

**SHRIRAM CREDIT COMPANY LIMITED**

**CREDIT CUM LOAN POLICY**

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## **1. INTRODUCTION**

Shriram Credit Company Ltd (hereinafter “SCCL”) is a Non-Bank Finance Company provides secured, structured loans. The main target customer segment is in the Retail and Small Enterprises. SCCL aspires to help Retail and Small Enterprises, which are potentially one of the key pillars of a strong economy, grow.

In pursuing its business, SCCL operates 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 SCCL financing portfolio remains of sound quality and minimizes the 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 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 18 months and any amendments approved by the Board. It is also an objective of this policy that SCCL 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.

It is reiterated that all times SCCL 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**

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 SCCL has delegated credit approval authority as per the delegation matrix to the Delegated person. Additionally, the Board may from time to time, and based on their judgment of business requirements also modify the delegation matrix.

## **4. DELEGATION AUTHORITY MATRIX**

### **A. For borrowers who have registered with Shriram Insight Share Brokers Ltd (Subsidiary of SCCL):-**

Since for all the loans the borrowers first registered with Shriram Insight Share Brokers Ltd as a client hence the following steps shall be adopted.

- Primarily KYC and customer on boarding policy to be fulfilled
- All loan requests have to be forwarded with the noting of RMS head along with Whole Time Director of Shriram Insight Share Brokers Ltd.
- For all disbursement up to Rs. 5 Crores the Authorised Person Mr. AmitSankar Guptashall have the power to approve.
- Beyond Rs. 5 Crores and up to Rs. 10 Crores it shall be jointly approved by the Authorised Person and MD.
- Beyond Rs. 10 Crores by the Risk Committee of SCCL

B. **Others:** -This is extended to the Employee of the company, Employee of its holding and subsidiary company, any associates of those companies and / or any other person specially approved jointly by Authorised Person and MD. For these loans following process to be observed.

All fresh loan requests have to be forwarded to Authorised Person.

For all fresh disbursement up to Rs. 2.5 Crores the Authorised Person shall have the power to approve.

Beyond Rs. 2.5 Crores and up to Rs. 5 Crores it shall be jointly approved by the Authorised Person and MD.

## **5. PORTFOLIO NORMS**

In evaluating credit proposals, the authority mentioned in DELEGATION AUTHORITY MATRIX 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) from time to time.

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

**Correlation across Borrowers and Financings:** On an ongoing basis, Delegated Authority 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.

## **6. FINANCING TENURE:**

For LAS: - SCCL provides rolling loan facility to its customer. However, this can be extended periodic review and necessary approval as mentioned in DELEGATION AUTHORITY MATRIX.

For LAP & Others: The final maturity of financings provided by SCCL will adhere to the following limits.

- Secured Financing : 10 years
- Unsecured Financing : 2 years

Any deviation from the above need to have specific approval as mentioned in DELEGATION AUTHORITY MATRIX.

## **7. CREDIT APPROVAL PROCESS FLOW**

SCCL offers mainly Loan Against Share (LAS) to its customer and also provides Loan Against Property, unsecured loan in restricted manner. In brief the process is to include the following steps:

- A. Eligibility check & Reputation/Anti-Money Laundering Checks
- B. Credit Appraisal (CA)
- C. Approval from delegated authority
- D. Completion of KYC
- E. Execution of Security Documentation
- F. Disbursal of financing

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

SCCL is open to financing all types of customers provided they have the requisite authority and legal power to avail of financing. This includes Individuals, HUF, Trusts, Corporate, 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**

SCCL objective is to partner bona-fide businesses and provide financing solutions to them. As such, prior to detailed work on the credit proposal, customer suitability must be clearly established. Customer suitability has to be checked through multiple criteria, which may evolve over time but must cover issues of reputation and regulatory risk, and 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 (CA):**

Credit Appraisal including proposal from customer, used interchangeably, is the document which forms the basis of discussions and decision of the delegated authority.

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 customer
- 2) Nature of financing including specifics on the structure and instrument
- 3) Customer 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 customer group or are dealing with more than one customer 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 customer 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 delegated authority will decide on the final security structure, it is expected that most financings will be provided on the basis of at least 1.25 times cover. Coverage below 1.25 times must be highlighted to the delegated authority.
- 8) Nature of Collateral –

For LAS:-SCCL accept the stocks, mutual funds etc following the RBI instruction and any amendment in it from time to time. We also check the fundamental and technical aspects of the collateral received as security.

SCCL may on a case to case basis accept both share and property etc as security against loan to the customer. It may also accept guarantee as additional security (free from all encumbrances).

For LAP:-The maximum permissible exposure shall not exceed 80% of the FMV as certified by an Independent Valuer in its report. It may also accept guarantee as additional security (free from all encumbrances).

SCCL collects the following documents from the customer.

