO may allow disbursal of financing pending minor security perfection issues e.g. opening of escrow account etc. 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.

**F. Execution of Security Documentation:**

Security documentation is the primary responsibility of the back-office support team. The Chief Executive Officer (CEO) 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. Any material deviation from the Legal Counsel's drafting must be approved by the CEO or staff delegated by the CEO. Scanned copies of the security documentation must be stored in the client folders 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. Disbursal of Financing:**

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) have 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.

### **8 ONGOING MONITORING AND CLIENT ENGAGEMENT:**

**ANNUAL REVIEW** Ensuring that the KIFS 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.

**1) Ongoing Client Engagement:** 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: i) 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. ii) Monitor the press and social media for any adverse reporting. iii) 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.

**2) Monitoring:** 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.

**3) 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. 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 meeting. An update must be sent to the Board and CEO if there is no IC scheduled for 15 days.

**4) 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, KIFS 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, KIFS 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 CEO or IC.
3. Litigation for recovery of our dues has to be approved specifically by the IC
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.