

Policy on Credit/Investment Concentration Limits

1. Introduction

Reserve Bank of India had issued Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 on 19th October 2023 as amended from time to time which mandates the Company to have a Board approved policy on Credit/Investment Concentration Norms. This policy has adopted by the Board of Directors of the Company. in compliance with the Master Direction and other circulars, notifications, etc. issued/amended from time to time.

2. Purpose

The purpose of this policy is to provide a Board approved threshold limits for credit or investment to single borrower/party and single group of borrowers/parties.

3. Credit/investment concentration Limit

The Company shall not have exposure (credit/investment taken together) exceeding the following:

- i. twenty-five percent of its Tier 1 capital to a single party; and
- ii. forty percent of its Tier 1 capital to a single group of parties,

Provided that the Company may exceed the exposure norm specified above, by 5 percent for any single party and by 10 percent for a single group of parties, if the additional exposure is on account of infrastructure loan and/or investment.

The ceiling on the investment in shares of another company shall not be applicable to the Company in respect of investment in the equity capital of an insurance company up to the extent specifically permitted, in writing, by the Reserve Bank.

Exposure norms shall not apply to the Company if is not accessing public funds in India, either directly or indirectly and not issuing guarantees.

Exposure norms shall not apply to:

- (i) investments of the Company in shares of
 - (a) its subsidiaries;
 - (b) companies in the same group,to the extent they have been reduced from Owned Funds for the calculation of NOF and
- (ii) the book value of debentures, bonds, outstanding loans and advances (including hire-purchase and lease finance) made to, and deposits with -
 - (a) subsidiaries of the Company; and
 - (b) companies in the same group,to the extent they have been reduced from Owned Funds for the calculation of NOF.

The exposures listed below shall also be exempt from exposure norms:

- (a) Exposure to the Government of India and State Governments which are eligible for zero percent risk weight under capital regulations applicable to the Company;
- (b) Exposure where the principal and interest are fully guaranteed by the Government of India.

4. Computation of exposure – Credit Risk Transfer Instruments

Aggregate exposure to a counterparty comprising both on and off-balance sheet exposures shall be calculated based on the method prescribed for capital computation in these Directions; i.e., on-balance sheet exposures shall be reckoned at the outstanding amount while the off-balance sheet exposures shall be converted into credit risk equivalent by applying the credit conversion factor prescribed under capital requirements.

Credit Default Swaps are allowed as credit risk transfer instruments for offsetting exposure to the underlying counterparty. In addition, the exposures shall also be offset with credit risk transfer instruments listed below:

- (a) Cash margin/caution money/security deposit held as collateral on behalf of the borrower against the advances for which right to set off is available;
- (b) Central Government guaranteed claims which attract zero percent risk weight for capital computation;
- (c) State Government guaranteed claims which attract 20 percent risk weight for capital computation;
- (d) Guarantees issued under the Credit Guarantee Schemes of Credit Guarantee Scheme of Credit Guarantee Fund Trust for Micro and Small Enterprise (CGTMSE), Credit Risk Guarantee Fund Trust For Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC) subject to meeting the prescribed conditions.

Provided that to be eligible as a credit risk transfer instrument, guarantees in respect of clause (b), (c) and (d) above shall be direct, explicit, irrevocable and unconditional.

These ceilings shall be applicable to the exposure by the Company to companies/firms/entities in its own group as well as to the borrowers/investee entity's group.

- (ii) In case of factoring on “with-recourse” basis, the exposure shall be reckoned on the assignor.
- (ii) In case of factoring on “without-recourse” basis, the exposure shall be reckoned on the debtor, irrespective of credit risk cover/ protection provided, except in cases of international factoring where the entire credit risk has been assumed by the import factor.

5. Sensitive Sector Exposure (SSE)

Exposure to capital market (direct and indirect) and commercial real estate shall be reckoned as sensitive exposure for the Company. Company shall fix Board-approved internal limits for SSE separately for capital market and commercial real estate exposures. Dynamic vulnerability assessments of various sectors and their likely impact on business, as evaluated periodically, should help Company determine such internal exposure limits. While the Board is free to determine various sub-limits within the overall SSE internal limits, the following are specifically prescribed:

A sub-limit within the commercial real estate exposure ceiling shall be fixed internally for financing land acquisition.

There shall be a ceiling of ₹1 crore per borrower for financing subscription to Initial Public Offer (IPO). The Company can fix more conservative limits.

6. Sectoral Exposure for Consumer Credit

The Company shall review its extant sectoral exposure limits for consumer credit and put in place, Board approved limits in respect of various sub-segments under consumer credit as may be considered necessary by the Board as part of prudent risk management. In particular, limits shall be prescribed for all unsecured consumer credit exposures. The limits so fixed shall be strictly adhered to and monitored on an ongoing basis by the Risk Management Committee.

All top-up loans extended by NBFCs against movable assets which are inherently depreciating in nature, such as vehicles, shall be treated as unsecured loans for credit appraisal, prudential limits and exposure purposes.

7. Investments in Alternative Investment Funds (AIFs)

(1) NBFCs make investments in units of AIFs as part of their regular investment operations. However, certain transactions of NBFCs involving AIFs have raised regulatory concerns. These transactions entail substitution of direct loan exposure of NBFCs to borrowers, with indirect exposure through investments in units of AIFs. In order to address concerns relating to possible evergreening through this route, it is advised as under:

(i) NBFCs shall not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in their debtor company.

Explanation: For this purpose, the debtor company shall mean any company to which the Company currently has or previously had a loan or investment exposure anytime during the preceding 12 months.

(ii) If an AIF scheme, in which Company is already an investor, makes a downstream investment in any such debtor company, then the Company shall liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF. NBFCs shall forthwith arrange to advise the AIFs suitably in the matter.

(iii) In case Company is not able to liquidate their investments within the above-prescribed time limit, they shall make 100 percent provision on such investments.

(2) In addition, investment by Company in the subordinated units of any AIF scheme with a 'priority distribution model' shall be subject to full deduction from capital funds of the Company.

Explanation: 'Priority distribution model' shall have the same meaning as specified in the SEBI circular SEBI/HO/AFD-1/PoD/P/CIR/2022/157 dated November 23, 2022.

8. Review of the Policy

This policy shall be reviewed and modified by the Board as and when required. In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.