- a) Present Mutation Certificate of the property
- b) Original Sale Deed
- c) Original blue printed site plan of property
- d) Valuation Report
- e) Copy of latest maintenance receipt
- f) Copy of the latest property tax & receipt
- g) Original Possession letter issued by the builder and the subsequent possession letter to be issued by the present seller.
- h) Property Searching Report
- i) Any other related documents as deemed fit by delegated authority

9) Discussion on enforceability of security.

10) Returns analysis:-Atleast IRR of the financing and also to provide a Return on Assets (RoA) and Return on Equity (RoE) on each transaction.

11) Key terms and conditions of the financing.

The delegated authority 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 delegated authority for making a credit decision.

The CA, along with any additional conditions that the delegated authority 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 delegated authority at least 3 business days prior to the delegated authority meeting.

**C. Approval from delegated authority:**

DELEGATION AUTHORITY MATRIX (as mentioned above) to be followed for necessary approval.

**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.

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

Our standard documents (Loan Agreement; Mortgage Agreements; Pledge Agreements; Guarantees etc.) are 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 delegated authority and also any relevant regulatory clauses that are deemed necessary for the financing. It is expected that there will be some negotiation with the customer on the drafting of the security documents.

Any deviations in the documents from the approval parameters must require a necessary approval as mentioned in DELEGATION AUTHORITY MATRIX.

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.

**E. Execution of Security Documentation:**

Security documentation is the primary responsibility of the back-office support team. The Authorised Person and / or MD will nominate the specific individuals/teams who will be responsible for execution of security documentation. The origination/structuring staff responsible for managing the customer 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 Authorised Person and / or MD or staff delegated by the Authorised Person and / or MD.

Scanned copies of the security documentation must be stored in the customer 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.

**F. 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) has been completed.

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

On the basis of specific request from borrower SCCL may also provide top-up loan within the overall approval parameters.

## 8. ONGOING MONITORING AND CUSTOMER ENGAGEMENT: ANNUAL REVIEW

SCCL team remains in touch with the customer and in a position to remain updated about credit developments of the customer.

### 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 customer credit profile. Additionally, the originator/structurer must fulfil the following duties:

i) Ensure collection of audited and unaudited financials from the customer (non-individual), 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 Authorised Person and / or MD.

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.

Type of Security	Items to be monitored	Action to be taken	Responsibility
Listed securities (bonds; shares; Mutual Funds etc.)	<ul style="list-style-type: none"> <li>- Price of security</li> <li>- Liquidity of security</li> <li>- Regulatory issues               <ul style="list-style-type: none"> <li>- Fundamentals</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Margin calls for cash or share top up in line with credit approval conditions to be sent to client</li> <li>- In cash margin calls have been made and customer is in default, action to be taken to enforce and liquidate security to recover our dues</li> <li>- Detailed report on value to be circulated on a daily basis</li> <li>- Any significant development in liquidity of the underlying, or</li> </ul>	Joint responsibility of the Origination team and Documentation team.



		regulatory/reputation issues must be immediately highlighted to the authority mentioned in DELEGATION AUTHORITY MATRIX.	
Land and other real estate	Value of land and title search atleast every two years	<ul style="list-style-type: none"> <li>- ANY adverse change in the value or title needs to be highlighted to the authority mentioned in DELEGATION AUTHORITY MATRIX.</li> <li>- 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</li> </ul>	Joint responsibility of the Origination team and Documentation team.
Unlisted Securities	Valuation to be sought once every two years	<ul style="list-style-type: none"> <li>- Adverse change in value to be highlighted to the authority mentioned in DELEGATION AUTHORITY MATRIX.</li> <li>- Appropriate action for seeking top up in value of security</li> </ul>	Joint responsibility of the Origination team and Documentation team
Personal Guarantees	<ul style="list-style-type: none"> <li>- CIBIL rating to be checked every 6 months</li> <li>- Net Worth Certificate from a Chartered Accountant to be provided every 2 years</li> </ul>	Any adverse changes to be highlighted to the authority mentioned in DELEGATION AUTHORITY MATRIX and action taken to mitigate new risks	Joint responsibility of the Origination team and Documentation team.
Loan servicing behavior	<ul style="list-style-type: none"> <li>- Timely payment of interest and principal installments</li> <li>- Flow of funds through Escrow accounts</li> </ul>	<ul style="list-style-type: none"> <li>- Any delays beyond one month must be highlighted to Management and Board</li> </ul>	Joint responsibility of the Origination team and Documentation team.

3) **Watchlist:**

Specific customer, customer groups or transactions that have experienced a deterioration in risk profile – financial, reputation, legal, structural will be placed on a **Watch List** by the delegated authority. 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 delegated authority meeting. An update must be sent to the Board and CEO if there is no delegated authority scheduled for 15 days.

4) **Annual Review:**

An annual review is to be conducted on all Customers including customer group entities. 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, SCCL 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, SCCL will strictly follow the clauses of the financing agreement related dispute redressal mechanism, 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 delegated authority.
3. Litigation for recovery of our dues has to be approved specifically by the delegated authority
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 at least 2 intermediaries are used for the sale so that we can realize the best possible value on the security.